

FINANCE COMMISSION OF TEXAS
AUDIT COMMITTEE MEETING

Friday, August 18, 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 June 16, 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 Agencies' May 31, 2017 Investment Officer Reports
 - 1. Office of Consumer Credit Commissioner
 - 2. Texas Department of Banking
 - 3. Department of Savings and Mortgage Lending
- D. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Texas Department of Banking's 2017 Annual Internal Audit Report as Prepared and Presented by Garza/Gonzalez and Associates
- E. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Office of Consumer Credit Commissioner's 2017 Annual Internal Audit Report as Prepared and Presented by Garza/Gonzales and Associates
- F. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Agencies' 2017 Third Quarter Financial Statements
 - 1. Office of Consumer Credit Commissioner
 - 2. Texas Department of Banking
 - 3. Department of Savings and Mortgage Lending
- G. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Agencies' Fiscal Year 2018 Operating Budgets
 - 1. Office of Consumer Credit Commissioner
 - 2. Texas Department of Banking

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.

3. Department of Savings and Mortgage Lending

- H. Report on Activities Relating to the Texas Financial Education Endowment Fund
- I. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action to Approve an Amount for the Upcoming 2018-19 Grant Cycle for the Texas Financial Education Endowment Fund
- J. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Readoption of the Investment Policy for the Texas Department of Banking

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**MINUTES OF THE
AUDIT COMMITTEE MEETING
Friday, June 16, 2017**

The Audit Committee of the Finance Commission of Texas convened at 8:00 a.m. on June 16, 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
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 April 21, 2017, Audit Committee Meeting	Hector Cerna made a motion to Approve the Minutes of the April 21, 2017 Audit Committee Meeting. Lori McCool seconded and the motion passed.	00:03 start of discussion 01:30 vote
B. Audit Committee Review of Agencies' Activities	No Action Required.	01:41 start of discussion
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	Lori McCool made a motion to Recommend that the Finance Commission Approve the Department of Savings and Mortgage Lending's Annual Internal Audit Report as Prepared and Presented by Garza/Gonzalez and Associates. Hector Cerna seconded and the motion passed.	7:00 start of discussion 14:17 vote

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	Hector Cerna made a motion to Recommend that the Finance Commission Approve the Texas Department of Banking's Audit Report on Fixed Asset Management as Prepared and Presented by Garza/Gonzalez and Associates. Lori McCool seconded and the motion passed.	15:01 start of discussion 17:32 vote
E.	Report on Activities Relating to the Texas Financial Education Endowment Fund	No Action Required.	17:56 start of discussion
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	Lori McCool made a motion to Recommend that the Finance Commission Approve the Revised Texas Financial Education Endowment (TFEE) Fund Grant Administration & Advisory Policy Manual and 2018-2019 Funding Priorities, as amended with corrections on Pages 76 and 81. Hector Cerna seconded and the motion passed.	19:21 start of discussion 34:02 vote
G.	Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Appointment of a New Grant Advisory Committee Member	Hector Cerna made a motion to Recommend that the Finance Commission Approve the Appointment of a New Grant Advisory Committee Member. Lori McCool seconded and the motion passed.	34:40 start of discussion 35:06 vote
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	Hector Cerna made a motion to Recommend that the Finance Commission Reapprove the Internal Auditor Contract for Garza/Gonzalez & Associates for Fiscal Year 2018. Lori McCool seconded and the motion passed.	35:30 start of discussion 38:01 vote

There being no further business of the Audit Committee of the Finance Commission of Texas, Molly Curl adjourned the meeting at 8:37 a.m. (38:18) *on the audio file*)

Molly Curl, Audit Committee Chair
Finance Commission of Texas

Charles Cooper, Commissioner
Texas Department of Banking

Anne Benites, Executive Assistant
Finance Commission of Texas

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Office of Consumer Credit Commissioner

Outstanding Audit Findings Report as of 8/04/2017

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. The agency continues to work with DPS to identify the most efficient way to bulk unsubscribe, and is making preparations for another large list to unsubscribe from by the end of FY 2017.		
Auditor	Garza/Gonzales & Associates		Audit Report Date
Audit Area	TFEE Cash Equivalent Account Reconciliations		Jun-17
Finding	Status Update		
Strengthen controls to ensure grantees are reimbursed only for allowable costs	In progress. Staff has been retrained to prevent non-allowable costs from being reimbursed. The unallowable cost has been returned to the Grant fund.		
Auditor	Garza/Gonzales & Associates		Audit Report Date
Audit Area	TFEE Cash Equivalent Account Reconciliations		Jun-17
Finding	Status Update		
Recommend timely completion of TFEE Fund Reconciliations	Completed. Accounting Department will amend its policy and procedures to ensure timely reconciliation of TFEE account.		
Auditor	Garza/Gonzales & Associates		Audit Report Date
Audit Area	Registrations		Jul-17
Finding	Status Update		
Calculate performance measure in accordance with established methods	In progress. The procedure for reporting the performance measure will be modified to ensure the reporting of the total count of registrations.		
Auditor	Garza/Gonzales & Associates		Audit Report Date
Audit Area	Report of Examination Review		Jul-17
Finding	Status Update		
Strengthen controls to comply with the established goal.	In progress. While audit testing revealed one examination that was reviewed after the target guideline, the OCCC has worked to improve the review process. The tools and controls in the ACE system will further support performance in this area. Further, management is in the process of filling a vacancy to assist with the review of examinations to meet the established goal.		

Texas Department of Banking
Outstanding Audit Findings/Recommendations Report as of August 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 late August 2017.	



Risk Management Program Review

Department of Savings and Mortgage Lending

June 20, 2017

Conducted By:
Caleb Walker, Risk Manager



June 20, 2017

Ms. Caroline C. Jones
Commissioner
Department of Savings and Mortgage Lending
2601 North Lamar Boulevard
Austin, TX 78705-4241

Agency #: 450

Re: Risk Management Program Review (RMPR)

Dear Ms. Jones:

The State Office of Risk Management (SORM) conducted a Risk Management Program Review (RMPR) with the Texas Department of Savings and Mortgage Lending (DSML) on June 2, 2017. The consultation was conducted under authority of Texas Labor Code, Title V, Subtitle A, Chapter 412, and is designed to assist state agencies with the development and implementation of comprehensive risk management programs that meet Risk Management for Texas State Agencies (RMTSA) guidelines.

Determinations about whether to retain or transfer the financial consequences of a potential risk are an essential calculus for any effective risk management program. To this end and in accordance with its statutory authority contained within the Texas Labor Code, SORM assists state agencies by providing tools and education for making these critical decisions, as well as by sponsoring four statewide lines of insurance, also known as risk financing mechanisms. The lines are: Automobile, Property, Directors and Officers, and Volunteer. Potential exposures with regard to these potentially insurable risks in these areas were reviewed with DSML during this RMPR.

“Maximum Possible Loss” and “Maximum Probable Loss” are mentioned below in accordance with Texas Labor Code, Title V, Subtitle A, Chapter 412, Section 412.053 (3).

Property, Directors’ and Officers’, and Automobile: After conducting a risk assessment, DSML has decided to transfer the risks involved with these agency operations by participating in the SORM statewide insurance programs for these three lines of insurance.

Volunteer: According to DSML staff, DSML does not use volunteers.

DSML has not submitted any SORM-201 requests to SORM for insurance policies outside of the sponsored SORM lines.

SORM reviewed and discussed the following workers' compensation insurance data and claims with DSML during the consultation.

- Number of workers' compensation claims submitted by DSML:
 - FY2017 (to date) -1
 - FY2016 - 0
 - FY2015 - 0
 - FY2014 - 0
 - FY2013 - 3
- Medical and income benefits paid to DSML claimants per fiscal year of injury:
 - FY2017 (to date) - \$572.23
 - FY2016 - \$0.00
 - FY2015 - \$0.00
 - FY2014 - \$0.00
 - FY2013 - \$16.40
- The Injury Frequency Rates (IFR) at DSML:
 - FY2017 (to date) – 1.9%
 - FY2016 – 0%
 - FY2015 – 0%
 - FY2014 – 0%
 - FY2013 – 5.7%
- Worker's Compensation claim costs per full-time employee (FTE) at DSML:
 - FY2017 (to date) – \$11.03
 - FY2016 – \$0.00
 - FY2015 – \$0.00
 - FY2014 – \$0.00
 - FY2013 – \$0.31

SORM made the following noteworthy observations during this Risk Management Program Review:

- All DSML employees that SORM interacted with during this RMPR were found to be conscientious of and sensitive to employee health and safety at the agency.
- The agency Risk Manager, Ms. Antov, was extremely thorough and has completed every recommendation SORM has made to date.

Ms. Caroline C. Jones

June 20, 2017

Page **3** of **3**

During the consultation, we discussed previously submitted recommendations generated as a result of prior On-Site Consultations (OSCs) and Risk Management Program Reviews (RMPRs). DSML has fully implemented the following recommendations, which are now **closed**:

13-10-01 Auto Liability Exposure (Non-Owned/Hired)

13-10-02 Annual Emergency Drills

13-10-03 Distracted Driving Policy

13-10-04 Exterior Walking Surfaces – Parking Lot

13-10-05 Business Continuity Plan

13-10-06 Fire Alarm

As a result of this consultation, there are no new recommendations. Congratulations on a job well done!

Please accept my gratitude for the assistance and cooperation of Ms. Antonia Antov and the rest of the DSML staff during my visit. If you have any questions, please feel free to contact me at caleb.walker@sorm.texas.gov.

Sincerely,



Caleb Walker
Risk Manager
State Office of Risk Management

Cc: Ms. Antonia Antov, Director of Administration and Finance, Department of Savings and Mortgage Lending



Important Dates & Resources

[SORM Training Calendar](#)

[SORM Safety](#)

[Workers' Compensation](#)

[State Risk Management](#)

SORM Contact Information

www.sorm.state.tx.us

(512) 475-1440

Michelle Ganaden	Director of Risk Management	512-936-2942	<u>michelle.ganaden@sorm.texas.gov</u>
Iris Moore	Senior Insurance Manager	512-936-1561	<u>iris.moore@sorm.texas.gov</u>
Michelle Hammett	Training Coordinator	512-936-1537	<u>michelle.hammett@sorm.texas.gov</u>

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

Auditor	Garza/Gonzalez	Audit Report Date
Audit Area	Management Information Systems	7/25/2016
Recommendation	Status Update	
Conduct MIS Risk Assessment	<i>In progress.</i> The risk assessment fieldwork began in July 2017.	
Establish audit trails	<i>In progress.</i> 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	
Update workpapers numbering scheme	<i>In progress.</i> 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.	
Document policies and procedures for the budgeting process.	<i>Completed.</i> Anticipated date of completion is July 31, 2017.	
Document formal, written policies and procedures for the fee-setting process.	<i>Completed.</i> Anticipated date of completion is August 31, 2017.	

Auditor	State Office Of Risk Management	Audit Report Date
Audit Area	Risk Management	6/20/2017
Recommendation	Status Update	
N/A	<i>Completed.</i> No findings or recommendations.	

Office of Consumer Credit Commissioner
Fiscal Year 2017 - 3rd Quarter

Residential Mortgage Loan Originator Recovery Trust Fund #3008

Beginning Balance at 03/01/17	Additions / *(Deductions)	Interest Paid	Paid Bank Fees	Ending Balance at 05/31/17	Current Interest Rate
\$ 133,853.34	\$ 7,575.00	\$ 223.04	\$ (43.45)	\$ 141,607.93	0.673%

Investment Officer: Christina Nake

Date: 7/17/17

Reviewed By: [Signature]

Date: 7.17.17

Note: These funds are held at the Texas Treasury Safekeeping Trust Company in overnight repurchase agreements.
The above investments are in compliance with the agency's investment policy.

Office of Consumer Credit Commissioner
Fiscal Year 2017 - 3rd Quarter

Texas Financial Education Endowment Fund #3071							
	Beginning Balance at 03/01/17	Additions	Interest Paid	Grant Disbursements	Paid Bank Fees	Ending Balance at 05/31/17	Current Interest Rate
Cash	\$ 1,188,435.62	\$ 42,291.27	\$ 1,845.36	\$ (76,892.16)	\$ (2,091.27)	\$ 1,153,588.82	0.673%
Invested Portfolio	Beginning Balance at 03/01/17	Additions	*Change in Value	Transfer Out	Paid Fees	Ending Balance at 5/31/17	
Investments - STIF	\$ 42,400.46	\$ 7,234.24	\$ 44,888.45	\$ -	\$ (1,735.54)	\$ 92,787.61	
Interest & Dividends Receivable	22.76		29.10			51.86	
Trade Receivables	-		18.40			18.40	
Investments - Equities	41,365.95		(9,079.52)			32,286.43	
Investments - Alternatives	2,492,693.38		50,756.42			2,543,449.80	
Investments - Fixed Income	253,526.86		(17,000.76)			236,526.10	
Invested Portfolio	\$ 2,830,009.41	\$ 7,234.24	\$ 69,612.09	\$ -	\$ (1,735.54)	\$ 2,905,120.20	
Liabilities							
Accounts Payable	\$ (1,364.44)	\$ 355.73	\$ -	\$ -	\$ -	\$ (1,008.71)	
Trade Payables	-					\$ -	
Total Liabilities	\$ (1,364.44)	\$ 355.73	\$ -	\$ -	\$ -	\$ (1,008.71)	
Total Net Fiduciary Assets	\$ 2,828,644.97					\$ 2,904,111.49	
Total Endowment Funds	\$ 4,017,080.59					\$ 4,057,700.31	

Note: These funds are invested with the Texas Treasury Safekeeping Trust Company.
The above investments are in compliance with the agency's investment policy.

* Reflects redistributed amount among the asset classes in addition to market value adjustment.

Investment Officer: Christina Noke

Date: 7/28/17

Reviewed By: [Signature]

Date: 7.28.17

Trust Funded Prepaid Funeral Guaranty Fund Quarterly Investment Report
March 1, 2017 to May 31, 2017

<u>Book</u> <u>Book Value at February 28, 2017</u>	<u>Interest Income</u> <u>Received</u>	<u>Trustee</u> <u>Fees Paid</u>	(1) <u>Other</u> <u>Deductions</u>	(2) <u>Other</u> <u>Additions</u>	<u>Book/Market</u> <u>Value at May 31, 2017</u>	<u>Maturity</u> <u>Date</u>	<u>Interest</u> <u>Rate</u>	<u>Accrued Interest</u> <u>on CDs</u>
\$1,300,247.15	\$3,051.33	\$82.00	\$29,381.06	\$29,551.24	\$1,303,386.66	--	--	\$823.10

Trust Account Balances at Trustee/Depositories

Texas Treasury Safekeeping Trust Company *	\$341,779.70	6/1/2017	0.67%	
First Bank and Trust of Childress (CD)	\$240,000.00	12/11/2017	1.00%	\$127.27
State Bank of Texas (CD)	\$240,000.00	12/16/2017	1.35%	\$137.45
Lone Star State Bank of West Texas	\$240,881.65	1/5/2018	1.50%	\$558.38
Pilgrim Bank (money market)	<u>\$240,725.31</u>	n/a	0.85%	
Subtotal	\$1,303,386.66			

(1) Other deductions include (a) restitution in the amounts of \$7,453.80 paid to consumers C. Smith and P. Smith (\$3,726.90 each), \$6,300.00 paid to F. Jenkins , and \$6,136.20 paid to T. Sprinkles related to illegal PFCs sold by Tom G. Walker Funeral Home, Inc, that were not previously disclosed; (b) \$3,139.00 to transfer PFC new insurance-funded sale assessments to the insurance-funded Guaranty Fund account; (c) residual interest of \$748.05 paid to successor funeral provider related to Allcorn Funeral Home & Cremation Care, PFC permit number 1118; (d) \$5,169.95 paid to Texas Comptroller of Public Accounts related to abandoned Allcorn Funeral & Cremation Care PFCs; and (e) \$434.06 payment to Guaranty Fund Advisory member R. Motley for reimbursement of travel expenses.

(2) Other additions include: (a) \$300.00 restitution received from Mr. Dan L. Brothers; (b) \$1,965.00 restitution received from Mr. Kevin Keeney; (c) \$300.00 restitution received from Mr. Marc Gonzalez; (d) \$12,066.29 Regions Bank class action lawsuit settlement related to El Paso Mission Funeral Home accounts; (e) \$2,250.00 payment received from James E. Lister; (f) \$5,169.95 check made payable to Department in error issued by trustee of the Allcorn Funeral & Cremation Care PFC permit for abandoned property; and (g) \$7,500.00 restitution received from Timothy Gaffney.

Note: * These funds are held at the Texas Treasury Safekeeping Trust Company in overnight repurchase agreements.
The above investments are in compliance with the investment strategies of Administrative Memorandum 2016.

Prepared By: /s/Jesus Saucillo

Date: 6/30/2017

Reviewed By: /s/Stephanie Newberg

Date: 6/30/2017

Insurance-Funded Prepaid Funeral Guaranty Fund Quarterly Investment Report
March 1, 2017 to May 31, 2017

<u>Book</u> <u>Book Value at February 28, 2017</u>	<u>Interest Income</u> <u>Received</u>	<u>Trustee</u> <u>Fees Paid</u>	<u>Other</u> <u>Deductions</u>	(1) <u>Other</u> <u>Additions</u>	<u>Book/Market</u> <u>Value at May 31, 2017</u>	<u>Maturity</u> <u>Date</u>	<u>Interest</u> <u>Rate</u>	<u>Accrued Interest</u> <u>on CDs</u>
\$441,647.88	\$1,325.53	\$62.52		\$34,801.00	\$477,711.89			\$131.75
<u>Account Balances at Trustee/Depositories</u>								
					\$232,080.34	6/1/2017	0.67%	
					<u>\$245,631.55</u>	7/14/2017	1.19%	\$131.75
				Subtotal	\$477,711.89			

(1) Other additions include assessments collected from permit holders on new insurance-funded contracts.

Note: * These funds are held at the Texas Treasury Safekeeping Trust Company in overnight repurchase agreements.
The above investments are in compliance with the investment strategies of Administrative Memorandum 2016.

Prepared By: /s/Jesus Saucillo

Date: 6/30/2017

Reviewed By: /s/Stephanie Newberg

Date: 6/30/2017

Department of Banking Quarterly Investment Report
March 1, 2017 to May 31, 2017

Seized Prepaid Funeral Funds	Book Value at February 28, 2017	Interest Income Received	Trustee Fees Paid	Other Deductions	Other Additions	Book Value at May 31, 2017	Trustee	Investment Type	Maturity Date	Interest Rate
Allcorn Funeral & Cremation Care, PFC No. 1118 (1)	\$216,702.02			\$216,702.02		\$0.00				
Total Seized Funds	\$216,702.02	\$0.00	\$0.00	\$216,702.02	\$0.00	\$0.00				

Notes:

(1) The records and funds related to Permit Number 1118 were seized as a result of the funeral home going out of business. Subsequent to the Agreed Order allowing the Department to obtain possession of the PFCs, an invitation for area funeral homes to bid on the outstanding PFCs was sent. The bid was awarded to Funeral Agency, Inc. (FAI) and the funds were transferred to FAI in March 2017.

The above investments are in compliance with the investment strategies of Administrative Memorandum 2027.

Prepared By: /s/Jesus Saucillo

Date: 6/30/2017

Reviewed By: /s/Stephanie Newberg

Date: 6/30/2017

Department of Savings and Mortgage Lending
Mortgage Recovery Trust Fund

Investment Officer Report as of May 31, 2017

Current Investments/Securities as of May 31, 2017

Purchase Date	Beginning Market Value	Ending Market Value	Accrued Interest - Estimated	Interest Rate	Maturity Date	Description	Fin. Institution
6/14/2015	250,000.00	250,000.00	1,258.33	1.20%	6/14/2017	CD - 24 months	Pioneer Bank SSB
9/8/2015	245,809.01	247,246.08	55.29	0.35%	9/8/2017	CD - 24 months	Austin Capital SSB
10/2/2015	250,000.00	250,000.00	4,215.28	1.00%	10/2/2017	CD - 24 months	Cypress Bank SSB
12/13/2015	243,813.70	243,813.70	3,442.18	0.95%	12/13/2017	CD - 24 months	First Fed Community Bank, SSB
12/15/2015	250,000.00	250,000.00	3,738.40	1.01%	12/15/2017	CD - 24 months	Spirit of Texas, SSB
2/4/2016	250,000.00	250,000.00	563.89	0.70%	2/4/2018	CD - 24 months	Third Coast Bank SSB
10/9/2016	245,000.00	245,000.00	353.89	1.00%	4/9/2018	CD - 18 months	Capital Bank
4/17/2016	250,000.00	250,000.00	320.83	1.05%	4/17/2018	CD - 24 months	South Star Bank SSB
6/15/2016	250,000.00	250,000.00	1,195.42	1.14%	6/15/2018	CD - 24 months	TrustTexas Bank SSB
8/4/2016	240,000.00	240,716.99	81.24	0.45%	8/4/2018	CD - 24 months	First Bank SSB
10/18/2016	250,000.00	250,000.00	741.32	1.75%	10/18/2018	CD - 24 months	Dalhart Federal Savings
1/31/2017	250,000.00	250,000.00	322.92	1.50%	1/31/2019	CD - 24 months	Horizon Bank SSB
4/7/2017	240,000.00	240,000.00	572.00	1.56%	4/7/2019	CD - 24 months	TBK Bank
5/5/2017	240,000.00	240,000.00	78.00	0.45%	5/5/2019	CD - 24 months	Angelina Savings Bank
Totals	3,454,622.71	3,456,776.77	16,938.99				

Department of Savings and Mortgage Lending

Mortgage Recovery Trust Fund

Investment Officer Report as of May 31, 2017 (continued)

Fund Position for the Quarter Ended May 31, 2017		
Beginning Cash Balance as of March 1, 2017	\$	475,113.08
Receipts		
Licensees' Remittances	21,140.00	
Interest from CDs	9,778.00	
Interest from overnight repos	777.50	
CD - Maturity	240,000.00	
Total Received	\$	271,695.50
Disbursements		
CD - Purchase	(240,000.00)	
Recovery Fund Claim	(4,566.00)	
Bank Fees and Charges	(77.41)	
Total Disbursed	\$	(244,643.41)
Total Cash Balance in Trust and Treasury		502,165.17
Reserve		
Reserved for Potential Payment of Claims w/in 90 days	\$	(79,225.00)
Available Cash Balance as of May 31, 2017		422,940.17
Total Amount of Investments		3,456,776.77
Accrued Receivables		17,764.99
Accrued Payables		2.15
Fund Balance as of May 31, 2017	\$	3,976,709.08

Claim Payment History		
Fiscal Year	Total Amount \$	# of Payments
2000-2008	234,555.90	12
2009	100,000.00	10
2010	147,033.52	16
2011	22,225.00	5
2012	1,300.00	1
2013	1,465.13	1
2014	-	0
2015	1,039.50	1
2016	-	0
2017	8,566.00	2
Totals	516,185.05	48



Antonia Antov, Investment Officer 6/21/2017
Date

Investment Position: The Fund is capable of meeting all known obligations.
Investment Compliance: The Department's Investment Policy has been follow

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TEXAS DEPARTMENT OF BANKING
Austin, Texas

ANNUAL INTERNAL AUDIT REPORT

Fiscal Year 2017



TEXAS DEPARTMENT OF BANKING
Austin, Texas

Annual Internal Audit Report
Fiscal Year 2017

TABLE OF CONTENTS

Internal Auditor's Report	1
Introduction	2
Internal Audit Objectives	3
I. Compliance with Texas Government Code 2102: Required Posting of Internal Audit Information.....	4
II. Consulting and Nonaudit Services Completed.....	4
III. External Quality Assurance Review.....	4
IV. Internal Audit Plan for Fiscal Year 2017	4-6
V. Executive Summary Bank Examinations Background.....	6-9
Audit Objective, Scope, and Methodology.....	9-10
VI. Observations/Findings and Recommendations Summary and Related Rating of Observations/Findings and Recommendations.....	11
Observations/Findings and Recommendations.....	12-14
VII. External Audit Services Procured in Fiscal Year 2017	15
VIII. Reporting Suspected Fraud and Abuse.....	15
IX. Proposed Internal Audit Plan for Fiscal Year 2018	15
X. Organizational Chart	16
ATTACHMENT Attachment A – History of Areas Audited.....	17

Garza/Gonzalez & Associates

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Audit Committee Members
Texas Department of Banking
Austin, Texas

We performed tests of management's assertion about the effectiveness and efficiency of the Texas Department of Banking's (DOB) internal control structure over the Bank Examinations Area (Area) and its established policies and procedures, as applicable to the Area, for the purpose of determining DOB's compliance with applicable sections of the Texas Finance Code and the Texas Administrative Code, for the 8 months ended April 30, 2017.

The results of our tests disclosed that DOB'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, we did identify a certain matter, included in this report, that is an opportunity for strengthening internal controls and ensuring compliance with 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 and Related Rating of Observations/Findings and Recommendations", which is included in page 11 of this report.

We also performed a follow-up of 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 finding and recommendation from the audit of the Area; and, the implementation status from the follow-up performed, with various DOB 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 recommendation made.



June 19, 2017

TEXAS DEPARTMENT OF BANKING

Annual Internal Audit Report

Fiscal Year 2017

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 service businesses; private child support enforcement agencies; and check verification entities.

The major functions of DOB are to:

- Charter, regulate, and examine all state banks, foreign bank branches, agencies, 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 performed, as identified in DOB's 2017 Internal Audit Plan, dated January 25, 2017 and approved by the Finance Commission's Audit Committee and Commissioners on February 17, 2017:

- Bank Examinations
- Fixed Asset Management
- Follow-up of Internal Audit Performed in Prior Years
- Other Tasks

This report contains the results of our audit of the Bank 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. The report of the Fixed Asset Management area, dated April 4, 2017, was presented on June 16, 2017 to the Finance Commission's Audit Committee and Commissioners.

INTERNAL AUDIT OBJECTIVES

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

TEXAS DEPARTMENT OF BANKING

Annual Internal Audit Report

Fiscal Year 2017

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

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

- An approved fiscal year 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 DOB 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 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 two audits to be performed during the 2017 fiscal year. The Plan also included a follow-up of the findings that were presented in the prior year annual internal audit report, other tasks as assigned by the Finance Commission, and preparation of the Annual Internal Audit Report for fiscal year 2017.

TEXAS DEPARTMENT OF BANKING

Annual Internal Audit Report

Fiscal Year 2017

Risk Assessment

Utilizing information obtained through the inquiries and background information reviewed, 17 audit areas were identified as potential audit topics. A risk analysis utilizing 8 risk factors was completed for each individual audit topic and then compiled to develop an overall risk assessment.

Following are the results of the risk assessment performed for the 17 potential audit topics identified:

HIGH RISK	MODERATE RISK	LOW RISK
Bank Examinations	Trust Examination	Purchasing
IT Examinations	Corporate Activities	Revenue Accounting Process
Fixed Assets Management	Prepaid Funeral Contracts	Travel
Payroll & Human Resources	Management Information Systems	Money Service Businesses
Prepaid Funeral Guaranty Trust/Insurance Funds		Risk Management
		Imaging & Records Management
		Financial Reporting
		Perpetual Care Cemeteries

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

Fiscal Year 2016:

- IT Examinations
- Imaging & Records Management

Fiscal Year 2015:

- Revenue Accounting Process
- Perpetual Care Cemeteries
- Follow-Up of the Prior Year Internal Audits

Fiscal Year 2014:

- Money Services Businesses
- Management Information Systems
- Follow-Up of the Prior Year Internal Audits

TEXAS DEPARTMENT OF BANKING

Annual Internal Audit Report

Fiscal Year 2017

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

Report No.	Audits/Report Titles	Report Date
1.	Fixed Assets Management <i>Objective:</i> To determine whether DOB's Fixed Assets Management area compiled data needed to accurately report information in the SPA system; and, complied with established policies and procedures and applicable laws and regulations.	4/4/2017
2.	Bank Examinations <i>Objective:</i> To determine whether DOB's policies, procedures, and processes in place, as applicable to the Bank Examinations Area (Area), are sufficient in ensuring effective and timely performance of bank examinations to enforce and administer applicable state laws and regulations.	6/19/2017
2.	Annual Internal Audit Report – Follow-Up of Prior Year Internal Audits	6/19/2017
-	Other Tasks Assigned by the Finance Commission	None

V. Executive Summary

Bank Examinations

Background

The Bank Examinations Area (Area) is part of the Bank and Trust Supervision Division (Division), whose primary function is to examine and supervise banks chartered by the state of Texas. The Bank and Trust Supervision Director (Director), who reports to one of the two Deputy Commissioners, is responsible for managing the operations of the Division. The Division is comprised of 4 regional offices (San Antonio, Dallas, Houston, and Lubbock) and the Austin headquarters office; and, is supervised by 4 Regional Directors, a Director of Examination Support Activities, and a Director of IT Security Examinations. The IT and Trust Examination Areas are also part of the Division but are separate auditable areas that were not included in the scope of this audit.

Systems

Examination Division Information System On the Network (EDISON) – The Division's internally developed application used to schedule bank examinations; and, maintain bank examination information, organizational information, administrative actions, and off-site monitoring information.

Examination Tools Suite System (ETS) – ETS was developed through a cooperative effort between DOB, the Federal Deposit Insurance Corporation (FDIC), and the Federal Reserve Bank (FRB). The Division has begun transitioning to ETS, which will provide a uniform examination program for asset review; and, used for operations work and report preparation.

Examination Frequency and Types

Banks are regulated by the Texas Finance Code (TFC) Chapter 31, also referred to as the Texas Banking Act. DOB has adopted Chapter 3 of the Texas Administrative Code (TAC) to enforce and administer the TFC.

TEXAS DEPARTMENT OF BANKING

Annual Internal Audit Report

Fiscal Year 2017

In accordance with TFC §31.105, the area conducts on-site examinations to assess a bank's overall financial condition, assigns composite (CAMELS) ratings, and determines compliance with applicable chapters of the TFC and TAC.

The frequency and type of examination is dependent on the bank's asset size and assigned CAMELS rating from the prior examination. Examinations are generally conducted annually; however, for banks meeting certain criteria, examinations are performed every 18 months. The Area may also accept an examination performed by a federal or other governmental agency; or, may conduct an examination jointly with the FDIC or FRB. The types of examinations range from full scope, resulting in a formal *Report of Examination* (ROE), to a targeted specific risk, resulting in a *Letter of Findings*.

Examination Process

Examinations are scheduled from 90 days to 6 months in advance by the Regional Directors using EDISON; and, assigned to an examiner-in-charge (EIC), who is responsible for conducting the examination and preparing the ROE. Joint examinations are scheduled in conjunction with the federal agency.

The EIC will send the bank a request packet, which includes a list of requested items to conduct the examination, at least 30 days prior to the examination start date; and, prepare the Scope Form, documenting the procedures to be performed during the examination.

The Division has developed tailored examination work programs that are used to document the examination and results of procedures performed, examination ratings, etc. The Division has adopted the federal Uniform Financial Institutions Rating System (UFIRS) to assess the condition of banks by assigning the bank a composite rating of 1 to 5 based on the evaluation of six essential component factors (CAMELS), which address the adequacy of Capital, the quality of Assets, the capability of Management, the quality and level of Earnings, the adequacy of Liquidity, and the Sensitivity to market risk. Any noted findings are documented in the Summary of Findings page of the work program, and identified as either "Report Worthy" or "Not Report Worthy".

Upon completion of the on-site examination, the EIC prepares and signs the ROE, which is sent to the Regional Review Examiner and the Regional Director for review. ROEs for banks with assets less than \$2 billion and rated a "1" or "2" are signed by the Regional Director; while, those for banks with assets of \$2 billion or more are signed by the Director. ROEs for all banks rated a "3" or above are required to be signed by the Deputy Commissioner.

As of April 30, 2017, there were 240 banks under DOB's supervision. The following table reflects the number of banks by composite rating, as assigned during the most recent examination performed:

<u>Composite Rating</u>	<u>Number of Banks</u>
1	124
2	103
3, 4, & 5	13

TEXAS DEPARTMENT OF BANKING

Annual Internal Audit Report

Fiscal Year 2017

Report of Examination (ROE) Review

Regional Office Processing

The EIC has 7 days, from the examination end date, to prepare the ROE and submit it to the respective regional office for review. Upon receipt at the regional office, the Regional Review Examiner and Regional Director have 18 days to review the ROE, for a total of 25 days to process the ROE.

Headquarters Processing

ROEs that are required to be signed by the Director or Deputy Commissioner follow the same process described above; however, the regional offices have only 24 days to process the ROE, before sending it to the Austin headquarters office for review. At the Austin headquarters office, the ROE is reviewed by the Director and Deputy Commissioner within 18 days of receipt, for a total of 42 days to process the ROE.

As of April 30, 2017, the Division issued a total of 59 ROEs.

Annual Assessments

In accordance with TAC §3.36, on September 1st of each year, DOB computes each bank's annual assessment using a pre-established formula that considers the bank's assessable asset group, reported in the bank's most recent March 31st call report; and, its examination rating. If the bank's size or condition changes significantly during the year, causing the bank to fall into a different exam frequency, DOB adjusts the annual assessment accordingly.

The assessment is paid in quarterly installments, by electronic/ACH payment, on September 15th, December 15th, March 15th, and June 15th of each year.

Training

Training for a Financial Examiner (FE) is guided by an Individual Training Plan (ITP), which is developed jointly between the FE and Regional Director; then, approved by the Director. The ITP is updated in March of each year. Approved ITPs are submitted to the Training Coordinator, who is responsible for scheduling, monitoring and registering employees for training.

Bank examiners are classified from FE I to FE VII, according to their years of experience and completion of certain core curriculums. A FE I to FE III-B are considered entry level Assistant Examiners through Senior Assistant Examiners, and can progress to the level of FE IV only upon successfully passing an established testing process known as the Commissioning Process or Bank Examination Testing System (BETS). An FE may be promoted before completing the required courses with the Director's approval; however, the FE must complete the courses within 6 months of the promotion.

As of April 30, 2017, the Division was comprised of a total of 67 commissioned staff, as follows:

- Commissioned Directors and Review Staff 15
- Commissioned Field Examiners 52

Workpaper Review

Annually, the Examiner's Council (EC), comprised of bank, trust, and IT examiners, conducts a review of randomly selected workpaper files to ensure complete and accurate workpapers support the ROE. Upon completion of the review, the EC issues a memorandum summarizing the workpapers reviewed, findings, and recommendations. Findings are categorized as critical, important, or technical. An overall rating of the workpaper review is also applied, which can be excellent, good, less than satisfactory, unsatisfactory, or poor.

TEXAS DEPARTMENT OF BANKING

Annual Internal Audit Report

Fiscal Year 2017

The 2016 workpaper review, conducted in August 2016, included a review of 8 bank examinations, with all receiving scores sufficient for an overall rating of “Good”. The 2017 workpaper review is scheduled to be conducted in August 2017.

Audit Objective, Scope, and Methodology

Objective

The objective of our audit was to determine whether DOB’s policies, procedures, and processes in place, as applicable to the Bank Examinations Area (Area), are sufficient in ensuring effective and timely performance of bank examinations to enforce and administer applicable state laws and regulations.

Scope

The scope of this audit was to review and/or test selected functions and examinations performed by the Area during the 8 months ended April 30, 2017.

Methodology

The audit methodology included a review of laws and regulations; DOB’s established policies and procedures, and other internal and external documentation; and, interviews with selected DOB personnel.

We obtained and/or reviewed the following information:

- a. Sections of the Texas Finance Code and the Texas Administrative Code related to the Area.
- b. DOB’s written policies and procedures, supervisory memorandums, administrative memorandums, and examiner’s bulletins related to the Area.
- c. Bank & Trust Supervision Division’s organizational chart.
- d. A listing of current bank commissioned examiners.
- e. A listing of Report of Examinations (ROEs) issued during the period from September 1, 2016 through April 30, 2017; and, the supporting examination workpapers, reports, and assessment fees for the selected items.
- f. A listing of banks supervised by DOB as of April 30, 2017.
- g. A listing of examinations reviewed by the Examiners Council.
- h. Samples of work programs, scheduling reports, and planning documents.

TEXAS DEPARTMENT OF BANKING

Annual Internal Audit Report

Fiscal Year 2017

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

1. Reviewed and obtained an understanding of the laws and regulations provided in Chapter 31 of the Texas Finance Code (TFC) and Chapter 3 of the Texas Administrative Code (TAC).
2. Obtained and reviewed the Division's written policies and procedures, supervisory memorandums, administrative memorandums, and examiner's bulletins; collected available documentation; and, conducted interviews to document formal/informal processes and controls performed by the Area.
3. Reviewed examination procedures included in the workpapers used in the examination process to ensure inclusion of significant compliance requirements of the TFC and TAC.
4. Obtained a list of ROEs issued during the period from September 1, 2016 to April 30, 2017 and randomly selected 10 of the 59 examinations to test for the following attributes:
 - a. Compliance with the examination frequency requirements.
 - b. Completion and approval of the scope form; and, applicable examination work programs/procedures.
 - c. Compliance with the ROE processing schedule.
 - d. Proper approval and signature on the ROE.
 - e. Follow-up of any prior examination findings.
 - f. Annual assessment fee was computed in accordance with the TAC.
 - g. Responses to matters requiring attention were submitted within the required time period.
5. From the 10 examinations selected for testing above, 5 examinations were tested further to ensure all findings included in the work programs were properly included in the ROE and vice versa.
6. Obtained the training policy to gain an understanding of the training process and requirements for bank examiners. Selected 5 of the 36 examiners commissioned as of April 30, 2017, and tested for the following attributes:
 - a. Obtained the "personal training profile" report to ensure it reflected completion of the courses required for classification as an FE IV through FE VII.
 - b. Obtained the ITP to ensure completeness and approval by the Regional Director.
 - c. Ensured employees completed the required Core Curriculum course needed for their position.
 - d. Ensured employees passed each phase of the Bank Examination Testing System within 7 years of their employment date.
 - e. Selected a training course taken by each of the 5 examiners and reviewed supporting documentation.
 - f. Ensured the promoted employees received the required training prior to the promotion date.

TEXAS DEPARTMENT OF BANKING

Annual Internal Audit Report

Fiscal Year 2017

VI. Observations/Findings and Recommendations**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	Workpaper Documentation	Low
	<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

Annual Internal Audit Report

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	6/19/2017	Bank Examinations	<p>1. Workpaper Documentation</p> <p>Examiner Bulletin XB-2016-02 requires the EIC to document differences in reported findings, as reflected in the Summary of Findings (SOF) and the Report of Examination (ROE), either in a memo filed with the workpapers or directly in the SOF, but in a different color font.</p> <p>Our detailed review of the findings reported in 5 ROEs, disclosed 1 instance where a finding was included in the ROE but designated as "Not Report Worthy" in the SOF, with no documentation of the change.</p> <p>The SOF was subsequently revised when management was advised by the auditors of the discrepancy.</p> <p>Recommendation We recommend that DOB strengthen their controls in place to ensure compliance with established policies and procedures documented in Examiner Bulletin XB-2016-02.</p> <p>Management's Response Management agrees with the noted exception but after review of the situation believes a change in policy is warranted. The EIC should have discretion in supplementing comments within the ROE after a review of all the findings of an examination and before submitting the ROE for final processing. The designation in the Summary of Findings page as "Not Report Worthy" will be changed to "Discretionary Report Worthy". In addition, first review processing of the ROE will now require a reconciliation of the "Report Worthy" comments in the Summary of Findings work papers back to the ROE. These changes will be implemented by September 1, 2017.</p>		Ensure compliance with DOB's policies and procedures.

TEXAS DEPARTMENT OF BANKING

Annual Internal Audit Report

Fiscal Year 2017

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	6/19/2017	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 fully implemented.</p> <p><u>IT Examinations</u></p> <ol style="list-style-type: none"> Guidance for Scope Waiver <p>Specific guidance should be provided in DOB's policies and procedures to ensure the reasons for waiving examination procedures are appropriate and adequately documented in the Scope Form.</p> Accuracy of TPS/ITP <p>DOB should establish a procedure to ensure the accuracy of the TPS/ITP worksheet and that financial institutions are appropriately classified in the Scope Form.</p> <p><u>Imaging & Records Management</u></p> <ol style="list-style-type: none"> Records with Archival Values <p>All 3 types of identified records that have exceeded their records retention period and were identified with an archival code "A" on the Records Retention Schedule should be transferred to the Texas State Library and Archives Commission.</p> Accurate Retention Period Indexing <p>DOB should implement controls to improve accuracy of the indexed retention period in the Document Manager; such as, utilizing an Image Control Sheet, as used by certain Divisions.</p> Semiannual Records Deletion <p>To ensure records are deleted in a timely manner, DOB should enforce compliance with AM 2042 or provide explanations for the decision not to delete records with expired retention periods.</p> 	<p>Fully Implemented</p> <p>Fully Implemented</p> <p>Fully Implemented</p> <p>Fully Implemented</p> <p>Fully Implemented</p>	<p>Improve consistency in the documentation required for waiver of a procedure.</p> <p>Improve accuracy of work papers.</p> <p>Ensure compliance with Records Retention Schedule.</p> <p>Improve accuracy of the indexed retention period in Document Manager.</p> <p>Ensure compliance with DOB's internal policy.</p>

TEXAS DEPARTMENT OF BANKING

Annual Internal Audit Report

Fiscal Year 2017

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	6/19/2017	2017 Follow-Up	4. Records Retention Schedule (RRS) DOB should review the RRS and consider removing records series from the RRS that are no longer relevant to the agency.	Not Implemented Although DOB will continue to review and amend the RRS as needed, management does not agree with removing items regarding the agency since they may be legislatively required in the future.	Improve clarity of Records Retention Schedule.

TEXAS DEPARTMENT OF BANKING

Annual Internal Audit Report

Fiscal Year 2017

VII. External Audit Services Procured in Fiscal Year 2017

DOB 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

DOB 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. DOB 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.

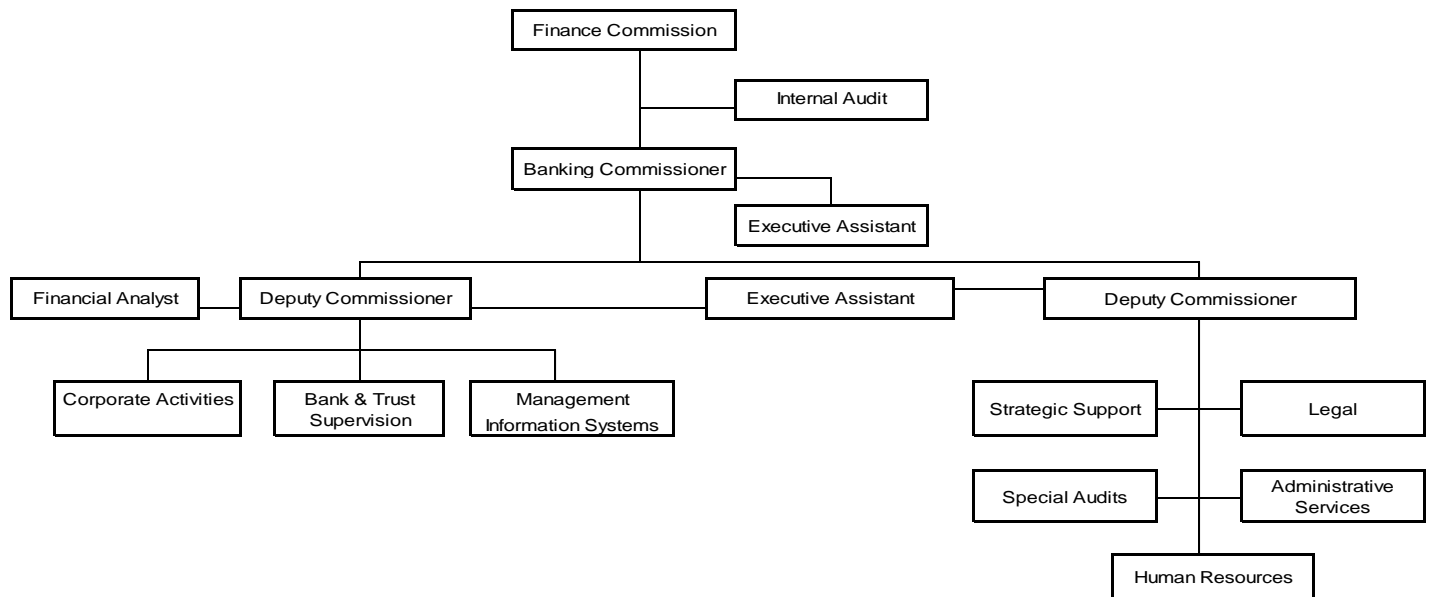
- Payroll and Human Resources
- Prepaid Funeral Guaranty Trust/Insurance Funds
- Follow-up of Prior Year Internal Audits
- Other Tasks Assigned by the Finance Commission

TEXAS DEPARTMENT OF BANKING

Annual Internal Audit Report

Fiscal Year 2017

X. Organizational Chart



TEXAS DEPARTMENT OF BANKING
History of Areas Audited
For Fiscal Year 2017

	POTENTIAL AUDIT TOPIC	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
1	Bank Examinations			E	E		A, E1	E1			E2
2	Corporate Activities		A					A			I
3	Financial Reporting (Effective FY 2011)					A					E
4	Fixed Asset Management			A	C1				C1		
5	Imaging and Records Management		A								A
6	IT Examinations				A						A
7	Management Information Systems	B, D	D	D	A, D	D	D	D, H	A, D	D	D, E, I
8	Money Service Businesses	B			A				A		E2
9	Payroll and Human Resources				C	A1		G	C, I		I
10	Perpetual Care Cemeteries			A						A	
11	Prepaid Funeral Contracts		A					A			
12	Prepaid Funeral Guaranty Trust/Insurance Funds (Separate Area FY 2012)						A				
13	Purchasing				C	A1			C		E2
14	Revenue Accounting Process (Effective FY 2011)					A				A	E
15	Risk Management	F	F	F	F				F	F	
16	Travel				C	A1			C		E2
17	Trust Examinations	B				A					

Legend

- A** Audit performed by Garza/Gonzalez & Associates
- A1** Limited review performed by Garza/Gonzalez & Associates
- B** Audit performed by Wiener Strickler, LLP
- C** Post-payment audit performed by the Comptroller of Public Accounts
- C1** Limited review performed by the Comptroller of Public Accounts
- D** Controlled penetration test performed by the Department of Information Resources
- E** Audit performed by the State Auditor's Office
- E1** Off-site review of outstanding audit findings performed by the State Auditor's Office
- E2** Audit performed by the State Auditor's Office - limited review of performance data
- F** Risk management program review or on-site consultation performed by the State Office of Risk Management
- G** Review of personnel policies & procedures system performed by the Texas Workforce Commission Civil Rights Division
- H** Information security assessment review performed by Gartner
- I** Criminal history record audit performed by the Department of Public Safety

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OFFICE OF CONSUMER CREDIT COMMISSIONER
Austin, Texas

ANNUAL INTERNAL AUDIT REPORT

Fiscal Year 2017



OFFICE OF CONSUMER CREDIT COMMISSIONER
Austin, Texas

Annual Internal Audit Report
Fiscal Year 2017

TABLE OF CONTENTS

	<u>Page</u>
Internal Auditor's Report	1
Introduction	2
Internal Audit Objectives.	3
I. Compliance with Texas Government Code 2102: Required Posting of Internal Audit Information.....	4
II. Consulting and Nonaudit Services Completed.....	4
III. External Quality Assurance Review.....	4
IV. Internal Audit Plan for Fiscal Year 2017.....	4-5
V. Executive Summary Texas Financial Education Endowment Fund Background.....	6-8
Audit Objective, Scope, and Methodology.....	8-10
Registration Background.....	11-13
Audit Objective, Scope, and Methodology.....	13-14
VI. Observations/Findings and Recommendations Summary and Related Rating of Observations/Findings and Recommendations	15
Observations/Findings and Recommendations.....	16-19
VII. External Audit Services Procured in Fiscal Year 2017	20
VIII. Reporting Suspected Fraud and Abuse.....	20
IX. Proposed Internal Audit Plan for Fiscal Year 2018	20
X. Organizational Chart	21
Attachment Attachment A -- History of Areas Audited.....	22

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Office of Consumer Credit Commissioner
Austin, Texas

We performed tests of management's assertion about the effectiveness and efficiency of the Office of Consumer Credit Commissioner's (OCCC) internal control structure over (1) the administration of the investment portfolio of the Texas Financial Education Endowment (TFEE) Fund and its compliance with established policies and procedures, and applicable laws and regulations, for the 6 months ended February 28, 2017; and, through March 31, 2017 for reimbursement requests paid from the TFEE Fund; and, (2) the Registration area, for the 6 months ended February 28, 2017.

The results of our tests disclosed that such controls were generally adequate and no material instances of noncompliance were noted; however, we did identify certain matters, included in this report, that are opportunities for strengthening internal controls and ensuring compliance with state requirements and OCCC's 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 15 of this report.

We also performed a follow-up of the findings that were presented in the prior year annual internal audit report and this report reflects the 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 recommendations from the audits of the TFEE Fund and the Registration area; and, the implementation status from the follow-up performed, with various OCCC 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.



June 13, 2017 – TFFE Fund
July 17, 2017 – Registration and 2017 Follow-Up

OFFICE OF CONSUMER CREDIT COMMISSIONER

Annual Internal Audit Report

Fiscal Year 2017

INTRODUCTION

The Office of Consumer Credit Commissioner (OCCC) operates pursuant to Texas Finance Code, §14.001, and under the oversight of the Texas Finance Commission, who appoints the consumer credit commissioner. OCCC has authority to regulate consumer credit transactions and interest rates in Texas, offers protection to consumers, coordinates educational efforts aimed at consumers and industry alike, and advises lenders on compliance issues.

OCCC's primary task is to license and examine finance companies, home equity and junior lien mortgage lenders, residential mortgage loan originators, payday lenders, signature loan companies, motor vehicle sales finance companies, property tax lien lenders, and pawnshops. Pawnshop employees must also be licensed.

OCCC was granted Self-Directed, Semi Independent (SDSI) status in the 81st Legislative Session. As an SDSI agency, OCCC is not required to have their budget approved by the Legislature; however, the Finance Commission is responsible for setting OCCC's spending authority or limits. OCCC'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 OCCC's operations.

2017 Internal Audit Plan

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

- TFEE Fund
- Registration
- Follow-up of Prior Year Internal Audits
- Other Tasks

This report contains the results of our audits of the TFEE Fund and the Registration area; reflects 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 requirements.

OFFICE OF CONSUMER CREDIT COMMISSIONER

Annual Internal Audit Report

Fiscal Year 2017

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 OCCC'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.

OFFICE OF CONSUMER CREDIT COMMISSIONER

Annual Internal Audit Report

Fiscal Year 2017

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, OCCC 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 OCCC 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 Internal Audit Plan (Plan) included two audits to be performed during the 2017 fiscal year. The Plan also included a follow-up of the findings that were presented in the prior year annual internal audit report, other tasks as assigned by the Finance Commission, and preparation of the Annual Internal Audit Report for fiscal year 2017.

Risk Assessment

Utilizing information obtained through the inquiries and background information reviewed, 17 audit areas were identified as potential audit topics. A risk analysis utilizing 8 risk factors was completed for each individual audit topic and then compiled to develop an overall risk assessment.

OFFICE OF CONSUMER CREDIT COMMISSIONER

Annual Internal Audit Report

Fiscal Year 2017

Following are the results of the risk assessment performed for the 17 potential audit topics identified:

HIGH RISK	MODERATE RISK	LOW RISK
Registration	Fixed Assets	Management Information Systems
Motor Vehicle Sales Finance Examinations	Billing and Collection of Fees	Records Management
Texas Financial Education Endowment (TFEE) Fund	Human Resources	Fiscal Division (Includes Purchasing, Travel, & Payroll)
	Regulated Lenders Examinations	Business Licensing
	Complaint Intake and Investigation	Professional Licensing (Pawnshop Employees & MLO)
	Credit Access Business Examinations	Risk Management
	Pawn Examinations	
	Property Tax Lender Examinations	

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

Fiscal Year 2016:

- Motor Vehicle Sales Finance Examinations
- Follow-Up of the Prior Year Internal Audits

Fiscal Year 2015:

- Texas Financial Education Endowment (TFEE) Fund
- Follow-Up of the Prior Year Internal Audits

Fiscal Year 2014:

- Professional Licensing
- Follow-Up of the Prior Year Internal Audits

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

Report No.	Audits/Report Titles	Report Date
1.	Texas Financial Education Endowment (TFEE) Fund <i>Objective:</i> To determine whether OCCC's internal control structure over the administration of the investment portfolio of the TFEE Fund are sufficient to ensure compliance with established policies and procedures, and applicable laws and regulations.	6/13/2017
2.	Registration <i>Objective:</i> To determine whether OCCC's policies, procedures and processes in place, as applicable to the Registration area, are sufficient to ensure compliance with the Texas Administrative Code (TAC), Texas Finance Code (TFC), and, Texas Occupations Code (TOC).	7/17/2017
2.	Annual Internal Audit Report – Follow-Up of Prior Year Internal Audits	7/17/2017
-	Other Tasks Assigned by the Finance Commission	None

V. Executive Summary

Texas Financial Education Endowment Fund

Background

In 2011, the 82nd Legislature enacted the Texas Financial Education Endowment (TFEE) Fund to be administered by the Finance Commission of Texas, through OCCC, to support statewide programs that would improve consumer credit, provide financial education, and asset-building opportunities. To comply with this mandate, on January 1, 2012, OCCC established the TFEE Fund, with the Texas Treasury Safekeeping Trust Company (TTSTC), a corporation created by the Texas Comptroller of Public Accounts (Comptroller). In accordance with Texas Finance Code §393.628, the TFEE Fund is funded with annual assessment fees collected from credit access businesses (CABs), or CAB license holders. OCCC's Commissioner along with employees of the Finance and Accounting Area, are responsible for managing the TFEE Fund, which includes the administration of the TFEE Fund's investment portfolio.

OCCC implemented the TFEE grant program to award funds, from the TFEE Fund, to organizations that promote, provide, or support financial education or financial literacy initiatives. The TFEE grant program is administered by OCCC, the Grant Advisory Commission (GAC), and the Finance Commission. Each GAC member is required to review the TFEE Fund's Conflict of Interest Policy and sign the form to denote agreement to comply with the Policy, prior to their participation in the grantee selection process. Members of the Finance Commission are required to complete Public Funds Investment training offered by the Texas Higher Education Coordinating Board within 6 months of their appointment to the Finance Commission.

TFEE Fund

Accounting for the TFEE Fund's Cash Equivalent and Investment Accounts

As indicated above, the TFEE Fund is funded with annual assessment fees collected from CAB license holders. Of the \$800 annual assessment fee collected from CABs, \$200 is designated for the TFEE Fund and for in a separate cash account in OCCC's general ledger.

Periodically, the amount recorded in OCCC's general ledger, as collected for the TFEE Fund, is transferred to the TFEE Fund's interest-bearing cash equivalent account held at TTSTC. TTSTC requires that the 2 authorized individuals, OCCC's Commissioner and Accounting Manager, approve the transfer of funds. These 2 individuals have a bank password and safe key, which are required to make transfers. Based on the imbedded controls of each password, the Accounting Manager prepares the transfer; while, the Commissioner confirms and finalizes it.

On February 15, 2013, the Finance Commission approved the investment of \$1,400,000 of the funds on deposit in the TFEE Fund at TTSTC into the Endowment Program, also at TTSTC. The funds invested in the Endowment Program are accounted for in an investment account in OCCC's general ledger. The funds in the Endowment Program are invested in a diversified manner by TTSTC to preserve the purchasing power of the TFEE Fund's assets and provide a stable and growing distribution to beneficiaries. Per TTSTC's Endowment Policy dated October 2016, the investment objectives of the Endowment Program are to earn a long-term annual rate of return of 6.0% to provide a predictable, stable stream of distribution; ensure that the inflation-adjusted value of distributions is maintained over the long-term; and, ensure that the inflation-adjusted value of the corpus after distributions is maintained over the long-term.

OFFICE OF CONSUMER CREDIT COMMISSIONER

Annual Internal Audit Report

Fiscal Year 2017

On a monthly basis, the Accountant IV prepares a reconciliation of the TFEE Fund's cash account, within the general ledger, to the TFEE Fund's cash equivalent account bank statement to ensure account accuracy. The Accountant IV also obtains a monthly Statement of Fiduciary Net Position from TTSTC, which displays the TFEE Fund's investment balances, by investment type (i.e. equity, alternative, fixed income, etc.); and, used to prepare the journal entry for the change in the general ledger's investment balance. The cash and investment account reconciliations are reviewed and used by the Accounting Manager to prepare the quarterly investment reports. Upon account reconciliation, the Commissioner reviews the TFEE Fund's cash equivalent account balance and determines if funds should be transferred for investment in the TFEE Fund's Endowment Program. For the 6 months ended February 28, 2017, a transfer in the amount of \$650,000 was made from the TFEE Fund's cash equivalent account into the TFEE Fund's Endowment Program account.

Once a transfer is made by OCCC from the TFEE Fund's cash equivalent account into the TFEE Fund's Endowment Program account, TTSTC is responsible for investing the funds in accordance with its Endowment Policy. Pursuant to TTSTC's Endowment Policy, funds are invested in obligations in which the Comptroller is authorized to invest, as specified in Section 404.024 of the Texas Government Code. On an annual basis, OCCC receives a detailed report of the TFEE Fund's investments held by TTSTC, which reflects the TFEE Fund's pro-rata ownership of the total TTSTC Endowment Fund balance. The Accounting Manager and Commissioner review the detailed investment report to ensure agreement to the monthly Statement of Net Position. The TFEE Fund's pro-rata ownership varies by investment type; however, at August 31, 2016, the TFEE Fund's total pro-rata ownership was .053% of the total TTSTC Endowment Fund balance.

TTSTC's Chief Investment Officer presents the TFEE Fund's investment activity to the Finance Commission on a periodic basis, which includes the types of investments held in the TFEE Fund along with their quarterly and annual performance. The last presentation was made at the February 19, 2016 Finance Commission meeting.

Investment Policy/Procedures

OCCC's Investment Policy, which was last approved by the Finance Commission on October 21, 2016, is the policy that governs OCCC's investment of funds, and states that OCCC has adopted TTSTC's Endowment Policy for the management and oversight of the TFEE Fund's investments. The Finance Commission reviews TTSTC's Endowment Policy on a biennial basis, with the last review conducted in February 2016, for alignment with OCCC's Investment Policy.

As reflected in the table below, the amounts in the TFEE Fund have been invested in repurchase agreements; U.S. government agency obligations; and, equity, alternative, and fixed income investments, which are all investments authorized by TTSTC's Endowment Policy.

The Commissioner and Accounting Manager are OCCC's investment officers. In accordance with OCCC's Investment Officer Responsibilities policy, within a reasonable period after the end of the quarter, the investment officers shall ensure the preparation of quarterly investment reports, which include all of OCCC's investments, and signed by both investment officers. The investment reports reflect activity of the TFEE Fund that occurred for the reported period; to include, beginning and ending investment and cash balances, deposits, interest earned, transfers, grant payments made, and bank fees paid.

OFFICE OF CONSUMER CREDIT COMMISSIONER

Annual Internal Audit Report

Fiscal Year 2017

The following table reflects the cash, cash equivalents, and investment balances in the TFEE Fund at the end of each fiscal year through August 31, 2016, since its inception; and, for the 6 months ended February 28, 2017, the period of audit.

TTSTC	August 31, 2012	August 31, 2013	August 31, 2014	August 31, 2015	August 31, 2016	February 28, 2017
Cash & Cash Equivalents						
Repurchase Agreement	\$ 700,382.01	\$ 458,870.92	\$ 1,167,288.47	\$ 1,087,282.04	\$ 1,490,803.98	\$ 1,188,435.62
Total	\$ 700,382.01	\$ 458,870.92	\$ 1,167,288.47	\$ 1,087,282.04	\$ 1,490,803.98	\$ 1,188,435.62
Investments – Endowment Program						
U.S. Government Agency Obligations	\$ -	\$ 32,461.08	\$ 54,360.45	\$ 57,523.24	\$ 121,620.29	\$ 42,423.22
Equity	-	31,557.82	36,428.25	40,905.82	53,652.49	41,365.95
Alternative Investments	-	1,187,566.94	1,271,910.74	1,764,177.28	1,739,016.84	2,492,693.38
Fixed Income	-	140,572.48	167,574.58	145,140.33	127,722.02	253,526.86
Total	\$ -	\$ 1,392,158.32	\$ 1,530,274.02	\$ 2,007,746.67	\$ 2,042,011.64	\$ 2,830,009.41

Disbursements

Upon receipt of a semiannual Expense Reimbursement Request Form from a grantee, approved by the Director of Strategic Communications, Administration, and Planning; the, Accounting Manager will transfer funds from the cash and cash equivalents TTSTC account to a Private Purpose Trust Fund, as established by the Comptroller, which is used to disburse TFEE funds. For the 6 months ended February 28, 2017, there were 7 disbursements made to grantees, totaling \$35,570; and, for the month of March 2017, there were 8 disbursements, totaling \$76,892.

AUDIT OBJECTIVE, SCOPE, AND METHODOLOGY**Objective**

The objective of our audit was to gain an understanding of OCCC's internal control structure over the administration of the investment portfolio of the Texas Financial Education Endowment (TFEE) Fund to determine its compliance with established policies and procedures, and applicable laws and regulations.

Scope

The scope of our audit was to assess OCCC's administration of the investment portfolio of the TFEE Fund to determine its compliance with established policies and procedures, and applicable laws and regulations for the 6 months ended February 28, 2017; and, through March 31, 2017 for reimbursement requests paid from the TFEE Fund.

Methodology

The audit methodology included a review of laws and regulations, policies and procedures, and other internal and external documentation; and, an interview and correspondence with the Manager of Accounting and Grant Coordinator.

We obtained and/or reviewed the following documentation:

- a. OCCC's Organizational Chart.
- b. TFEE Policy Manual.
- c. OCCC's Investment Policy Statement.
- d. TFEE Investment Officer Responsibilities.
- e. TTSTC Endowment Policy.
- f. Certificate(s) for the 2 Investment Officers for investment training completed during the last 2 years.
- g. Conflict of Interest Forms signed by the Grant Advisory Committee (GAC) members.
- h. The 1st and 2nd Quarter Investment Reports for Fiscal Year 2017.
- i. The 4th Quarter Investment Reports for Fiscal Year 2015 and 2016.
- j. Detail of investments held in the TFEE Fund as of August 31, 2016.
- k. Investment allocation percentages by investment type for Fiscal Year 2016.
- l. TFEE Fund bank statements for November 2016 and February 2017.
- m. TTSTC balance sheets for November 2016 and February 2017.
- n. TFEE Fund receipts and disbursements from September 1, 2016 through March 31, 2017.
- o. For a sample of 8 reimbursement requests:
 - Reimbursement request form; and,
 - Receipts, invoices, and timesheets for all expenditures incurred.
- p. Bank reconciliations for the period from September 1, 2016 through February 28, 2017.
- q. Detailed general ledger for the operating account.
- r. Copies of transfers made from OCCC's operating account to the TFEE Fund for the 6 months ended February 28, 2017.

OFFICE OF CONSUMER CREDIT COMMISSIONER

Annual Internal Audit Report Fiscal Year 2017

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

1. Updated our understanding of state laws and regulations and OCCC's policies and procedures, as applicable to the administration of the TFEE Fund's investment portfolio.
2. Selected the 2 quarterly investment reports submitted to the Finance Commission during the 6 months ended February 28, 2017 and tested for the following:
 - 1) The ending cash balance agreed to the TTSTC cash equivalent account bank statement;
 - 2) The total ending TFEE Fund investment portfolio balance agreed to TTSTC's financial statements; and,
 - 3) The investment reports were signed by both of OCCC's investment officers.
3. Ensured that \$200 of the \$800 annual fee collected from CAB licensees during the 6 months ended February 28, 2017, were deposited into the TFEE Fund account.
4. Ensured investments in the TFEE Fund were authorized by TTSTC's Endowment Policy.
5. Reviewed detail of investments held in the TFEE Fund as of August 31, 2016 to ensure investment balances were correct according to OCCC's percentage of investments held by TTSTC.
6. Obtained the TFEE Fund cash equivalent account reconciliations performed for the 6 months ended February 28, 2017 and tested for the following:
 - 1) Traced the bank balance per the reconciliation to TTSTC's original bank statement;
 - 2) Traced the reconciled book balance to the general ledger;
 - 3) Tested the clerical accuracy of the reconciliation;
 - 4) Scanned the bank reconciliation for unusual reconciling items;
 - 5) Approval by the Manager of Accounting; and,
 - 6) Timely preparation.
7. Reviewed documentation to support investment training obtained by the 2 investment officers.
8. Ensured OCCC's Investment Policy was reviewed and approved by the Finance Commission on an annual basis.
9. Selected 4 of the 7 reimbursement requests paid from the TFEE Fund during the 6 months ended February 28, 2017; and, 4 of the 8 reimbursement requests paid in March 2017, and tested for the following:
 - 1) Expenditures were for an allowable cost;
 - 2) Expenditures were properly supported;
 - 3) Expenditures occurred during the grant award period;
 - 4) Reimbursement request form was signed by the representative of the organization/grantee; and,
 - 5) Reimbursement request form was signed to denote approval by the Director of Strategic Communications, Administrative, and Planning.

OFFICE OF CONSUMER CREDIT COMMISSIONER

Annual Internal Audit Report
Fiscal Year 2017

Registration

Background

The Registration area (the Area), which is managed by the Licensing and Registration Division, is supervised by the Manager of Licensing and Registration, who reports directly to the Commissioner; and, consists of a Primary and a Secondary Specialist for Registrations. The Area is responsible for registering the following four types of industries: (1) Debt Management Service Providers (DMSP); (2) Crafted Precious Metal Dealers (CPMD); (3) Refund Anticipation Loan (RAL) Facilitators; and (4) Registered Creditors.

New Applications

Debt Management Service Providers (DMSP) & Registered Creditors

DMSP and Registered Creditor applications can be submitted either online through OCCC's internal system, ALECS (Application Licensing Examination Compliance System), and submitting the required fee through ACH or credit card; or, by mail. Applications and other required forms are available on OCCC's website.

To apply for a DMSP registration, the applicant must submit the following items:

- Application;
- Application Questionnaire;
- \$680 Fee
- Disclosure of Owners and Principal Parties;
- Statutory Agent Form;
- Surety Bond or Proof of Insurance;
- Debt Management Service Agreement;
- Proof of the 501 (c) (3) status; and
- Fingerprints – The applicant must provide a complete set of legible fingerprints in a format prescribed by OCCC and approved by the Texas Department of Public Safety and the Federal Bureau of Investigation. Once the applicant is in the TXDPS system, the Registration Specialist or the Manager of Licensing and Registration will check the criminal history of the applicant on the TXDPS website. If any criminal history results in denial of registration, a letter is sent by certified mail to the applicant's home address.

To apply for a Registered Creditor registration, the applicant is required to complete an application and submit a fee of \$10 per consumer goods and services location, and \$15 per manufactured housing location.

For both types of registrations, applications received by mail are opened and date stamped by the mail room staff; and, attached fees are sent to the Accounting Department for processing. The application is then forwarded to the Registration Department with indication of the received fee amount. The Primary Specialist performs the initial review of paper applications and inputs the information into ALECS, which will then be reviewed by either the Secondary Specialist or the Manager of Licensing and Registration prior to issuance of a registration. However, all DMSP applications are reviewed by the Manager of Licensing and Registration or Commissioner since they contain more complex requirements than the other three registration types.

OFFICE OF CONSUMER CREDIT COMMISSIONER

Annual Internal Audit Report

Fiscal Year 2017

Once all required information has been reviewed and approved, the applicant will be notified that their application was approved and their registration certificate may be printed from ALECS.

A Questionnaire Letter is mailed to the applicant to request any required information that was not submitted. If a response is not received from the applicant within 30 days from the date of the Questionnaire Letter, a second Questionnaire Letter is sent, requiring a response within 14 days. The application is denied if a response is not received after the second request deadline.

Refund Anticipation Loan (RAL) Facilitators

RAL Facilitator applications can only be submitted online through ALECS along with a \$50 fee for each registered location. The application asks for the applicant's business information; including, operating name; address; phone number; fax number; and, begin date, which is when the applicant began engaging in business as a facilitator. If the begin date field is prior to the application date, the system will prompt the assessment of a \$250 late filing fee.

For all applications completed online for the above three registration types, upon entering all required information and submitting the required fee(s), the applicants may print their certificate of registration from ALECS.

Crafted Precious Metal Dealers (CPMD)

Although CPMD applications can only be submitted through the Texas Department of Public Safety's (TXDPS) website, they are registered by OCCC. The applicant creates an account and completes required information; such as, company name, assumed name, mailing address, physical address, and phone number. Applicants may also register temporary locations by providing their hours of operation in addition to location details. Fees are \$50 for each permanent location and \$25 for each temporary location. Upon entering all required information and submitting the required fee(s), the applicant may print their certificate from the TXDPS website. The Manager of Licensing and Registration and the specialists are given access to the accounts created on the TXDPS website to perform the following three functions:

- To assist applicants with common technical issues; such as, unknown username password reset failure, etc.;
- To modify accounts; such as, changes in dealer name, address, etc.; and,
- To obtain statistics for reporting purposes.

Renewals

All registrations are required to be renewed annually. The Area sends multiple reminder emails and renewal mailers to registrants, which include information on how to renew, renewal fees, and renewal due dates.

DMSP registrants are required to renew their registration by December 31st and pay the annual renewal fee of \$430 for each registered DMSPs. The renewal mailers indicate the name and mailing address for the company with a list of all the registered locations and total renewal fee due.

OFFICE OF CONSUMER CREDIT COMMISSIONER

Annual Internal Audit Report

Fiscal Year 2017

Registered Creditor registrants are required to renew their registration by October 31st and pay the annual renewal fee of \$10 per consumer goods and services location, and \$15 per manufactured housing location. The renewal mailers indicate the name and mailing address for the company with a listing of all registered locations, along with the total amount of renewals due.

RAL Facilitator registrants are required to renew their registration by December 31st and pay the annual renewal fixed fee of \$50, per registered location.

CPMD registrations expire one year from the initial issuance. The TXDPS website sends an automated email to notify the registrant of the renewal 45 days prior to expiration of the current registration. The renewal fee is \$50 per permanent location only since temporary locations are not authorized to renew.

For all four registration types, registrants are given a 30-day grace period before a \$250 late filing fee is assessed, for each location.

During the period from September 1, 2016 through February 28, 2017, the following number of new and renewal applications, by type, were received along with the amount of fees collected.

Registration Type	Number of New Applications	Number of Renewal Applications	Total Applications Received	Fees Collected
Debt Management Service Providers	6	71	77	\$ 34,400
Registered Creditors	451	6,564	7,015	\$ 79,965
Refund Anticipation Loan Facilitators	1,483	855	2,338	\$ 131,700
Crafted Precious Metal Dealers	91	416	507	\$ 25,250

AUDIT OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The objective of our audit was to determine whether OCCC's policies, procedures and processes in place, as applicable to the Registration Area (Area), are sufficient in ensuring compliance with the Texas Administrative Code (TAC), Texas Finance Code (TFC), and Texas Occupations Code (TOC).

Scope

The scope of our audit was to review and/or test selected processes and functions performed by the Area during the 6 months ended February 28, 2017.

Methodology

The audit methodology included a review of laws and regulations; OCCC's established policies and procedures, and other internal and external documentation; and, an interview and correspondence with the Manager of Licensing and Registration.

OFFICE OF CONSUMER CREDIT COMMISSIONER

Annual Internal Audit Report

Fiscal Year 2017

We obtained and/or reviewed the following documentation:

- a. Registration Area's Organizational Chart.
- b. OCCC's Registration Procedures.
- c. OCCC'S Quarterly Executive Summary presented to the Finance Commission as of February 28, 2017.
- d. List of OCCC's Actual Performance for Non-Key Measures for Fiscal Year 2016.
- e. List of Registrations Processed during Fiscal Year 2016.
- f. List of New and Renewal Applications received for Debt Management Service Providers, Registered Creditors, RAL Facilitators, and Crafted Precious Metal Dealers during the period from September 1, 2016 through February 28, 2017.
- g. Registration Fee Report for the period from September 1, 2016 through February 28, 2017.
- h. For a selected sample of 20 applications (10 new registration applications and 10 renewals):
 - 1) Paper and Online (ALECS) Applications;
 - 2) Payment Receipts;
 - 3) Application Questionnaire;
 - 4) Disclosure of Owners and Principal Parties;
 - 5) Statutory Agent Disclosure;
 - 6) Surety Bond;
 - 7) Debt Management Service Agreement;
 - 8) Proof of 501 (c) (3) status;
 - 9) Fingerprints Review Form; and
 - 10) Annual Report.

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

1. Updated our understanding of state laws and regulations relevant to OCCC's Registration Area and OCCC's established policies and procedures.
2. Selected 20 registrations (10 new registration applications and 10 renewals) received during fiscal year 2017, as of February 28, 2017, and tested for the following:
 - 1) Application completeness;
 - 2) Receipt of required documents; and,
 - 3) Receipt of applicable fees.
3. Selected a sample of 20 registration fees collected during fiscal year 2017, as of February 28, 2017, and agreed them to the registration fee report for completeness.
4. Tested the accuracy of the fiscal year 2016 reported performance measure "Number of Registrations Processed".

OFFICE OF CONSUMER CREDIT COMMISSIONER

Annual Internal Audit Report

Fiscal Year 2017

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

As OCCC'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
Texas Financial Education Endowment (TFEE) Fund		
1	TFEE Cash Equivalent Account Reconciliations	Low
2	TFEE Grant Program Disbursements	Low
Registration		
3	Number of Registrations Processed	Low
	<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>	

OFFICE OF CONSUMER CREDIT COMMISSIONER

Annual Internal Audit Report

Fiscal Year 2017

Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Status (Fully Implemented, Substantially Implemented, Incomplete/Ongoing, or Not Implemented)	Fiscal Impact/Other Impact
1	6/13/2017	Texas Financial Education Endowment Fund (TFEE)	<p>1. <u>TFEE Cash Equivalent Account Reconciliations</u></p> <p>Our review of the 6 TFEE Fund cash equivalent account reconciliations prepared for fiscal year 2017, disclosed 4 instances where the reconciliations were completed 2 or more months after the respective month-end.</p> <p>Recommendation We recommend that OCCC ensure the timely completion of TFEE Fund reconciliations to identify any discrepancies or unusual items in a timely manner.</p> <p>Management's Response OCCC agrees with this recommendation. The Accounting Department will amend its policy and procedures to ensure the timely reconciliation of the TFEE account</p> <p>2. <u>TFEE Grant Program Disbursements</u></p> <p>The TFEE Policy Manual indicates that grant funds may not be used for entertainment or alcoholic beverages. Our review of 8 reimbursement requests, disclosed one instance where the grantee was reimbursed for an alcoholic beverage of a nominal amount that was included in a meal receipt.</p> <p>Recommendation We recommend that OCCC strengthen its controls over the review of reimbursement requests to ensure grantees are reimbursed only for allowable costs.</p> <p>Management's Response OCCC agrees with the recommendation. Management will retrain grant coordinator and prevent non-allowable costs from being reimbursed. In addition, grantee submitted a reimbursement check for the finding above and check will be credited to the TFEE grant.</p>		<p>To ensure the accuracy of the TFEE Fund in a timely manner.</p> <p>To ensure grant funds are used for allowable costs.</p>
2	7/17/2017	Registration	<p>3. <u>Number of Registrations Processed</u></p> <p>According to the OCCC 2017-2021 Strategic Plan, for the performance measure "Number of Registrations Processed", which is reported annually, the total number of financial service providers registered with OCCC is the number of registrations in force at the end of each reporting period, as reported in the database. Our review of the 2016 reported performance measure indicated that an average of the quarterly amounts rather than a count of registrants was used in the computation.</p>		To ensure compliance with the established calculation, as included in the definition.

OFFICE OF CONSUMER CREDIT COMMISSIONER

Annual Internal Audit Report

Fiscal Year 2017

Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Status (Fully Implemented, Substantially Implemented, Incomplete/Ongoing, or Not Implemented)	Fiscal Impact/Other Impact
2	7/17/2017	Registration	<p>Recommendation We recommend that OCCC calculate the performance measure in accordance with the established method of calculation to ensure actual performance is reported in alignment with the approved definition.</p> <p>Management's Response OCCC agrees with this recommendation. Although the report noted an average, the count of registrations for each registration type was reported in the executive summary for the 2016 fiscal year-end report to the finance commission. The performance measures will report the total count of registrations for all FY 17 data and for future performance data. The recommended action has already been corrected and implemented.</p>		

OFFICE OF CONSUMER CREDIT COMMISSIONER

Annual Internal Audit Report

Fiscal Year 2017

Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Status (Fully Implemented, Substantially Implemented, Incomplete/Ongoing, or Not Implemented)	Fiscal Impact/Other Impact
2	7/17/2017	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> <p>1. <u>Notification Letter</u></p> <p>OCCC should comply with Section XII – Examination Process of the Examiner Manual and ensure a copy of the notification letter is included in the examination work papers that are submitted to the Austin office to provide evidence that the notification letter was sent to the licensee, as required.</p> <p>2017 Follow-Up: OCCC implemented a new examination software in March 2017. The software allows notification letters to be sent to the licensee's email directly from the system and retains the date and a copy of the notification letter sent to the licensee.</p> <p>2. <u>Examination Work Papers</u></p> <p>OCCC should implement quality control procedures to ensure proper completion of examination work papers.</p> <p>2017 Follow-Up: The new examination software implemented in March 2017, does not allow examiners to finalize an examination unless all required fields in the examination checklist are completed in their entirety.</p> <p>3. <u>ROE Review</u></p> <p>OCCC should strengthen controls to comply with the established goal.</p> <p>2017 Follow-Up: In 1 of the 10 examinations tested, the review was performed 11 days after the 120-day deadline for examinations with a rating of 4 or 5. OCCC is currently in the process of hiring a new employee to assist with the review of examinations to meet their established goal.</p>	<p>Fully Implemented</p> <p>Fully Implemented</p> <p>Incomplete/ Ongoing</p>	

OFFICE OF CONSUMER CREDIT COMMISSIONER

Annual Internal Audit Report

Fiscal Year 2017

Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Status (Fully Implemented, Substantially Implemented, Incomplete/Ongoing, or Not Implemented)	Fiscal Impact/Other Impact
2	7/17/2017	2017 Follow-Up	4. <u>Reminder Letters</u> OCCC should strengthen controls to ensure reminder/notification letters sent to the licensees are maintained with the examination work papers to provide evidence that licensees are informed of their delinquency and support the basis for performing a follow-up examination or issuing an administrative action.	Fully Implemented	

OFFICE OF CONSUMER CREDIT COMMISSIONER

Annual Internal Audit Report

Fiscal Year 2017

VII. External Audit Services Procured in Fiscal Year 2017

OCCC 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

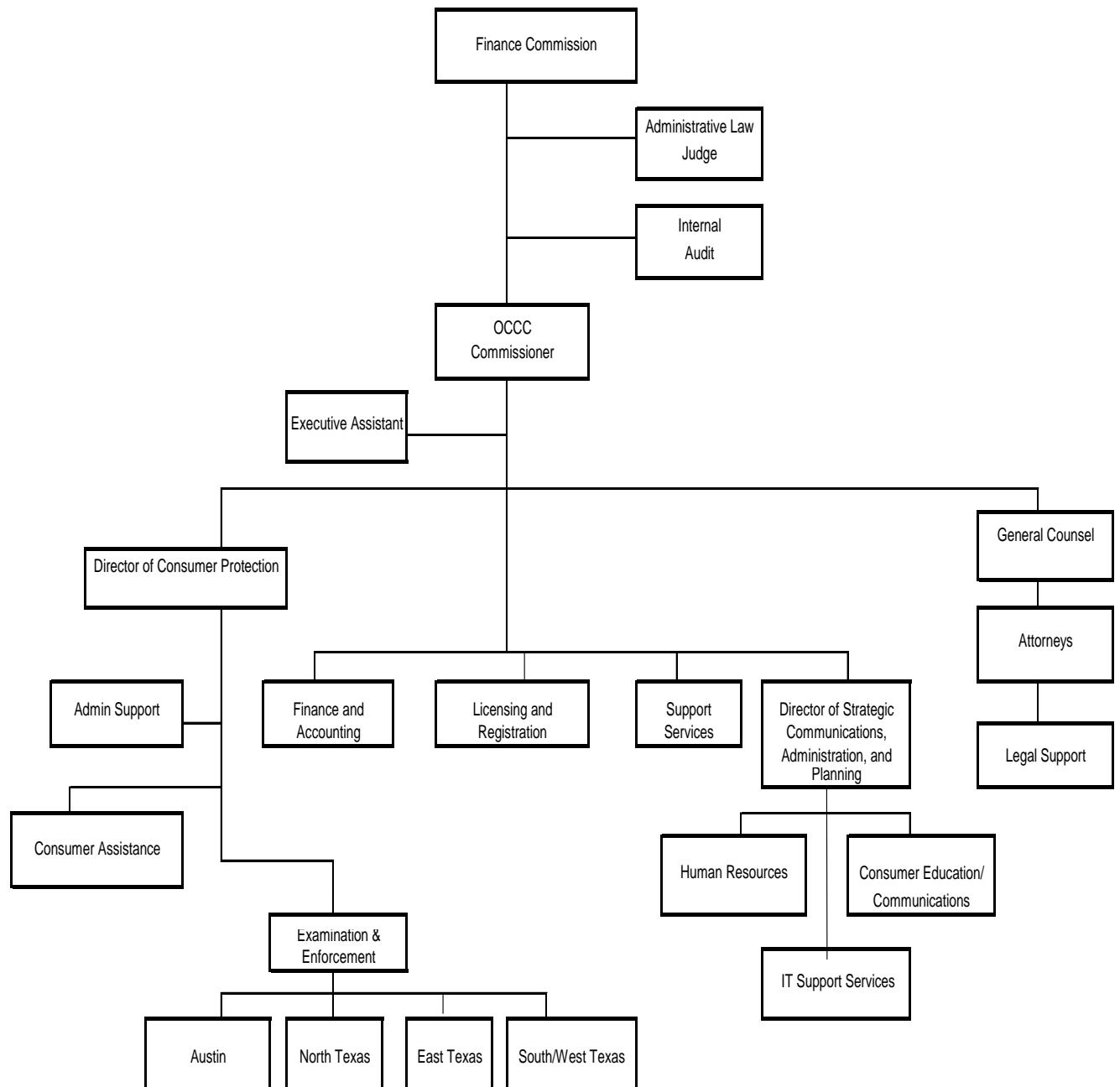
OCCC has provided information on their home page on how to report suspected fraud, waste, and abuse to the State Auditor's Office (SAO) by posting a link to the SAO's fraud hotline. OCCC has also developed a Fraud Prevention Policy that provides information on how to report suspected fraud, waste, and 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.

- Fixed Assets
- Follow-up of Prior Year Internal Audits
- Other Tasks Assigned by the Finance Commission

X. Organizational Chart



OFFICE OF CONSUMER CREDIT COMMISSIONER
History of Areas Audited
For Fiscal Year 2017

	POTENTIAL AUDIT TOPIC	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
1	Billing and Collection of Fees			A							F
2	Business Licensing	B	F			A					H/F1
3	Complaint Intake and Investigation		F				A				F1
4	Credit Access Business Examinations (Effective FY 2012)							A			
5	Fiscal Division (includes Purchasing, Travel & Payroll)				C			C			F
6	Fixed Assets		A		C1			C1			
7	Human Resources			A	C			C			
8	Management Information Systems	B, E	E	E		A		E	E	E	I
9	Motor Vehicle Sales Finance Examinations		F								A
10	Pawn Examinations				A						
11	Professional Licensing (Pawnshop Employees & MLO) (Effective FY 2012)								A		H/F1
12	Property Tax Lender Examinations (Effective FY 2012)										F1
13	Records Management		A								
14	Registration (Effective FY 2012)										
15	Regulated Lenders Examinations				A						
16	Risk Management			G			G				G
17	Texas Financial Education Endowment (TFEE) Fund (Effective FY 2013)									A	

Legend

- A** Audit performed by Garza/Gonzalez & Associates
- B** Audit performed by Wiener Strickler, LLP
- C** Post-payment audit performed by the Comptroller of Public Accounts
- C1** Limited review performed by the Comptroller of Public Accounts
- D** Post procurement audit performed by the Texas Facilities Commission
- E** Controlled penetration test performed by the Department of Information Resources
- F** Audit performed by the State Auditor's Office
- F1** Audit performed by the State Auditor's Office - limited review of processing procedures
- G** Risk management program review or on-site consultation performed by the State Office of Risk Management
- H** Criminal history record audit performed by the Department of Public Safety
- I** Cyber security and risk assessment review by NTTData through the Department of Information Resources

OFFICE OF CONSUMER CREDIT COMMISSIONER						
OPERATING STATEMENT & BUDGET ANALYSIS						
For the Period Ended May 31, 2017						
						75.00%
	FY 2016 ACTUAL	FY 2017 BUDGET	FY 2017 PERFORMANCE			
			YTD BUDGET	YTD ACTUAL	(OVER)/UND BUDGET	PERCENT BUDGET
REVENUES:						
Regulated Lenders	\$ 2,301,912	\$ 2,106,777	\$ 2,054,320	\$ 2,081,632	\$ (27,312)	101.3%
Pawn Industry	1,039,978	1,070,371	786,326	497,238	289,088	63.2% (1)
MV Industry	4,004,883	3,960,375	645,751	609,091	36,660	94.3%
Credit Access Industry	1,394,845	1,156,000	1,148,326	1,249,390	(101,064)	108.8% (2)
Penalties	960,857	-	-	391,440	(391,440)	-
Debt Management Services	40,390	41,200	38,864	38,960	(96)	100.2%
Debt Cancellation	10,750	-	-	24,500	(24,500)	-
RAL Registration	76,525	85,000	84,334	131,900	(47,566)	156.4% (3)
Precious Metals	46,450	50,000	39,855	37,350	2,505	93.7%
Tax Liens	59,208	62,203	60,864	62,124	(1,260)	102.1%
Sale of Publications	1,041	-	-	1,671	(1,671)	-
Creditor Registration	125,860	84,000	79,238	95,820	(16,582)	120.9% (4)
Mortgage Loan Originators	104,100	99,500	91,137	68,325	22,812	75.0%
Other Revenue	3,657	-	-	261	(261)	-
Investment / Interest Income	19,098	-	-	34,960	(34,960)	-
TOTAL REVENUES	\$ 10,189,554	\$ 8,715,426	\$ 5,029,014	\$ 5,324,662	\$ (295,648)	105.9%
EXPENDITURES:						
Salaries and Wages-						
Base Pay	\$ 4,928,968	\$ 5,453,323	\$ 4,089,992	\$ 3,819,323	270,669	93.4%
Benefit Replacement Pay	7,188	7,702	5,777	6,161	(384)	106.7%
Longevity	67,400	76,000	57,000	52,180	4,820	91.5%
	\$ 5,003,556	\$ 5,537,025	\$ 4,152,769	\$ 3,877,664	\$ 275,105	93.4% (5)
Travel-						
Public Transportation, Lodging, Meals & Mileage	724,516	917,950	688,463	592,524	95,939	86.1%
	\$ 724,516	\$ 917,950	\$ 688,463	\$ 592,524	\$ 95,939	86.1% (6)
Other Expenditures-						
Professional Services & Fees	213,449	293,935	220,451	56,660	163,791	25.7%
Consumable Supplies	19,787	28,000	21,000	14,631	6,369	69.7%
Postage & Freight	17,352	37,000	27,750	17,260	10,490	62.2%
Telephone & Communications	63,994	91,250	68,438	48,737	19,701	71.2%
Bldg. & Utilities	64,089	83,100	62,325	41,298	21,027	66.3%
Publication / Printing & Reproduction	5,465	6,000	4,500	272	4,228	6.0%
Other Operating	288,585	317,500	238,125	135,425	102,700	56.9%
	\$ 672,721	\$ 856,785	\$ 642,589	\$ 314,283	\$ 328,305	48.9% (7)
Acquisition of Info Technology	\$ 72,393	\$ 85,600	\$ 64,200	\$ 39,641	\$ 24,559	61.7%
Development in Progress	-	483,000	362,250	374,928	(12,678)	103.5% (8)
Employee Benefits	1,721,687	1,742,908	1,307,181	1,399,903	(92,722)	107.1% (9)
SWCAP Reimb to Unapp Gr 0001	31,654	35,000	26,250	14,353	11,897	54.7%
SORM Assessment	5,207	6,000	4,500	6,059	(1,559)	134.6%
Unemployment Benefits	11,980	10,000	7,500	13,049	(5,549)	174.0%
	\$ 1,842,921	\$ 2,362,508	\$ 1,771,881	\$ 1,847,933	\$ (76,052)	104.3%
TOTAL EXPENDITURES:	\$ 8,243,714	\$ 9,674,268	\$ 7,255,701	\$ 6,632,404	\$ 623,297	91.4%
EXPENDITURES (OVER) / UNDER REVENUE	\$ 1,945,840	\$ (958,842)	\$ (2,226,687)	\$ (1,307,742)	\$ (918,945)	

Office of Consumer Credit Commissioner

Overview of Budget Variances for 3rd Quarter FY 2017

Revenues- 106.7% of budget

- 1.) Pawn Industry is below budget due to timing issues. Their renewal period ends June 30.
- 2.) Credit Access Industry revenue has exceeded budget for the year due to higher than expected renewal rate.
- 3.) RAL Registration is above budget due to an increase in new registrations for the year.
- 4.) Creditor Registration is above budget due to greater retention and new market entrants. It has been steadily increasing and is over budget for the year as of the 3rd qtr.

Expenditures- 91.4% of budget

- 5.) Personnel & Employee Benefit costs continue to be below budget due to the suspended hiring of vacant positions.
- 6.) Travel is below budget. There has been some employee turnover within the Exam department and the suspended hiring of vacant positions has resulted in a decrease in travel expenditures. Further, the efficiencies from the enterprise level exams have reduced travel costs.
- 7.) Other expenditures are under budget due to Professional Services and Fees with legal services and ALECS enhancements not yet incurred. Other Operating is under budget due to a delay in maintenance costs associated with ALECS.
- 8.) Development in Progress is over budget due to one phase of the ALECS project being completed in FY 17, which was initially planned for and budgeted in FY 16. Remaining payments for ALECS, Compliance and Examination (ACE) application development, projected to be \$214,159 will be made in the 4th quarter.
- 9.) Employee benefits are over budget due to a miscalculation in the FY17 budgeted amount. This miscalculation will cause the agency to be over budget for benefits for the year by an estimated 7%.

Office of Consumer Credit Commissioner
Changes in Cash Balance
For the Quarter Ending May 31, 2017

	Actual
Cash at Beginning of Period	\$ 12,046,865.14
Revenues Over (Under) Expenditures CY	(1,283,369.00)
Increase (Decrease) in Payables	(294,038.21)
(Increase) Decrease in Receivables	(25,895.39)
Cash at End of Period	<u>\$ 10,443,562.54</u>

Restricted Cash Balance

Payroll and Payroll Related Payables	\$ 668,763.45
Reserve for Building	6,000,000.00
Total Restricted Cash Balance	<u>\$ 6,668,763.45</u>

Assigned Cash Balance

Retirement	148,018.64
Information Technology	483,000.00
Future Operations	3,143,780.45
Total Assigned Cash Balance	<u>\$ 3,774,799.09</u>

Total Restricted and Assigned Cash Balance \$ 10,443,562.54

Assigned Cash Balance - Future Operations / FY 2017
Monthly Budget 3.90

**Texas Department of Banking
Operating Statement and Budget Analysis
For Period Ending May 2017**

	FY 2016 ACTUAL	FY 2017 BUDGET	QUARTER PERFORMANCE				FY 2017 PERFORMANCE			
			3rd Quarter BUDGET	3rd Quarter ACTUAL	(OVER)/UNDER BUDGET	PERCENT BUDGET	YTD BUDGET	YTD ACTUAL	(OVER)/UNDER BUDGET	PERCENT BUDGET
REVENUE:										
Bank & Trust Regulation	\$23,882,487.21	\$24,973,502.78	\$6,412,034.00	\$6,469,798.67	(\$57,764.67)	100.9%	\$19,549,228.00	\$19,857,439.74	(\$308,211.74)	101.6%
Nonbank Regulation	2,921,826.30	3,133,629.79	495,448.00	544,661.87	(49,213.87)	109.9%	2,564,691.10	2,713,257.80	(148,566.70)	105.8%
Miscellaneous Revenues	27,789.17	22,800.00	5,700.00	25,408.12	(19,708.12)	445.8%	17,100.00	51,035.80	(33,935.80)	298.5%
TOTAL REVENUES:	\$26,832,102.68	\$28,129,932.57	\$6,913,182.00	\$7,039,868.66	(\$126,686.66)	101.8%	\$22,131,019.10	\$22,621,733.34	(\$490,714.24)	102.2%
EXPENDITURES:										
Salaries and Wages										
Exempt Salaries	\$244,442.00	\$234,525.00	\$58,631.25	\$58,681.25	(\$50.00)	100.1%	\$175,893.75	\$176,043.75	(\$150.00)	100.1%
Classified Salaries	16,337,543.36	17,528,545.13	4,366,472.22	3,986,348.38	380,123.84	91.3%	12,941,120.91	12,139,023.44	802,097.47	93.8%
Other Personnel Costs	334,020.61	466,832.90	82,166.76	82,194.47	(27.71)	100.0%	222,831.07	303,997.95	(81,166.88)	136.4%
	\$16,916,005.97	\$18,229,903.03	\$4,507,270.23	\$4,127,224.10	\$380,046.13	91.6%	\$13,339,845.73	\$12,619,065.14	\$720,780.59	94.6%
Travel										
In-State	\$1,605,275.73	\$1,648,532.00	\$386,384.76	\$330,490.05	\$55,894.71	85.5%	\$1,222,839.93	\$1,053,977.32	\$168,862.61	86.2%
Out-of-State	577,748.74	745,301.00	208,236.43	194,521.19	13,715.24	93.4%	518,120.00	487,365.97	30,754.03	94.1%
	\$2,183,024.47	\$2,393,833.00	\$594,621.19	\$525,011.24	\$69,609.95	88.3%	\$1,740,959.93	\$1,541,343.29	\$199,616.64	88.5%
Other Expenditures										
Professional Fees & Services	\$153,074.97	\$160,340.00	\$19,710.00	\$61,746.91	(\$42,036.91)	313.3%	\$67,530.00	\$147,710.73	(\$80,180.73)	218.7%
Postage	12,701.74	12,460.00	955.00	668.75	286.25	70.0%	10,540.00	\$9,710.04	829.96	92.1%
Consumable Supplies	476,701.21	219,800.00	22,922.94	26,261.38	(3,338.44)	114.6%	80,383.13	\$81,842.91	(1,459.78)	101.8%
Telephone	229,104.60	253,538.00	48,803.15	47,794.87	1,008.28	97.9%	196,207.15	\$192,327.55	3,879.60	98.0%
Utilities	44,982.17	49,201.00	9,653.18	9,157.82	495.36	94.9%	37,797.66	\$36,487.67	1,309.99	96.5%
Rent - Buildings	341,852.98	387,490.00	93,985.25	98,569.27	(4,584.02)	104.9%	318,180.17	\$316,664.34	1,515.83	99.5%
Rent - Machinery & Other	37,756.25	36,283.68	10,375.93	9,313.82	1,062.11	89.8%	27,517.77	\$24,299.72	3,218.05	88.3%
Other Operating	396,150.67	405,745.45	55,808.08	37,685.68	18,122.40	67.5%	193,906.07	\$180,458.81	13,447.26	93.1%
Subscriptions	16,109.46	18,658.00	5,264.66	6,451.46	(1,186.80)	122.5%	12,693.00	\$12,355.89	337.11	97.3%
Employee Training / Reg. Fees	251,013.16	362,688.00	108,720.31	107,876.62	843.69	99.2%	248,113.25	\$215,894.58	32,218.67	87.0%
Claims/SORM Assessment	19,517.09	20,404.00	4,640.00	5,031.39	(391.39)	108.4%	20,404.00	\$20,950.76	(546.76)	102.7%
Capital / Other IT Expenditures	15,275.16	69,000.00	24,390.17	24,390.17	0.00	100.0%	24,390.17	24,390.17	0.00	100.0%
	\$1,994,239.46	\$1,995,608.13	\$405,228.67	\$434,948.14	(\$29,719.47)	107.3%	\$1,237,662.37	\$1,263,093.17	(\$25,430.80)	102.1%
Total Expenditures before Benefits	\$21,093,269.90	\$22,619,344.16	\$5,507,120.09	\$5,087,183.48	\$419,936.61	92.4%	\$16,318,468.03	\$15,423,501.60	\$894,966.43	94.5%
Employee Benefits (Less BRP)	\$4,673,170.85	\$5,195,522.36	\$1,278,444.52	\$1,201,050.78	\$77,393.74	93.9%	\$3,795,728.53	\$3,607,299.37	\$188,429.16	95.0%
Payroll Hlth. Care/Retirement Cont.	235,251.88	265,066.05	\$66,376.55	\$59,655.09	\$6,721.46	89.9%	\$196,755.22	\$181,275.32	\$15,479.90	92.1%
SWCAP	\$42,010.00	\$50,000.00	\$50,000.00	\$46,228.00	\$3,772.00	92.5%	\$50,000.00	\$46,228.00	\$3,772.00	92.5%
TOTAL EXPENDITURES:	\$26,043,702.63	\$28,129,932.57	\$6,901,941.16	\$6,394,117.35	\$507,823.81	92.6%	\$20,360,951.78	\$19,258,304.29	\$1,102,647.49	94.6%
EXPENDITURES (OVER) / UNDER REVENUE:	\$788,400.05	\$0.00	\$11,240.84	\$645,751.31	(\$634,510.47)		\$1,770,067.32	\$3,363,429.05	(\$1,593,361.73)	

Texas Department of Banking

Overview of Budget Variances for the Third Quarter of Fiscal 2017- (Variances in excess of \$1,000 and 5% from budget are explained).

Nonbank Regulation – Actual revenues were in excess of budget due to: (1) unanticipated collected penalties from unlicensed money service businesses and prepaid funeral contract permit holders and (2) higher than anticipated money services business examination and travel fee reimbursements. Year to date nonbank regulation revenue is at 105.8% of budget. This variance will be offset by lower fourth quarter assessments.

Miscellaneous Revenues – The variance for the quarter relates to higher interest payments from the Treasury than anticipated.

Classified Salaries and Employee Benefits – The positive variance relates to vacant staff positions. Vacancies in terms of FTEs as of May 31, 2017 are listed below:

Administrative	5*
Examiners	14

*One vacancy was filled by contract employee discussed below.

In-State Travel – The positive variance is due to: (1) vacant examiner positions; (2) training and examination related travel that did not occur; and (3) early completion of the rotating review examiner program.

Out-of-State Travel – The positive variance is due to: (1) vacant examiner positions; (2) a large prepaid funeral contract examination being shorter than anticipated; and (3) fewer staff attending a CSBS Supervisory Forum.

Professional Fees – The negative variance relates to a contract IT programmer that was budgeted as a salary.

Consumable Supplies – The negative variance is due to an unbudgeted purchase of furniture for the expanded office space at the Lubbock regional office.

Rent – Machinery and Other – The positive variance is due to a town hall meeting event where audio visual equipment was provided at no charge.

Other Operating – The positive variance is due to a targeted examination where we used our own resources as opposed to using State of Michigan contract examiners.

Subscriptions – The negative variance is a timing difference. Year to date expenditures are 97.3% of budget.

Payroll Health Care and Retirement Contribution – The positive variance is due to staff vacancies and the budgeted amount being based on the additional state contribution of 1% and 0.5% to health care and retirement respectively for all employees. However, the 1% healthcare contribution is not calculated for new employees until after 60 days of their employment. In addition, the 0.5% calculation does not include return to work retirees.

Statewide Cost Allocation Plan (SWCAP) – The positive variance is due to lower than anticipated SWCAP assessments (budgeted: \$50,000, actual: \$46,228).

TEXAS DEPARTMENT OF BANKING

Changes in Cash Balance

For the Quarter Ending May 31, 2017

	<u>Actual</u>
Cash at Beginning of Period	\$16,942,264.21
Revenues Over (Under) Expenditures	\$645,751.31
Increase (Decrease) in Payables/Encumbrances	(\$71,341.59)
(Increase) Decrease in Receivables	<u>\$8,195.64</u>
Cash at End of Period	<u><u>\$ 17,524,869.57</u></u>

Restricted Cash Balance:

Payroll and Related Payables	\$1,885,750.91
Reserve for Building	<u>6,000,000.00</u>
Total Restricted Cash Balance	<u><u>\$ 7,885,750.91</u></u>

Assigned Cash Balance:

Retirements	\$685,233.47
Future Operations	<u>8,953,885.19</u>
Total Assigned Cash Balance	<u><u>\$ 9,639,118.66</u></u>

Total Restricted and Assigned Cash Balance **\$ 17,524,869.57**

Assigned Cash Balance/FY2017 Monthly Budget 4.11 months

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

OPERATING STATEMENT AND BUDGET ANALYSIS

For the Period Ended May 31, 2017

	FY 2016 EXPENDED	FY 2017 BUDGET	FY 2017 PERFORMANCE			
			YTD BUDGET	YTD EXPENDED*	(OVER)/UNDER BUDGET	PERCENT BUDGET
REVENUE:						
Annual Assessment	1,279,781	1,464,633	1,464,633	1,656,500	(191,867)	113.1%
Thrift Application Fees	56,500	20,000	15,000	7,100	7,900	47.3%
Licensing Fees	4,633,997	3,744,505	3,282,505	3,447,694	(165,189)	105.0%
Fines and Penalties	1,958,926	0	0	542,529	(542,529)	0.0%
Recovery Fund Offset	1,241	6,000	0	0	0	100.0%
Depository Interest	20,961	9,000	6,750	39,836	(33,086)	590.2%
Miscellaneous	10,001	3,000	100	94	6	94.0%
Judgements and Settlements	60,000					
TOTAL REVENUE	8,021,407	5,247,138	4,768,988	5,693,753	(924,765)	119.4%
EXPENDITURES:						
Salaries and Wages-						
Exempt	202,540	194,750	146,062	146,062	0	100.0%
Classified	3,443,438	3,934,913	2,919,136	2,658,597	260,539	91.1%
Other Personnel Costs	149,666	98,119	73,458	59,693	13,765	81.3%
	3,795,644	4,227,782	3,138,656	2,864,352	274,304	91.3%
Travel-						
Transportation & Mileage	271,625	351,000	251,137	198,280	52,857	79.0%
	271,625	351,000	251,137	198,280	52,857	79.0%
Other Expenditures-						
Professional Services/Fees	46,627	62,040	30,800	28,019	2,781	91.0%
Consumable Supplies	11,941	12,500	10,125	9,483	642	93.7%
Utilities	30,134	33,372	24,965	22,137	2,828	88.7%
Rent-Space & Equipment	4,130	6,000	4,500	4,215	285	93.7%
Other Operating Expenses	272,799	256,430	193,949	199,213	(5,264)	102.7%
Capital Expenditures	0	12,000	0	0	(0)	0.0%
	365,631	382,342	264,339	263,067	1,272	99.5%
Other Agency Costs						
Employee Benefits	1,140,338	1,310,328	980,135	901,553	78,582	92.0%
SWCAP Indirect Costs	23,396	24,000	18,000	16,281	1,719	90.5%
SAO Audit	0	0	0	50,000	(50,000)	0.0%
	1,163,734	1,334,328	998,135	967,834	30,301	97.0%
TOTAL EXPENDITURES	5,596,635	6,295,452	4,652,267	4,293,533	358,734	92.3%
EXPENDITURES (OVER)/ UNDER REVENUE	2,424,772	(1,048,314)	116,721	1,400,220	(1,283,499)	N/A

* Amounts include accruals and encumbrances.

Department of Savings and Mortgage Lending

Budget Variance Analysis as of May 31, 2017

Revenues:

Overall revenues are at 19% over budget.

Thrift Assessments – Revenues are 13% over budget, mostly due to higher than budgeted level of assets.

Licensing Revenues – Revenues from license and registration fees are 5% over budget. The overage is due to higher volume of new individual RMLLO applications.

Fines and Penalties – No amount was budgeted.

Expenditures:

Overall expenditures are at 92% of budget.

Employees' Salaries and Related Benefits – These categories are at 8.7% under budget due to several vacancies.

Other Personnel Costs – The category is 18% under budget. Lower than budgeted longevity payments and lower additional retirement contribution costs were incurred due to vacancies.

Travel – This category is at 21% under budget. Lower travel costs were incurred mostly due to vacancies.

Other Operating Expenditures – The category is 3% over budget due to higher than budgeted Fees for Electronic Payments and Fees for Safekeeping Trust Bank Charges.

Other Agency Costs: SAO Audit – No amount was budgeted as we were notified about the upcoming audit and related cost on November 1, 2016.

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

CHANGES IN CASH BALANCE

For the Quarter Ending May 31, 2017

	Actual
Cash at Beginning of Period	\$ 13,414,029
Revenues Over (Under) Expenditures CY	\$ (101,034)
Revenues Over (Under) Expenditures PY	\$ (167)
Increase (Decrease) in Payables/Encumbrances	\$ 68,536
(Increase) Decrease in Receivables	\$ (10,534)
Cash at End of Period	\$ 13,370,830

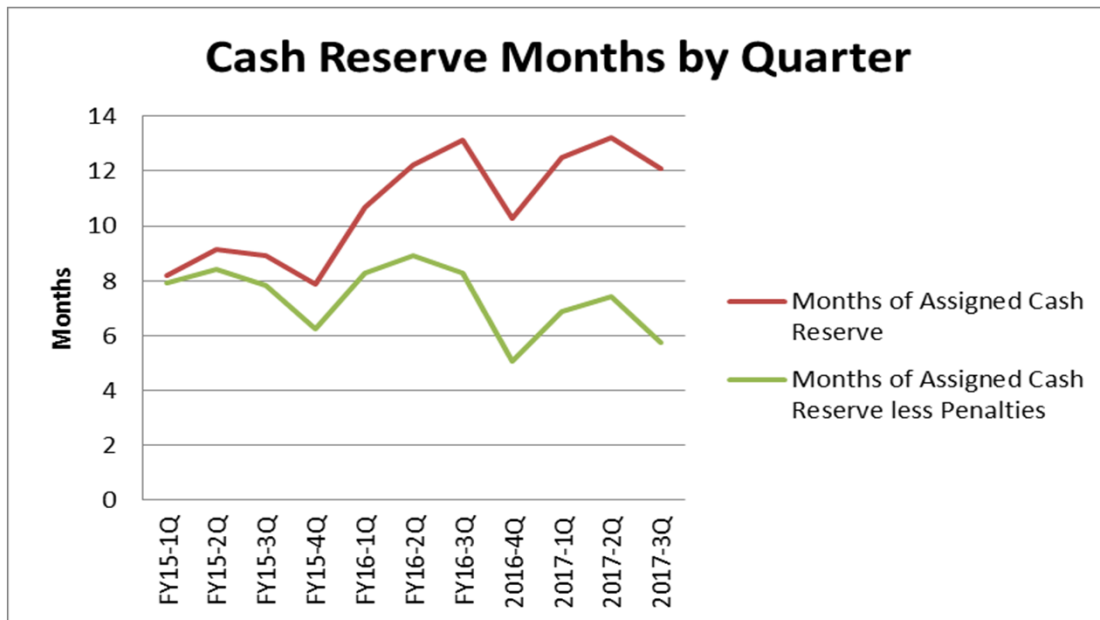
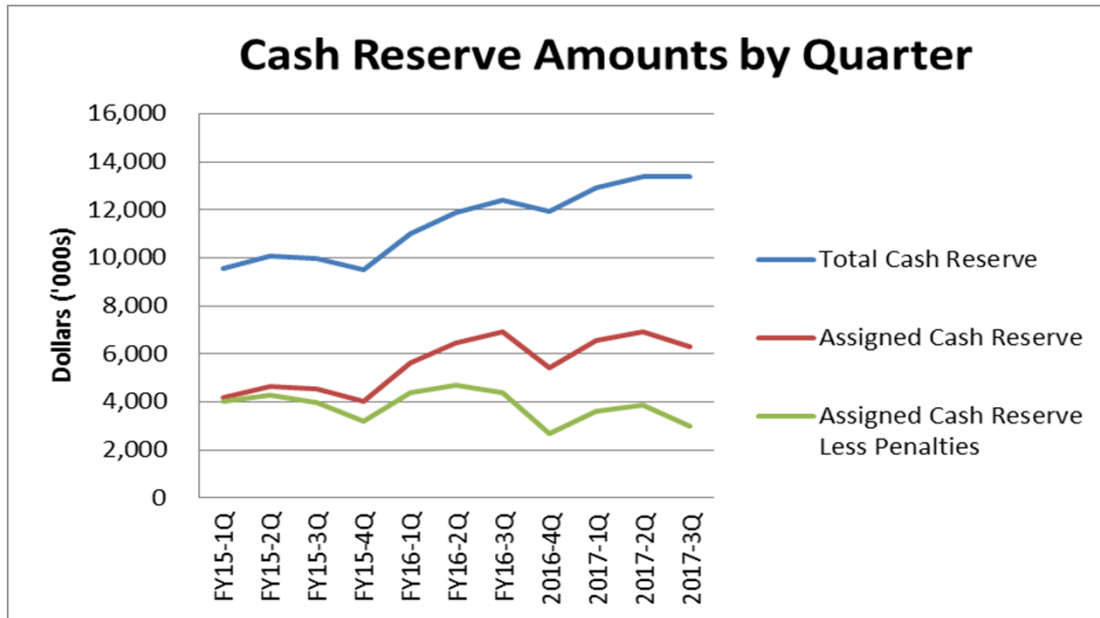
Restricted Cash Balance:	
Payroll Payable	\$ 420,366
Other Payables (Net of Receivables)	\$ 123,116
TFEE Transfer	\$ 500,000
Building	\$ 6,000,000
Total Restricted Cash Balance	\$ 7,043,482

Assigned Cash Balance:	
Retirements	\$ 100,000
Mortgage Enforcement Funds	\$ 114,509
Future Operations	\$ 6,112,839
Total Assigned Cash Balance	\$ 6,327,348

Total Restricted and Assigned Cash Balance	\$ 13,370,830
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Assigned Cash Balance/FY2017 Monthly Budget	12.1 months
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DEPARTMENT OF SAVINGS AND MORTGAGE LENDING



**Office of Consumer Credit Commissioner
Budget Fiscal Year 2018**

	Budget 2017	Estimated FY 2017	% of 2017 Budget	Proposed Budget 2018	\$ Change Budget 2017 to Budget 2018	% Change Budget 2017 to Budget 2018
REVENUE:						
Regulated Lenders	\$2,268,480	2,284,906	100.72%	2,376,964	\$ 108,484	4.78%
Credit Access Industry	1,156,000	1,274,150	110.22%	1,152,740	(3,260)	-0.28%
MV Industry	3,960,375	4,385,099	110.72%	4,019,794	59,419	1.50%
Pawn Industry	1,070,371	1,070,751	100.04%	1,036,615	(33,756)	-3.15%
Registered Industry	260,200	355,599	136.66%	291,651	31,451	12.09%
TOTAL REVENUES:	\$ 8,715,426	\$9,370,505	107.52%	\$ 8,877,763	\$ 162,337	1.86%
EXPENDITURES:						
Salaries and Wages						
Exempt Salaries	\$ 196,000	\$ 196,000	100.00%	\$ 196,000	-	0.00%
Classified Salaries	5,257,323	4,852,596	92.30%	5,202,145	(55,178)	-1.05%
Other Personnel Costs	83,702	77,509	92.60%	89,361	5,659	6.76%
	5,537,025	\$5,126,104	92.58%	5,487,506	(49,520)	-0.89%
Travel						
In-and-Out-of-State Expenditures	917,950	715,620	77.96%	797,200	(120,750)	-13.15%
Out-of-State Reimbursables	70,000	18,303	26.15%	21,000	(49,000)	-100.00%
Out-of-State Reimbursements	(70,000)	(18,303)	26.15%	(21,000)	49,000	100.00%
	917,950	715,620	77.96%	797,200	(120,750)	-13.15%
Other Expenditures						
Professional Fees & Services	293,935	292,372	99.47%	403,000	109,065	37.11%
Consumable Supplies	28,000	22,436	80.13%	27,000	(1,000)	-3.57%
Utilities	26,350	18,544	70.38%	20,150	(6,200)	-23.53%
Rent - Buildings	15,000	21,355	142.37%	26,500	11,500	76.67%
Other Operating	513,250	373,749	72.82%	472,083	(41,167)	-8.02%
Capital Expenditures	81,850	67,688	82.70%	92,100	10,250	12.52%
*Capital Expenditures-IT Legacy Modernization	483,000	589,088	121.96%	-	(483,000)	-100.00%
	1,441,385	1,385,232	96.10%	1,040,833	(400,552)	-27.79%
Total Expenditures before Benefits	7,896,360	7,226,957	91.52%	7,325,539	(570,822)	-7.23%
Employee Benefits	1,661,108	1,778,165	107.05%	1,966,796	305,688	18.40%
Payroll Hlth Care/Retirement Cont.	81,800	76,892	94.00%	80,972	(828)	-1.01%
SWCAP	35,000	28,730	82.08%	35,000	-	0.00%
	1,777,907	1,883,786	105.96%	2,082,768	304,860	17.15%
TOTAL EXPENDITURES:	\$ 9,674,268	\$ 9,110,743	94.18%	\$ 9,408,307	\$ (265,961)	-2.75%
IT RESERVE:						
Capital Expenditure from IT Reserve	(483,000)			-		
EXPENDITURES (OVER)/UNDER REVENUE:	\$ (475,842)	\$ 259,762		\$ (530,543)	\$ 428,298	

FTE's

93.5

93.5

91

* Revenue includes penalties that are not budgeted

** FY 18 Expenditures in excess of revenue are planned to be absorbed through operating reserve funds

**Texas Department of Banking
Budget FY 2018**

	Budget 2017	Estimated FY 2017*	% of 2017 Budget		Budget 2018**	\$ Change Budget 2017 to Budget 2018	% Change Budget 2017 to Budget 2018
REVENUE:							
Bank & Trust Regulation	\$24,973,503	\$22,872,421	91.59%		\$25,451,783	478,280	1.92%
Nonbank Regulation	\$3,133,630	\$3,151,972	100.59%		\$3,223,561	89,931	2.87%
Miscellaneous Revenues	\$22,800	\$52,236	229.11%		\$62,400	39,600	173.68%
TOTAL REVENUES:	\$28,129,933	\$26,076,629	92.70%		\$28,737,744	607,811	2.16%
EXPENDITURES:							
Salaries and Wages							
Exempt Salaries	\$234,525	\$234,675	100.06%		\$234,725	200	0.09%
Classified Salaries	\$17,528,545	\$16,464,769	93.93%		\$17,743,138	214,593	1.22%
Other Personnel Costs	\$466,833	\$355,427	76.14%		\$548,847	82,014	17.57%
	\$18,229,903	\$17,054,871	93.55%		\$18,526,710	296,807	1.63%
Travel							
In-State	\$1,648,532	\$1,287,710	78.11%		\$1,566,470	(82,062)	-4.98%
Out-of-State	\$745,301	\$602,366	80.82%		\$737,909	(7,392)	-0.99%
	\$2,393,833	\$1,890,076	78.96%		\$2,304,379	(89,454)	-3.74%
Other Expenditures							
Professional Fees & Services	\$160,340	\$223,611	139.46%		\$384,390	224,050	139.73%
Postage	\$12,460	\$10,675	85.67%		\$10,049	(2,411)	-19.35%
Consumable Supplies	\$219,800	\$221,260	100.66%		\$297,030	77,230	35.14%
Telephone	\$253,538	\$249,658	98.47%		\$270,785	17,247	6.80%
Utilities	\$49,201	\$47,891	97.34%		\$46,263	(2,938)	-5.97%
Rent - Buildings	\$387,490	\$385,974	99.61%		\$407,919	20,429	5.27%
Rent - Machinery & Other	\$36,284	\$33,066	91.13%		\$38,834	2,550	7.03%
Other Operating	\$405,745	\$374,298	92.25%		\$415,089	9,344	2.30%
Subscriptions	\$18,658	\$18,321	98.19%		\$18,558	(100)	-0.54%
Employee Training / Reg. Fees	\$362,688	\$245,895	67.80%		\$264,803	(97,885)	-26.99%
Claims/SORM Assessment	\$20,404	\$20,951	102.68%		\$34,911	14,507	71.10%
Capital Expenditures	\$69,000	\$69,000	100.00%		\$37,500	(31,500)	-45.65%
	\$1,995,608	\$1,900,600	95.24%		\$2,226,131	230,523	11.55%
Total Expenditures before Benefits	\$22,619,344	\$20,845,547	92.16%		\$23,057,220	437,876	1.94%
Employee Benefits (Less BRP)	\$5,195,522	\$4,874,026	93.81%		\$5,287,762	92,240	1.78%
Payroll Hlth Care/Retirement Cont.	\$265,067	\$246,487	92.99%		\$266,859	1,792	0.68%
SWCAP	\$50,000	\$46,228	92.46%		\$50,000	0	0.00%
TOTAL EXPENDITURES:	\$28,129,933	\$26,012,288	92.47%		\$28,661,841	531,908	1.89%
EXPENDITURES (OVER) / UNDER REVENUE:	\$0	\$64,341			\$75,903		

FTEs

192

190

(2)

* FY 2017 forecasted using a combination of estimated projections and annualized June 30, 2017 actuals. Fourth quarter Bank and Trust and Special Audits assessments forgiven totalled approximately \$3.5 million.

**FY 2018 budgeted assessments are net \$1.3 million in Bank and Trust and \$255,000 in Special Audits that are not expected to be assessed.

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

BUDGET INFORMATION FY 2017-18

Revenue/Expenditure Category	Budget FY2017	Estimated FY2017	% of 2017 Budget	Budget FY2018	\$ Change Budget FY17 to Budget FY18	% Change Budget FY17 to Budget FY18
REVENUES:						
Annual Thrift Assessment	1,464,633	1,656,500	113%	1,783,534	318,901	21.8%
Thrift Application and Exam Fees	20,000	12,600	63%	15,000	(5,000)	-25.0%
Licensing Fees	3,744,505	4,017,624	107%	3,715,105	(29,400)	-0.8%
Fines and Penalties	0	723,372	0%	0	0	0.0%
Recovery Fund Offset	6,000	6,500	108%	10,000	4,000	66.7%
Depository Interest	9,000	53,115	590%	45,000	36,000	400.0%
Miscellaneous	3,000	4,360	145%	3,000	0	0.0%
TOTAL REVENUES:	5,247,138	6,474,070	123%	5,571,639	324,501	6.2%
EXPENDITURES:						
Salaries and Wages						
Exempt Salaries	194,750	194,750	100%	194,750	0	0.0%
Employees' Salaries	3,934,913	3,638,614	92%	4,017,586	82,673	2.1%
Other Personnel Costs	98,119	79,223	81%	89,203	(8,916)	-9.1%
Subtotal Salaries and Wages	4,227,782	3,912,587	93%	4,301,539	73,757	1.7%
Travel	351,000	268,619	77%	327,500	(23,500)	-6.7%
Subtotal Travel	351,000	268,619	77%	327,500	(23,500)	-6.7%
Other Expenditures						
Professional Fees & Services	62,040	110,762	179%	125,090	63,050	101.6%
Consumable Supplies	12,500	12,463	100%	14,000	1,500	12.0%
Utilities	33,372	30,197	90%	36,088	2,716	8.1%
Rent - Space & Equipment	6,000	6,089	101%	6,000	0	0.0%
Other Operating Expenditures	268,430	269,656	100%	368,080	99,650	37.1%
Subtotal Other Expenditures	382,342	429,168	112%	549,258	166,916	43.7%
Subtotal Operating Expenditures	4,961,124	4,610,374	93%	5,178,297	217,173	4.4%
Employee Benefits (Less BRP)	1,310,328	1,219,325	93%	1,336,996	26,668	2.0%
SWCAP	24,000	21,708	90%	22,000	(2,000)	-8.3%
Subtotal Other Direct and Indirect	1,334,328	1,241,033	93%	1,358,996	24,668	1.8%
TOTAL EXPENDITURES:	6,295,452	5,851,407	93%	6,537,293	241,841	3.8%
EXPENDITURES (OVER)/ UNDER REVENUES	(1,048,314)	622,664		(965,654)	82,660	
Budgeted FTE Count	61			61		

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TEXAS FINANCIAL EDUCATION ENDOWMENT

TFEE Report – August 2017

Juan V. Garcia, Program Director

TFEE Semi-Annual Grant Reports and Reimbursement Requests were due July 31. The Grant Coordinator is currently reviewing the reports to monitor program progress and performance and to ensure compliance with the grant agreement terms. A summary of these reports will be provided to the Finance Commission at the October Finance Commission meeting.

On July 26, the Grant Coordinator audited a day of training for the Texas Statewide Homebuyer Education Program (TSHEP), conducted by TFEE 2016-17 grant recipient, Texas State Affordable Housing Corporation (TSAHC). The conference was a train-the-trainer program, which allowed the Grant Coordinator to present information about TFEE, the upcoming grant cycle and the application process, to possible applicants.

The 2018-19 application process opened in early July. In preparation for the application cycle, the Grant Coordinator sent the approved TFEE 2018-2019 press release to 28 organizations or individuals for publishing on their social media accounts or websites to help spread the word about TFEE. Applications for the new grant cycle are due by midnight on September 25, 2017. The Grant Coordinator is currently preparing an informational webinar for possible applicants, which will take place during the week of September 4, 2017.

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TEXAS FINANCIAL EDUCATION ENDOWMENT

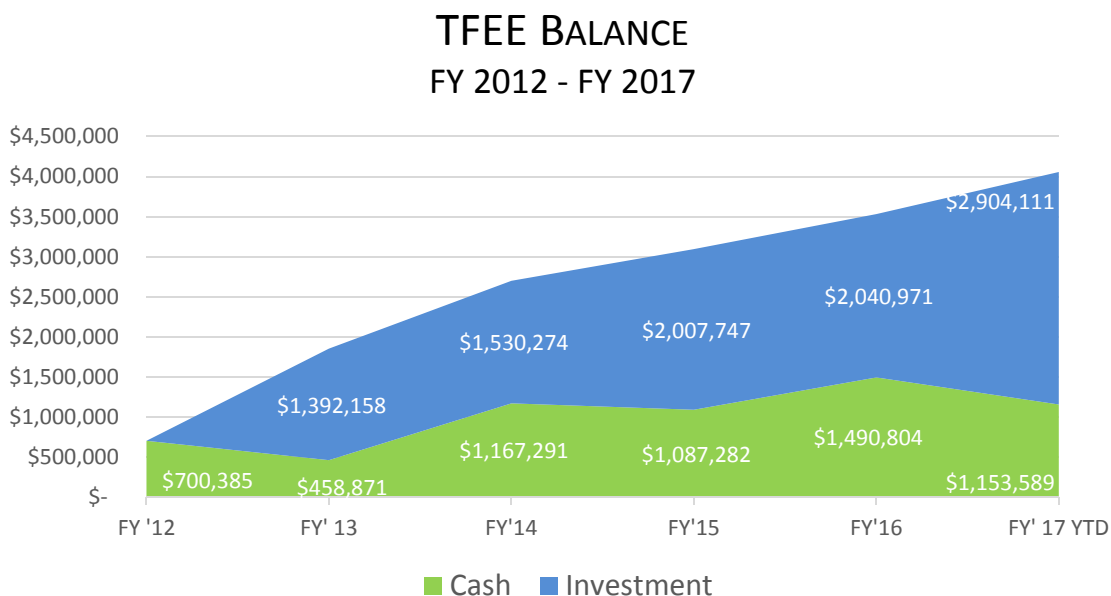
TFEE Fund Balance and Grant Funding – August 2017

Juan V. Garcia, Program Director

The 82nd Legislature created the Texas Financial Education Endowment (TFEE) through the passage of HB 2594 in 2011. Each licensed credit access business must pay an annual assessment (\$200) to the fund to support statewide financial education and consumer credit building activities and programs. Funds collected for TFEE through industry assessments began in 2012 and at the end of the second quarter of FY2012, approximately \$659,000 collected for the fund. Funds have continued to be assessed and collected annually from credit access businesses.

In FY2013 in order to begin the grant award program, \$500,000 of litigation settlement proceeds that had been received by the OCCC were designated to initiate the grant award program. In FY 2013, the Finance Commission approved \$250,000 of these funds to be awarded in the 2014-2015 grant cycle. These funds were distributed through the grant program to eight competitively selected recipients. In the 2016-2017 grant cycle, the Finance Commission approved \$249,000 in competitive grant awards, also from these funds.

At the end of the third quarter of FY17, the TFEE balance totals \$4,047,700. The chart below represents the fund balance activity from 2012 through 2017.



The Texas Treasury Safekeeping Trust Company (TTSTC), the fund manager, calculated that the earnings distribution for FY 2017 on the invested portfolio would be \$60,004. For FY 2018, the earnings distribution would be \$67,657. These estimates (\$127,661 total) are based on distributions payable annually and calculated at 3.5% times the twenty-quarter, moving-average value of the Fund. Further, the unspent remaining amount from the 2014-15 cycle total was \$8,837.97. Based on the information above, the Finance Commission could potentially fund the third grant cycle at \$135,000.

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Legislation Related to the Public Funds Investment Act Affecting the Department of Banking and Guaranty Fund 85th Legislative Session, 2017

HB 1003 – Relating to investment of public funds, including certain expenditures by public institutions of higher education and university systems that are eligible for certain tax credits. (Effective 9/1/17)

H.B. 1003 seeks to harmonize state law and the applicable federal regulations.

- Adds investments, including interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, as authorized investments.
- Adds a provision to provide that Section 1371.059(c), relating to the authority of an issuer in the proceedings to authorize obligations or a credit agreement, or in a credit agreement, to waive sovereign immunity from suit or liability for adjudicating a claim to enforce the credit agreement or obligation or for damages for breach of the credit agreement or obligation, is applicable to the execution of a repurchase agreement by an investing entity. *(Section 1371.059(c) is not applicable to a state agency.)*
- Adds a no-load money market mutual fund as an authorized investment if the mutual fund complies with certain specified Securities and Exchange Commission rules promulgated under the Investment Company Act of 1940.
- Adds that a no-load mutual fund is an authorized investment if the mutual fund either has a duration of one year or more and is invested exclusively in obligations approved by this subchapter, or has a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities. Deletes the provision that the mutual fund be continuously rated by at least one nationally recognized investment rating firm of not less than AAA or its equivalent and conforms to the requirements in Sections 2256.016 (b) and (c) relating to the eligibility of investment pools to receive and invest funds of investing entities.
- Adds a provision to provide that Section 1371.059(c), relating to the authority of an issuer in the proceedings to authorize obligations or a credit agreement, to waive sovereign immunity from suit or liability for the purpose of adjudicating a claim to enforce the credit agreement or obligation or for damages for breach of the credit agreement or obligation, is applicable to the execution of a guaranteed investment contract by an investing entity. *(Section 1371.059(c) is not applicable to a state agency.)*
- Provides that, to be eligible to receive funds from and invest funds on behalf of an entity under this chapter, an investment pool must furnish to the investment officer or other authorized representative of the entity an offering circular or other similar disclosure instrument that contains, at a minimum, certain information, including the pool's policy regarding holding deposits in cash. *(Not applicable as our policy does not include public funds investment pools.)*
- Requires that a public funds investment pool that uses amortized cost or fair value accounting, rather than a public funds investment pool created to function as a money market mutual fund, to be eligible to receive funds from and invest funds on behalf of an entity under this chapter,

mark its portfolio to market daily, and, to the extent reasonably possible, stabilize at a \$1.00 net asset value, when rounded and expressed to two decimal places. Requires the governing body of the public funds investment pool to take action as the body determines necessary to eliminate or reduce to the extent reasonably practicable any dilution or unfair result to existing participants, including a sale of portfolio holdings to attempt to maintain the ratio between 0.995 and 1.005, rather than requires portfolio holdings to be sold as necessary to maintain the ratio between 0.995 and 1.005, if the ratio of the market value of the portfolio divided by the book value of the portfolio is less than 0.995 or greater than 1.005. *(Not applicable as our policy does not include public funds investment pools.)*

- Adds hedging transactions as an authorized investment. Defines eligible entity, eligible project, and hedging. This chapter applies to certain political subdivisions. *(Not applicable to our policy.)*

HB 1701– Relating to the presentation of the investment policy of certain governmental entities to a business organization that conducts investment transactions for the entity (Effective 9/1/17)

H.B. 1701 seeks to reduce confusion by revising the types of business entities that are subject to the acknowledgment requirement and certain content of the acknowledgement.

- Requires that a written copy of the investment policy be presented to any business organization, rather than person, offering to engage in an investment transaction with an investing entity.
- Redefines "business organization" to mean an investment pool or investment management firm under contract with an investing entity to invest or manage the entity's investment portfolio that has accepted authority granted by the entity under the contract to exercise investment discretion in regard to the investing entity's funds.
- Adds that the written agreement executed between the business organization and the investing entity acknowledges that the business organization has implemented reasonable procedures and controls to avoid investment transactions that are not authorized by the entity's investment policy except as it relates to investment transactions of the entity that are not made through accounts or other contractual arrangements over which the business organization has accepted discretionary investment authority.

HB 2647 Relating to authorized investments of public funds (Effective 9/1/17)

H.B. 2647 seeks to resolve any confusion by making money market deposit accounts authorized investments under the act.

- Adds interest-bearing banking deposits that are guaranteed or insured by the FDIC or its successor or the National Credit Union Share Insurance Fund or its successor. *(Did not include credit union references in our policy.)*
- Adds interest-certain conditions apply.

HB 2928 – Authorized investments for governmental entities (Effective 9/1/17)

H.B. 2928 seeks to resolve any confusion by making Federal Home Loan Banks and certain in-state certificates of deposit or share certificates authorized investments.

- Adds obligations, including letters of credit, of the Federal Home Loan Banks as authorized investments for governmental entities.
- Clarifies that CDs or share certificates issued by a depository institution that has an office in Texas and is secured in accordance with the Public Funds Collateral Act is an authorized investment. *(Did not include reference to credit union share certificates in our policy.)*

SB 253 – Relating to investment prohibitions and divestment requirements for certain investments of public money. (Effective 5/23/17)

S.B. 253 seeks to broaden the applicability of the state's Iranian and Sudanese divestiture requirements to include other public investment funds. This change would apply to funds in the state treasury, public investment pools, as well as those invested by local governments. SB 253 also seeks to broaden the state's divestiture policy to prohibit any publicly administered fund, including a state or local retirement fund, from investing in companies that engage in business with a foreign terrorist organization. SB 253 also specifies that the state's divestiture requirements relating to Iran, Sudan, and terrorist organizations shall expire in 2037.

- Transfers Chapter 806, Government Code to Subtitle F, Title 10 Government Code and redesignates it as Chapter 2270, Prohibition on Investing Public Money in Certain Investments. *(No changes, just transfer of Chapter.)*
- Prohibits state investments in companies doing business with Sudan or Iran. This change applies to funds in the state treasury, public investment pools, as well as those invested by local governments.
- Prohibits any publicly administered fund, including a state or local retirement fund, from investing in companies that engage in business with a foreign terrorist organization.



TEXAS DEPARTMENT OF BANKING

★ Dedicated to Excellence in Texas Banking ★

ADMINISTRATIVE MEMORANDUM – 2027

~~October 21, 2016~~ August 18, 2017

TO: Finance Commission Members

FROM: Charles G. Cooper, Banking Commissioner

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

Overview

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

The Finance Commission met on ~~October 21, 2016~~ August 18, 2017 to re-approve this policy as revised to include legislation enacted in the 85th Legislative Session; specify notice requirements for the Investment Officer; and augment or clarify content within this memorandum. ~~This policy was previously reviewed and Previous changes to this policy were~~ approved on ~~June 19, 2015~~ October 21, 2016.

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

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

All investments shall be made with the judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own

affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived.

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

Identification of Covered Funds

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

Types of Authorized Investments

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

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

- Obligations, including letters of credit, of the United States (U.S.) or its agencies and instrumentalities, including the Federal Home Loan Banks with a maximum allowable maturity of ~~ten~~ 10 years;
- Direct obligations of this state or its agencies and instrumentalities with a maximum allowable maturity of ~~ten~~ 10 years;
- Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the ~~United States U.S.~~, the underlying security for which is guaranteed by an agency or instrumentality of the ~~United States-U.S.~~, provided that the applicable interest rate is not determined by an index that adjusts opposite to the changes in a market index and the stated final maturity date is not greater than with a maximum allowable maturity of ten 10 years from the date the collateralized mortgage obligation is acquired by the Department;
- ~~Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, this state or the United States or their respective agencies and instrumentalities with a maximum allowable maturity of ten years;~~
- Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, this state or the ~~U.S. nited States~~ or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or by the explicit full faith and credit of the ~~United States~~ U.S. with a maximum allowable maturity of ~~ten~~ 10 years;

Commented [WB1]: Added per HB 2928

Commented [WB2]: This is part of Gov't Code Sec. 2256.009 that was not previously included in this policy. It is not new legislation

- Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent with a maximum allowable maturity of ~~ten~~ 10 years. If the rating of the issuing entity is downgraded below investment quality during the time an investment is held from that entity, all prudent measures must be taken to liquidate the investment within a reasonable period of time, consistent with the guidelines in this policy;
- Bonds issued, assumed, or guaranteed by the ~~State of Israel~~;
- Interest-bearing deposit accounts that are guaranteed or insured by the ~~FDIC or its successor~~;
- Other interest-bearing deposit accounts not described above if:
 - The funds are invested through a broker with a main office or branch office in this state as selected by the Department from an approved list, or through a depository institution with a main office or branch office in this state;
 - The selected broker or depository institution arranges for deposit of the funds in deposit accounts in one or more federally insured institutions, regardless of where located;
 - The full amount of principal and accrued interest in such deposit accounts is insured by the U.S. or an instrumentality of the U.S.; and
 - The Department appoints a custodian of the deposit accounts that is:
 - The depository institution selected to broker the deposits;
 - A state or national bank designated by the comptroller as a state depository with its main office or a branch office in this state, that has capital stock and surplus of \$5 million or more;
 - The Texas Treasury Safekeeping Trust Company;
 - A Federal Reserve Bank or a branch of a Federal Reserve Bank;
 - A Federal Home Loan Bank;
 - A financial institution authorized to exercise fiduciary powers that is designated by the comptroller as a custodian; or
 - A clearing broker dealer registered with the Securities and Exchange Commission (SEC) and operating under SEC Rule 15c3-3 (17 C.F.R. Section 240.15c3-3).
- Deposit accounts, including time accounts and A certificates of deposit issued by, in a depository institution that has its main office or a branch office in this state, if the certificate which:
 - Is guaranteed or ~~Are fully~~ insured by the ~~FDIC, or its successor~~;
 - ~~or~~
 - Is ~~Are~~ 100% secured by securities obligations allowable under Gov't Code § 2256.009(a) this section for direct investment by the Department; or
 - Is secured as provided under the Public Funds Collateral Act (Gov't Code Ch. 2257); and

Commented [WB3]: This is part of Gov't Code Sec. 2256.009 that was not previously included in this policy. It is not new legislation.

Commented [WB4]: HB 1003 and HB 2647 adds interest bearing banking deposits guaranteed or insured by the FDIC or National Credit Union Share Insurance Fund (NCUSIF). Did not include NCUSIF in this policy.

Commented [WB5]: Added per HB 2647

Commented [WB6]: HB 1003 and HB 2647 adds interest bearing banking deposits guaranteed or insured by the FDIC or National Credit Union Share Insurance Fund (NCUSIF). Did not include NCUSIF in this policy.

Commented [WB7]: Added per HB 2928

- o ~~Does~~ not have a maturity exceeding 36 months.

A certificate of deposit must be fully secured as described above but may be secured by a combination of the listed alternatives.

Bids for certificates of deposit may be solicited:

- o Orally;
- o In writing;
- o Electronically; or
- o In any combination of those methods.

- A reverse repurchase agreements, collateralized on a daily basis at a minimum of 102% of market value, including ~~both a direct security repurchase agreements and a reverse security repurchase agreements~~, that:

- o With respect to a reverse security repurchase agreement, does not have a defined termination date exceeding ~~ninety~~ 90 days;
- o ~~Are~~ Is secured by a combination of cash and ~~obligations~~ securities allowable under Gov't Code §2256.009(a)(1) ~~this section~~ for direct investment by the Department;
- o Requires securities being purchased or cash held by the Department -to be pledged to the Department, held in the Department's name and deposited at the time the investment is made with the Department or with a third party selected and approved by the Department;
- o ~~Are~~ Is placed through a primary government securities dealer, as defined by the Federal Reserve, or an insured financial institution domiciled in this state; and
- o Requires that money received under the terms of a reverse security repurchase agreement ~~shall~~ must be used to acquire additional authorized investments, but the term of the authorized investments required must mature not later than the expiration date stated in the reverse security repurchase agreement.

Commented [WB8]: This is part of Gov't Code Sec. 2256.011 (c) that was not previously included in this policy. It is not new legislation

- A no-load money market m Mutual funds, ~~if they are no-load money market mutual funds~~ that:

- o ~~Are~~ Is registered with and regulated by the ~~Securities and Exchange Commission~~ SEC;
- o Provides the Department with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940; and
- o Complies with federal SEC Rule 2a-7, promulgated under the Investment Company Act of 1940 (17 C.F.R. § 270-2a-7).

Commented [WB9]: Added per HB 1003. The money market fund rule 2a-7 currently requires money market funds to invest only in securities that have received one of the two highest short-term credit ratings or, if they are not rated, securities that are of comparable quality. The rule also requires a money market fund to invest at least 97 percent of its assets in securities that have received the highest short-term credit rating.

- o ~~Have a dollar weighted average stated maturity of 90 days or less; and,~~
- o ~~Include in their investment objectives the maintenance of a stable net asset value of \$1 for each share.~~

Commented [WB10]: Removed per HB 1003

Commented [WB11]: Removed per HB 1003

- ~~A no-load mutual fund, if it is a no-load mutual fund that:~~
 - ~~Is registered with the Securities and Exchange Commission (SEC);~~
 - ~~Has an average weighted maturity of less than two years; and~~
 - ~~Either:~~
 - ~~Has a duration of one year or more and are invested exclusively in obligations authorized in this policy; or~~
 - ~~Has a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities.~~
 - ~~Are invested exclusively in obligations authorized in this policy; and,~~
 - ~~Are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent.~~

Commented [WB12]: Added per HB 1003

Commented [WB13]: Removed per HB 1003

~~In general, investments that were authorized at the time they were purchased or received through liquidation or seizure may be retained under this policy even if later revisions of the policy render the investments in noncompliance. One exception is any investment that requires a minimum rating if the rating declines to below the minimum. The investing entity is required to take all prudent measures that are consistent with its investment policy to liquidate an investment that does not have the minimum rating. An exception also exists with respect to investments in companies that engage in business in Sudan or Iran, or with a foreign terrorist organization, as set forth in the state's divestiture requirements in Gov't Code Chapter 2270, effective September 1, 2017. These divestiture requirements expire in 2037.~~

Commented [WB14]: This is part of Gov't Code 2256.021 that was not previously included in the policy. It is not new legislation.

Commented [WB15]: Added per SB 253

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

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

Unauthorized Investments

The following are not authorized investments under this policy:

- Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal;
- Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest;
- Collateralized mortgage obligations that have a stated final maturity date of greater than 10 years;
- Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index; ~~and~~;
- No portion of bond proceeds, reserves and funds held for debt service ~~may~~shall be invested in no-load mutual funds described in Gov't Code § 2256.014(b);;
- Investments in companies doing business in Sudan
- Investments in companies doing business in Iran; and
- Investment in companies that engage in business with a foreign terrorist organization.

Commented [WB16]: Added per SB 253

Strategies for Covered Funds

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

Safekeeping of Investments

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

Reporting

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

- The investment position of the Department on the date of the report;
- The book and market values of each separately invested asset at the beginning and end of the reporting period by the type of asset and fund type invested (for demand deposits and certificates of deposit, reports will reflect book value and market value as the same);

- The maturity date of each separately invested asset that has a maturity date;
- The fund for which each individual investment was acquired;
- Any non-compliance of the investment portfolio with this policy;
- Income received and expenses incurred in conjunction with investments; and,
- Any other information as required by the Finance Commission.

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

Rates of Return and Market Pricing

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

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

Diversification

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

- The aggregate investment in no-load mutual funds described in Gov't Code § 2256.014(b) may not exceed 15% of the monthly average fund balance of a covered investment fund held by the Department, excluding bond proceeds and reserves and other funds held for debt service. ~~Specific mutual funds, if they are no load mutual funds, are eligible for investment up to a limit of no more than 15 % of a covered fund's average balance;~~
- No one covered fund shall invest in mutual funds in the aggregate more than 80% of its monthly average balance; and,
- Investment in any one mutual fund may not ~~No covered funds shall be invested in any one mutual fund in an amount that exceeds~~ 10% of the total assets of the mutual fund.

Settlement

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

Investment Officer

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

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

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

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

Within six months of the end of each Legislative session, if amendments have been made to the Public Funds Investment Act, the Investment Officer will provide a report to the Finance Commission outlining the amendments and provide recommendations to update the Investment Policy.

Commented [WB17]: This is part of Gov't Code 2256.007(d) that was not previously included in this policy. It is not new legislation.

Investment Training

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

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

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

Entities Authorized to Engage in Investment Transactions

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

Acknowledgment of the Policy by ~~Persons~~ Business Organizations Seeking to Sell Investments to the Department

Commented [WB18]: Added per HB 1701

A written copy of this policy must be presented to any ~~person-business organization~~¹ offering to engage in an investment transaction with the Department. ~~Any person-business organization who is~~ holding federally insured deposit accounts that come under the Department's control, through a seizure or liquidation are exempt from this requirement. A qualified representative of the business organization offering to engage in an investment transaction with the Department shall execute a written acknowledgment, as provided in the Appendix, that the business organization:

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

Commented [WB19]: Added per HB 1701

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

¹ A "business organization" means an investment pool or investment management firm that has contractual authority granted by an investing entity to exercise investment discretion in regard to the investing entity's funds.

Appendix

Acknowledgment

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

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

I acknowledge that (name of brokerage facility/bank/trust company) has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Department of Banking and (name of the brokerage facility/bank/trust company) that are not authorized by the referenced Investment Policy, except to the extent that this authorization is dependent on an analysis of the makeup of the Department's entire portfolio; ~~or~~ requires an interpretation of subjective investment standards; or relates to investment transactions of the entity that are not made through accounts or other contractual arrangements over which the (name of the brokerage facility/bank/trust company) has accepted discretionary investment authority.

Commented [WB20]: Added per HB 1701

Signature of Qualified Representative

Date



TEXAS DEPARTMENT OF BANKING

★ Dedicated to Excellence in Texas Banking ★

ADMINISTRATIVE MEMORANDUM – 2027

August 18, 2017

TO: Finance Commission Members

FROM: Charles G. Cooper, Banking Commissioner

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

Overview

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

The Finance Commission met on August 18, 2017 to re-approve this policy as revised to include legislation enacted in the 85th Legislative Session; specify notice requirements for the Investment Officer; and augment or clarify content within this memorandum. This policy was previously reviewed and approved on October 21, 2016.

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

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

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

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

Identification of Covered Funds

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

Types of Authorized Investments

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

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

- Obligations, including letters of credit, of the United States (U.S.) or its agencies and instrumentalities, including the Federal Home Loan Banks with a maximum allowable maturity of 10 years;
- Direct obligations of this state or its agencies and instrumentalities with a maximum allowable maturity of 10 years;
- Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the U.S., the underlying security for which is guaranteed by an agency or instrumentality of the U.S., provided that the applicable interest rate is not determined by an index that adjusts opposite to the changes in a market index and the stated final maturity date is not greater than 10 years from the date the collateralized mortgage obligation is acquired by the Department;
- Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, this state or the U.S. or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or by the explicit full faith and credit of the U.S. with a maximum allowable maturity of 10 years;
- Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent with a maximum allowable maturity of 10 years. If the rating of the issuing entity is downgraded below investment quality during the time an investment is held from that entity, all prudent measures must be taken to liquidate the investment within a reasonable period of time, consistent with the guidelines in this policy;
- Bonds issued, assumed, or guaranteed by the State of Israel;

- Interest-bearing deposit accounts that are guaranteed or insured by the FDIC or its successor;
- Other interest-bearing deposit accounts not described above if:
 - The funds are invested through a broker with a main office or branch office in this state as selected by the Department from an approved list, or through a depository institution with a main office or branch office in this state;
 - The selected broker or depository institution arranges for deposit of the funds in deposit accounts in one or more federally insured institutions, regardless of where located;
 - The full amount of principal and accrued interest in such deposit accounts is insured by the U.S. or an instrumentality of the U.S.; and
 - The Department appoints a custodian of the deposit accounts that is:
 - The depository institution selected to broker the deposits;
 - A state or national bank designated by the comptroller as a state depository with its main office or a branch office in this state, that has capital stock and surplus of \$5 million or more;
 - The Texas Treasury Safekeeping Trust Company;
 - A Federal Reserve Bank or a branch of a Federal Reserve Bank;
 - A Federal Home Loan Bank;
 - A financial institution authorized to exercise fiduciary powers that is designated by the comptroller as a custodian; or
 - A clearing broker dealer registered with the Securities and Exchange Commission (SEC) and operating under SEC Rule 15c3-3 (17 C.F.R. Section 240.15c3-3).
- A certificate of deposit issued by a depository institution that has its main office or a branch office in this state, if the certificate:
 - Is guaranteed or insured by the FDIC, or its successor;
 - Is secured by obligations allowable under Gov't Code § 2256.009(a) for direct investment by the Department; or
 - Is secured as provided under the Public Funds Collateral Act (Gov't Code Ch. 2257); and
 - Does not have a maturity exceeding 36 months.

A certificate of deposit must be fully secured as described above but may be secured by a combination of the listed alternatives.

Bids for certificates of deposit may be solicited:

- Orally;
- In writing;
- Electronically; or

- In any combination of those methods.
- A repurchase agreement, collateralized on a daily basis at a minimum of 102% of market value, including a direct security repurchase agreement and a reverse security repurchase agreement that:
 - With respect to a reverse security repurchase agreement, does not have a defined termination date exceeding 90 days;
 - Is secured by a combination of cash and obligations allowable under Gov't Code §2256.009(a)(1) for direct investment by the Department;
 - Requires securities being purchased or cash held by the Department to be pledged to the Department, held in the Department's name and deposited at the time the investment is made with the Department or with a third party selected and approved by the Department;
 - Is placed through a primary government securities dealer, as defined by the Federal Reserve, or an insured financial institution domiciled in this state; and
 - Requires that money received under the terms of a reverse security repurchase agreement must be used to acquire additional authorized investments, but the term of the authorized investments required must mature not later than the expiration date stated in the reverse security repurchase agreement.
- A no-load money market mutual fund that:
 - Is registered with and regulated by the SEC;
 - Provides the Department with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940; and
 - Complies with federal SEC Rule 2a-7 , promulgated under the Investment Company Act of 1940 (17 C.F.R. § 270-2a-7).
- A no-load mutual fund that:
 - Is registered with the SEC;
 - Has an average weighted maturity of less than two years; and
 - Either :
 - ✧ Has a duration of one year or more and are invested exclusively in obligations authorized in this policy; or
 - ✧ Has a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities.

In general, investments that were authorized at the time they were purchased or received through liquidation or seizure may be retained under this policy even if later revisions of the policy render the investments in noncompliance. One exception is any investment that requires a minimum rating if the rating declines to below the minimum. The investing entity is required to take all prudent measures that are consistent with its investment policy to liquidate an investment that does not have the minimum rating. An exception also exists with respect to investments in companies that engage in

business in Sudan or Iran, or with a foreign terrorist organization, as set forth in the state's divestiture requirements in Gov't Code Chapter 2270, effective September 1, 2017. These divestiture requirements expire in 2037.

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

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

Unauthorized Investments

The following are not authorized investments under this policy:

- Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal;
- Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest;
- Collateralized mortgage obligations that have a stated final maturity date of greater than 10 years;
- Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index;
- No portion of bond proceeds, reserves and funds held for debt service may be invested in no-load mutual funds described in Gov't Code § 2256.014(b);
- Investments in companies doing business in Sudan
- Investments in companies doing business in Iran; and
- Investment in companies that engage in business with a foreign terrorist organization.

Strategies for Covered Funds

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

with maturities and cash flows structured to accommodate the anticipated distributions from the seizure or liquidation. Court-appointed liquidators will be used when possible to manage funds under liquidation.

Safekeeping of Investments

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

Reporting

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

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

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

Rates of Return and Market Pricing

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

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

Diversification

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

- The aggregate investment in no-load mutual funds described in Gov't Code § 2256.014(b) may not exceed 15% of the monthly average fund balance of a covered investment fund held by the Department, excluding bond proceeds and reserves and other funds held for debt service;
- No one covered fund shall invest in mutual funds in the aggregate more than 80% of its monthly average balance; and,
- Investment in any one mutual fund may not exceed 10% of the total assets of the mutual fund.

Settlement

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

Investment Officer

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

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

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

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

Within six months of the end of each Legislative session, if amendments have been made to the Public Funds Investment Act, the Investment Officer will provide a report to the Finance Commission outlining the amendments and provide recommendations to update the Investment Policy.

Investment Training

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

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

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

Entities Authorized to Engage in Investment Transactions

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

Acknowledgment of the Policy by Business Organizations Seeking to Sell Investments to the Department

A written copy of this policy must be presented to any business organization¹ offering to engage in an investment transaction with the Department. Any business organization holding federally insured deposit accounts that come under the Department's control, through a seizure or liquidation are exempt from this requirement. A qualified representative of the business organization offering to engage in an investment transaction with the Department shall execute a written acknowledgment, as provided in the Appendix, that the business organization:

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

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

¹ A “business organization” means an investment pool or investment management firm that has contractual authority granted by an investing entity to exercise investment discretion in regard to the investing entity’s funds.

Appendix

Acknowledgment

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

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

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

Signature of Qualified Representative

Date