

**FINANCE COMMISSION OF TEXAS**  
**AUDIT COMMITTEE MEETING**

Friday, August 19, 2016  
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 the Minutes of the June 10, 2016, Audit Committee Meeting
- B. Audit Committee Review of Agencies' Activities
- C. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Department of Savings and Mortgage Lending's Fiscal Year 2016 Annual Internal Audit Report as Prepared and Presented by Garza/Gonzalez and Associates
- D. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Agencies' May 31, 2016 Investment Officer Reports
  - 1. Texas Department of Banking
  - 2. Department of Savings and Mortgage Lending
  - 3. Office of Consumer Credit Commissioner
- E. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Agencies' 2016 Third Quarter Financial Statements
  - 1. Texas Department of Banking
  - 2. Department of Savings and Mortgage Lending
  - 3. Office of Consumer Credit Commissioner
- F. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Agencies' Fiscal Year 2017 Operating Budgets
  - 1. Texas Department of Banking
  - 2. Department of Savings and Mortgage Lending
  - 3. Office of Consumer Credit Commissioner
- G. Report on Activities Relating to the Texas Financial Education Endowment Fund

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

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

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**MINUTES OF THE  
AUDIT COMMITTEE MEETING  
Friday, June 10, 2016  
8:00 a.m.**

The Audit Committee of the Finance Commission of Texas convened at 8:00 a.m. on June 10, 2016, with the following members present:

**Audit Committee Members in Attendance:**

Molly Curl, Chairman

Hector Cerna

Lori McCool

Audit Committee Chairman Curl announced that there was a quorum of the Audit Committee of the Finance Commission of Texas with three members present *(0:10 on audio file)*.

AGENDA ITEM	ACTION	LOCATION ON AUDIO FILE
A. Review and Approval of Minutes of the April 15, 2016 Audit Committee Meeting	Lori McCool made a motion to approve the minutes of the April 15, 2016 Audit Committee Meeting. Hector Cerna seconded and the motion passed.	0:17 start of discussion 0:31 vote
B. Audit Committee Review of Agencies' Activities	No Action Required.	1:00 start of discussion
C. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Office of Consumer Credit Commissioner's Fiscal Year 2016 Annual Internal Audit Report as Prepared and Presented by Garza/Gonzalez and Associates	Lori McCool made a motion to recommend that the Finance Commission take action on the Office of Consumer Credit Commissioner's Fiscal Year 2016 Annual Internal Audit Report as Prepared and Presented by Garza/Gonzalez and Associates. Hector Cerna seconded and the motion passed.	17:43 start of discussion 28:50 vote
D. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Department of Banking's Fiscal Year 2016 Annual Internal Audit Report as Prepared and Presented by Garza/Gonzalez and Associates	Lori McCool made a motion to recommend that the Finance Commission take action on the Department of Banking's Fiscal Year 2016 Annual Internal Audit Report as Prepared and Presented by Garza/Gonzalez and Associates. Hector Cerna seconded and the motion passed.	29:12 start of discussion 36:25 vote

<p>E. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Internal Auditor Contract for Garza/Gonzalez &amp; Associates for Fiscal Year 2017</p>	<p>Hector Cerna made a motion to Recommend that the Finance Commission Take Action on the Internal Auditor Contract for Garza/Gonzalez &amp; Associates for Fiscal Year 2017. Lori McCool seconded and the motion passed.</p>	<p>37:06 start of discussion 37:15 vote</p>
<p>F. Report on Activities Relating to the Texas Financial Education Endowment Fund</p>	<p>No Action Required.</p>	<p>37:25 start of discussion</p>

There being no further business of the Audit Committee of the Finance Commission of Texas, Molly Curl adjourned the meeting at 8:37 a.m. (37:51) *on audio file*)

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Molly Curl, Audit Committee Chair  
Finance Commission of Texas

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Charles G. Cooper, Executive Director  
Finance Commission of Texas

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Anne Benites, Executive Assistant  
Finance Commission of Texas

# Texas Department of Banking

## Outstanding Audit Findings Report as of August 2016

Auditor	Department of Public Safety (DPS)	Audit Report Date
Audit Area	Criminal Background Checks	April 2016
Finding	Status Update	
Separate Originating Request Indicator (ORI) required for Department employee background checks	<b>Completed</b> – The new ORI was requested in a letter to DPS dated May 6, 2016. Received new ORI on August 2, 2016 and can now use for employees and applicants.	
Auditor	Garza Gonzalez and Associates	Audit Report Date
Audit Area	IT Examinations	May 2016
Finding	Status Update	
Lack of guidance to waive examination procedure	<b>Ongoing</b> – New InTREx examination program is currently in the test phase and includes written guidance for waiving examination procedures. The guidance will be part of the final program which is expected to be adopted by September 1, 2016.	

## Newberg, Stephanie

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**From:** Courtney Ambres-Wade <Courtney.Ambres-Wade@sao.texas.gov>  
**Sent:** Thursday, June 23, 2016 10:41 AM  
**To:** Newberg, Stephanie  
**Cc:** Bacon, Bob; Reyer, Catherine; Reese, Russell; Chadli, Sami; Michael Simon  
**Subject:** SAO Audit Scope

Good morning,

We just met with our management to get their approval on our audit scope and approach. Here is a summary of the specific areas that will be reviewed:

- The scope of our audit will include financial and performance data for fiscal year 2015 through **May 2016**. Previous requests for information specified data through February 2016, however, management decided to provide the most current information available, through **May 2016**. As a result, we will submit a separate request for data covering the time period from March 2016 through May 2016.
  
- Financial line items reviewed include:
  1. Cash in State Treasury
  2. Cash on Hand
  3. Short-term Investments
  4. Consumable Inventories
  5. Accumulated Depreciation for Furniture and Equipment
  6. Accounts Payable
  7. Non-spendable fund balance
  8. Committed Fund Balance
  9. Revenue generated from Licenses, Fees, and Permits
  10. Professional Fees and Services
  11. Travel
  12. Materials and Supplies
  13. Other Expenditures
  14. Capital Outlay
  
- Performance Data reviewed will be related to:
  - Number of Bank and Foreign Bank Examinations Performed
  - Percentage of Money Services Business Licensees Examined by Special Audits When Due
- Processes for Annual Fee Assessments and Penalties related to:
  - Evaluating the reasonableness of the fee-setting process for the annual assessment fees for the Bank and Trust division.
  - Determining whether the Department accurately calculated and consistently applied penalties in compliance with statutory requirements for Money Service Businesses.

We will also perform work on the information systems and controls related to these areas. This includes:

- MUSL
- MIP

- Time and Travel System
- EDISON
- SARA
- Excel spreadsheet(s) associated with the MSB Penalty process

Our tentative timeline is to release our audit report in October.

If you have any questions, please do not hesitate to contact me. Thank you for your patience and I apologize for any inconvenience.

This message contains information which may be an audit working paper and/or may be confidential, privileged, or otherwise exempt from open records. Unless you are the addressee (or authorized to receive for the addressee), you may not use, copy, or disclose to anyone the message or any information contained in the message. If you have received the message in error, please advise the sender by reply e-mail and delete the message. Please contact the State Auditor's Office at [publicinformation@sao.texas.gov](mailto:publicinformation@sao.texas.gov) before releasing this document in response to an open records request.

**Department of Savings and Mortgage Lending**  
**Outstanding Audit Issues Report as of July 31, 2016**

Auditor	Garza/Gonzalez	Audit Report Date
Audit Area	Management Information Systems	N/A
Recommendation	Status Update	
N/A	<b><i>In progress.</i></b> Field work completed.	

Auditor	State Office Of Risk Management	Audit Report Date
Audit Area	Risk Management	N/A
Recommendation	Status Update	
N/A	<b><i>Scheduled.</i></b> Walk-through to be performed August 9, 2016.	

**Office of Consumer Credit Commissioner**  
**Outstanding Audit Findings Report as of 8/1/2016**

Auditor	Texas Department of Public Safety/FBI	Audit Report Date
Audit Area	Access to criminal history record information	Mar-16
Finding	Status Update	
<p>OCCC immediate termination of employee access to CHRI upon departure from agency <b>Implemented</b></p>		
Auditor	Texas Department of Public Safety/FBI	Audit Report Date
Audit Area	Use of criminal history record information	Mar-16
Finding	Status Update	
<p>Retention of records for justification of CHRI search <b>Implemented</b></p>		
Auditor	Texas Department of Public Safety	Audit Report Date
Audit Area	Storage and security of criminal history record information	Mar-16
Finding	Status Update	
<p>Unsubscribe from CHRI who no longer have active or inactive license <b>In progress.</b> The agency continually works to unsubscribe to individuals CHRI who have a canceled, surrendered, or revoked license, with the goal of completion by the end of FY 2018.</p>		
Auditor	Texas Department of Public Safety	Audit Report Date
Audit Area	Storage and security of criminal history record information	Mar-16
Finding	Status Update	
<p>Produce policy justifying continuing subscriptions for 180 days after expiration of license <b>Completed</b></p>		
Auditor	Texas Department of Public Safety/FBI	Audit Report Date
Audit Area	Storage and security of criminal history record information	Mar-16
Finding	Status Update	
<p>Secure database, viewable CHRI in the work place and complete CJIS security training <b>Implemented</b></p>		
Auditor	U.S. Dept. of Justice FBI	Audit Report Date
Audit Area	Integrated Automated Fingerprint ID System Audit	Apr-13
Finding	Status Update	
<p>Amend form on website to provide information for licenses to obtain FBI record. <b>Fully Implemented</b></p>		

**Office of Consumer Credit Commissioner**  
**Outstanding Audit Findings Report as of 8/1/2016**

Auditor	Garza/Gonzales & Associates	Audit Report Date
Audit Area	Storage and security of criminal history record information	Jun-16
Finding	Status Update	
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.	<b>In progress.</b> The procedure has been reinforced at regional meetings and will be covered in training during examiner's September annual meeting. Implementation of the ACE online system will ensure compliance with this procedure. Target Completion, December 2016.	
Auditor	Garza/Gonzales & Associates	Audit Report Date
Audit Area	Storage and security of criminal history record information	Jun-16
Finding	Status Update	
OCCC implement quality control procedures to ensure proper completion of examination work papers.	<b>In progress.</b> Examiners have been briefed about this at regional meetings and training will occur at the September annual meeting. The ACE implementation will ensure all data elements for an exam are entered into the file. Target Completion, December 2016.	
Auditor	Garza/Gonzales & Associates	Audit Report Date
Audit Area	Storage and security of criminal history record information	Jun-16
Finding	Status Update	
Strengthen controls in order to meet established goal to review exams with a rating of 4 or 5 within 120 days from the ROE processing date.	<b>In Progress:</b> Senior staff examiners and supervisors have been reminded of this requirement; a workload vs staffing review will be conducted; and the procedure will be reviewed to strengthen deadline compliance. Target Completion December 2016.	
Auditor	Garza/Gonzales & Associates	Audit Report Date
Audit Area	Storage and security of criminal history record information	Jun-16
Finding	Status Update	
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.	<b>In Progress:</b> Senior staff examiners and supervisors have been reminded of this requirement; a workload vs staffing review will be conducted; and the procedure will be reviewed to strengthen deadline compliance. Target Completion December 2016.	



State Office of Risk Management

300 W. 15<sup>TH</sup>, AUSTIN, TEXAS 78701 / P.O. BOX 13777, AUSTIN, TEXAS 78711-3777  
(512) 475-1440, FAX (512) 370-9025 / WWW.SORM.STATE.TX.US

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June 20, 2016

Commissioner Leslie L. Pettijohn  
Office of Consumer Credit Commissioner  
Finance Commission Building  
2601 N. Lamar Blvd.  
Austin, TX 78705

Re: Risk Management Program Review

Agency #466

Dear Commissioner Pettijohn:

The State Office of Risk Management (SORM) conducted a Risk Management Program Review (RMPR) of the Office of Consumer Credit Commissioner (OCCC) on May 31, 2016. The review was conducted under the authority of Texas Labor Code, Title V, Subtitle A, Chapter 412, and is designed to assist state agencies in the development and implementation of comprehensive risk management programs that meet Risk Management for Texas State Agencies (RMTSA) guidelines.

The following observations were reviewed and discussed during the consultation:

- There have been no reported workers' claims at the OCCC over the past five fiscal years.
- There have been no reported property and casualty claims over the past five fiscal years.
- SORM 200 data was reviewed for accuracy and completeness. No errors or discrepancies were found.
- OCCC is located in the Finance Commission Building and the OCCC has equity interest in the building that is managed by the Department of Banking.
- OCCC is a financial regulatory agency that is Self-Directed Semi-Independent (SDSI), allowing the agency to better regulate the industry it oversees and protect the public.

Noteworthy observations made during this consultation include the following:

- OCCC recognizes that its physical, human, and fiscal resources are routinely exposed to various risks that can result in losses. As such, risk management is integral to the agency's decision making processes.
- After conducting a risk assessment, OCCC decided to mitigate the potential financial consequences of risks by participating in the SORM sponsored Property, Automobile (Hire and Non-Owned), and Directors' and Officers' (D&O) Insurance Programs.
- OCCC was well-prepared for the RMPR and all requested information was provided in a timely and user-friendly fashion to SORM.
- Comprehensive background checks are conducted on all employees.
- The Risk Manager has completed FEMA Continuity of Operations (COOP) training and obtained the Level One Professional Continuity Practitioner (PCP) designation.
- OCCC website is very informative and user-friendly.
- There is an on-site fitness room, and employees are required to sign a waiver should they decide to utilize the fitness equipment in the room.
- OCCC staff was helpful, cooperative, and open to suggestions for improving the risk management program.

During this review, SORM discussed and verified completion of recommendations generated as a result of previous SORM reviews and consultations. The following recommendations are now *closed*:

12-08-01      **Healthcare Network**  
12-08-02      **BCP/COOP**  
12-08-03      **Moving Violation Record Checks**

As a result of this review, the following new recommendations are made to help maintain or improve the effectiveness of your Risk Management Program:

16-05-01      **Risk Management: Policies and Procedures: Armed Intruder**  
While it is commendable that the OCCC has a workplace violence policy in place, SORM noted that the OCCC does not currently have an armed intruder policy. A formal armed intruder policy and procedures will ensure that all employees

know how to appropriately respond in the event of an active shooter situation. SORM recommends that the OCCC develop an armed intruder policy. Once the policy is approved, employees should be trained on it.

*Reference: RMTSA Guidelines, Volume III, Section Two, Chapter 6.5*

**16-05-02**

**Risk Management – Policies/Procedures: Indoor Air Quality (IAQ) Plan**

While it is commendable that OCCC has never experienced an IAQ issue, the OCCC does not currently have an IAQ plan. SORM recommends that OCCC develop an Indoor Air Quality (IAQ) program in accordance to SB 599. At a minimum, the program should include guidelines for building occupant responsibilities, good housekeeping practices, building maintenance recommendations, and a procedure for handling indoor air quality complaints. The IAQ program should designate an indoor quality coordinator(s) who will investigate and monitor all indoor air quality issues. Please refer to SORM's IAQ website for further information:

<https://www.sorm.state.tx.us/risk-management/indoor-air-quality-seminar-texas-senate-bill-599>

*Reference: RMTSA Guidelines, Volume III, Section Two, Chapter 7, Subchapter 7.15; Texas Health and Safety Code, Subtitle C, Title 5, Chapter 385*

**16-05-03**

**Safety: Fire Safety: Small Appliance**

During the walk-through, a small appliance, i.e. coffee maker, was found to be in personal use in one division. The use of small appliances outside of the designated break room may pose a fire hazard. Not only could a fire be started at the source of the appliance electrical connection, but at the breaker panel as well. The Texas Department of Insurance State Fire Marshal's Office 'Annual Report Regarding Findings in Conducting Investigations' identifies cooking equipment as the leading cause of fires in the workplace, accounting for 25 percent of fires in office buildings. SORM recommends that the OCCC develop a small appliances policy that addresses proper precautions to take when using small appliances in an office environment.

*Reference: RMTSA Volume III, Section 2, Chapter 6.11 Office Safety; Texas Department of Insurance State Fire Marshal's Office 'Annual Report Regarding Findings in Conducting Investigations' (December 2012)*

SORM requests that the appropriate staff review this document, specify the actions that OCCC plans to take, and project an estimated date of completion for each recommendation on the provided Action Plan document included with this report. Please provide your response to me via U.S. mail or email [lisa.bell@sorm.state.tx.us](mailto:lisa.bell@sorm.state.tx.us) by **July 18, 2016**.

Please convey my sincere appreciation to Mr. Juan Garcia and Ms. Candace Vargas for their

Commissioner Leslie L. Pettijohn

May 27, 2016

Page 4 of 4

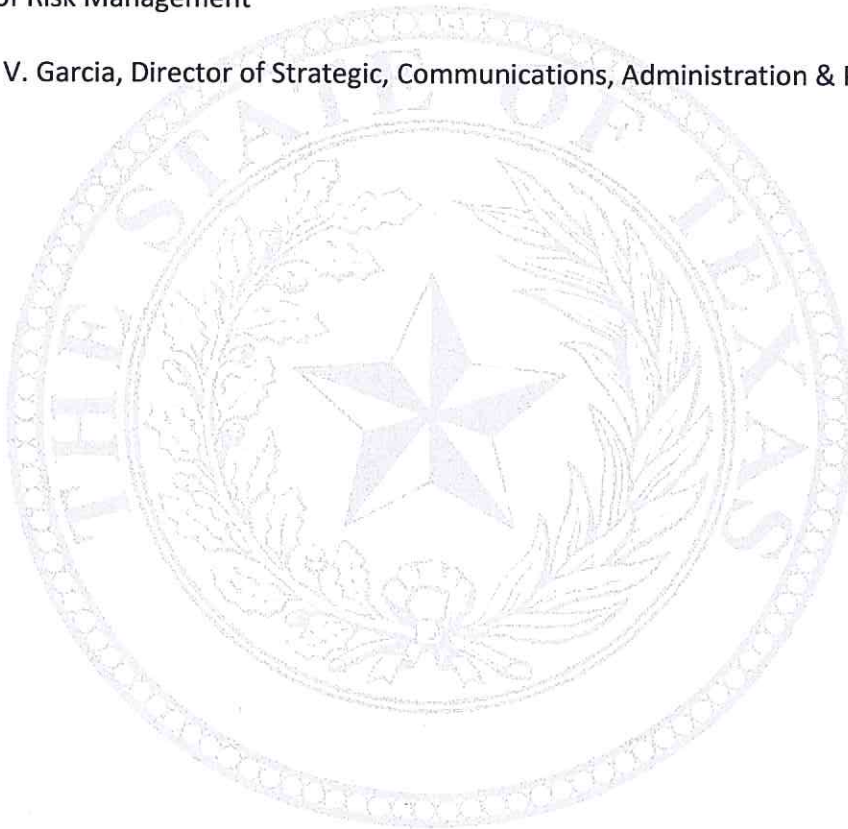
cooperation and assistance during my visit. Should there be any questions about the information detailed in this report, please feel free to contact me at 512-936-1570 or [lisa.bell@sorm.state.tx.us](mailto:lisa.bell@sorm.state.tx.us).

Sincerely,



Lisa Bell  
Risk Manager  
State Office of Risk Management

cc: Mr. Juan V. Garcia, Director of Strategic, Communications, Administration & Planning, OCCC





July 15, 2016

Ms. Lisa Bell  
State Office of Risk Management  
PO Box 13777  
Austin, Tx 78711

Re: Response to Risk Management Program Review (RMPR)

Dear Ms. Bell,

This letter is in response to the risk management review conducted for the Office of Consumer Credit Commissioner on May 31, 2016. The following are the agency's responses and timeline for implementing the suggesting recommendations to the report.

**16-05-01 Risk Management: Policies/Procedures: Armed Intruder**

While it is commendable that the OCCC has a workplace violence policy in place, SORM noted that the OCCC does not currently have an armed intruder policy. A formal armed intruder policy and procedures will ensure that all employees know how to appropriately respond in the event of an active shooter situation. SORM recommends that the OCCC develop an armed intruder policy. Once the policy is approved, employees should be trained on it.

***Reference: RMTSA Guidelines, Volume III, Section Two, Chapter 6.5.***

**Management Response:**

*The agency has amended its policies and adopted this recommendation. The OCCC plans to train its employees during its Fall 2016 Staff Conference.*

**16-05-02 Risk Management – Policies/Procedures: Indoor Air Quality (IAQ) Plan**

While it is commendable that OCCC has never experienced an IAQ issue, the OCCC does not currently have an IAQ plan. SORM recommends that OCCC develop an Indoor Air Quality (IAQ) program in accordance to SB 599. At a minimum, the program should include guidelines for building occupant responsibilities, good housekeeping practices, building maintenance recommendations, and a procedure for handling indoor air quality complaints. The IAQ program should designate an indoor quality coordinator(s) who will investigate and monitor all indoor air quality issues. Please refer to SORM's IAQ website for further information:

July 15, 2016

Page 2 of 2

<https://www.sorm.state.tx.us/risk-management/indoor-air-quality-seminar-texas-senate-bill-599>

**Reference:** RMTSA Guidelines, Volume III, Section Two, Chapter 7, Subchapter 7.15; Texas Health and Safety Code, Subtitle C, Title 5, Chapter 385.

**Management Response:**

*The agency has developed and adopted this recommendation. Implementation will be immediately.*

**16-05-03: Safety: Fire Safety: Small Appliance**

During the walk-through, a small appliance, i.e. coffee maker, was found to be in personal use in one division. The use of small appliances outside of the designated breakroom may pose a fire hazard. Not only could a fire be started at the source of the appliance electrical connection, but at the breaker panel as well. The Texas Department of Insurance State Fire Marshal's Office 'Annual Report Regarding Findings in Conducting Investigations' identifies cooking equipment as the leading cause of fires in the workplace, accounting for 25 percent of fires in office buildings. SORM recommends that the OCCC develop a small appliances policy that addresses proper precautions to take when using small appliances in an office environment.

**Reference:** RMTSA Volume III, Section 2, Chapter 6.11 Office Safety; Texas Department of Insurance State Fire Marshal's Office 'Annual Report Regarding Findings in Conducting Investigations' (December 2012)

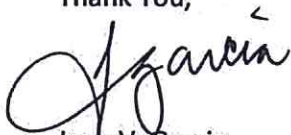
**Management Response:**

*The agency has developed and adopted this recommendation. Implementation will begin immediately.*

We appreciate the opportunity to work with you during the visit. You were very professional, knowledgeable, and courteous throughout the review process. We believe that your visit was insightful and helpful to our agency's operations to help decrease the agency's risk exposure to losses.

Please do not hesitate to contact me at 512-936-7620 if you have any questions or need further information.

Thank You,



Juan V. Garcia

Director of Strategic Communications, Administration & Planning



State Office of Risk Management

300 W. 15<sup>TH</sup>, AUSTIN, TEXAS 78701 / P.O. BOX 13777, AUSTIN, TEXAS 78711-3777  
(512) 475-1440, FAX (512) 370-9025 / WWW.SORM.STATE.TX.US

July 26, 2016

Commissioner Leslie L. Pettijohn  
Office of Consumer Credit Commissioner  
Finance Commission Building  
2601 N. Lamar Blvd.  
Austin, TX 78705

Agency #466

RE: Action Plan Response

Dear Commissioner Pettijohn:

A Risk Management Program Review (RMPR) of the Office of Consumer Credit Commissioner (OCCC) was conducted on May 31, 2016. The RMPR was conducted under the authority of Texas Labor Code, Title V, Subtitle A, Chapter 412 as part of your agency's overall risk management program assessment.

We have received your plan of action addressing all observations and recommendations discussed in the RMPR Report. Your plan is approved with the understanding that the risk management process is a continuous undertaking and that progress will be made on any uncompleted recommendations.

Thank you for your cooperation, courtesy, and assistance during the consultation. Please contact me at 512-936-1570 and [lisa.bell@sorm.texas.gov](mailto:lisa.bell@sorm.texas.gov) if you have any questions.

Sincerely,

Lisa Bell  
Risk Manager  
State Office of Risk Management

cc: Mr. Juan V. Garcia, Director of Strategic, Communications, Administration & Planning, OCCC

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**DEPARTMENT OF SAVINGS AND MORTGAGE LENDING**

Austin, Texas

**ANNUAL INTERNAL AUDIT REPORT**

Fiscal Year 2016



DEPARTMENT OF SAVINGS AND MORTGAGE LENDING  
Austin, Texas

Annual Internal Audit Report  
Fiscal Year 2016

TABLE OF CONTENTS

	<u>Page</u>
Internal Auditor's Report.....	1
Introduction.....	2
Internal Audit Objectives.....	3
Executive Summary	
Management Information Systems	
Background.....	4-6
Audit Objective, Scope, and Methodology.....	6-8
I. Compliance with Texas Government Code 2102: Required Posting of Internal Audit Information .....	9
II. Internal Audit Plan for Fiscal Year 2016 .....	10
III. Consulting and Nonaudit Services Completed .....	10
IV. External Quality Assurance Review .....	10
V. Observations/Findings and Recommendations .....	11-14
VI. External Audit Services Procured in Fiscal Year 2016.....	15
VII. Reporting Suspected Fraud and Abuse .....	15
VIII. Proposed Internal Audit Plan for Fiscal Year 2017 .....	15
IX. Organizational Chart .....	16

# Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

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

We performed tests of management's assertion about the effectiveness and efficiency of the Department of Savings and Mortgage Lending's (SML) internal control structure over the Management Information Systems (MIS) area and its established policies and procedures, as applicable to the MIS area, for the purpose of determining SML's compliance with selected requirements of the Texas Administrative Code (TAC) Chapter 202, the Texas Government Code (TGC) Chapter 2054; and, selected control groups from the Security Control Standards Catalog Version 1.3 (Control Catalog), for the 9 months ended May 31, 2016.

The results of our tests disclosed that SML's internal control structure over the MIS area and its established policies and procedures, as applicable to compliance with the selected requirements of TAC 202, TGC 2054, and the selected control groups from the Control Catalog, were generally adequate and no material instances of noncompliance were noted; however, we noted a certain matters, included in this report, that are opportunities for strengthening internal controls and ensuring compliance with state requirements and SML's established policies and procedures. We also performed a follow-up of the findings that were presented in the prior year annual internal audit report and this report reflects the implementation status of those matters; and, includes all information required for the State of Texas Internal Audit Annual Report requirements.

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



July 25, 2016

## DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

### Annual Internal Audit Report

Fiscal Year 2015

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## INTRODUCTION

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

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

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

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

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

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

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

## 2016 Internal Audit Plan

Following are the internal audits and other functions performed, as identified in SML's approved 2016 Internal Audit Plan:

- Management Information Systems
- Follow-up of Prior Year Internal Audits
- Other Tasks

This report contains the results of our audit of the Management Information System area, reflects the follow-up performed in the current year, and meets the State of Texas Internal Audit Annual Report requirements.

## DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

### Annual Internal Audit Report

Fiscal Year 2016

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#### INTERNAL AUDIT OBJECTIVES

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

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

## DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

Annual Internal Audit Report

Fiscal Year 2016

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### EXECUTIVE SUMMARY

#### **Management Information Systems (MIS)**

##### **Background**

The Information Technology Department (Department) is responsible for the Management Information Systems (MIS) area, and has the primary responsibility for ensuring confidentiality, integrity, and availability of SML's information resources. The statutory requirements, related to information resources, are outlined in Texas Government Code (TGC) Chapter 2054, the Information Resources Management Act; and, the administrative rules are detailed in Title 1, Part 10 of Texas Administrative Code Chapter 202 (TAC 202), the Information Security Standards.

The Department is comprised of a Director, who reports directly to the Commissioner, and a system support specialist; however, this position has been vacant since March 31, 2016. In accordance with TGC §2054.071 and TAC §211.10, the Director was designated as SML's Information Resources Manager (IRM); and, in accordance with TAC §202.20(1), was also designated as SML's Information Security Officer (ISO).

The responsibilities of the Department include: operation and maintenance of the servers, administrative and technical support for SML's network and telecommunication systems; software and hardware upgrades; information security; and, strategic planning.

##### **External Security Controls**

SML utilizes a virtual private network, which allows employees to securely connect through encrypted connections to SML's servers from offsite locations. SML also utilizes a third party email system from ZixCorp, which allows emails to be secure and enables, but does not necessarily require, emails to be encrypted. ZixCorp analyzes outgoing emails for sensitive or confidential information; such as, social security numbers, and routes the email as a secure email, which requires the recipient to register and log in to obtain the email. Users may also manually flag emails to be encrypted.

##### **Physical Security Controls**

Critical hardware; such as, servers, routers, switches, firewalls and related software applications are located in a locked room, where a numbered key code is required for entry. Servers are connected to UPS battery backup devices, which would continue to operate in the event of a power loss. The locked room is equipped with a fire extinguisher, a fire detector, and an external air conditioner.

##### **Backup Procedures**

SML's network data is backed up nightly to the server and to an external hard drive. The backup contains files, emails and database server backups. Every Tuesday the external hard drive is picked up by the Texas State Library and Archives Commission for storage. Backups are tested periodically for reliability, through retrieval of files or migration of files to new hardware.

## DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

### Annual Internal Audit Report

Fiscal Year 2016

---

#### Passwords

All desktops/laptops are protected through either 128 bit or 256 bit encryption and require unique passwords to gain access and to limit access to authorized individuals. This logon also grants a person access to the network and corresponding SML servers; and, is controlled through the Windows Server Active Directory. Password requirements take into account complexity, length, history, and expiration. Each software application requires a logon and password to gain access. To further prevent unauthorized access, desktops/laptops that are unattended for fifteen (15) minutes lock and require reentry of the password.

#### Applications

The following are the major applications currently used by SML—

- *My License (Semarca)* – a legacy database that was developed and is supported by a third party vendor for SML; and, contains information for licensing, examinations, and enforcement regarding applicants and licensees.
- *National Multistate Licensing System & Registry (NMLS)* – a national licensing database that is owned and supported by the State Regulatory Registry.
- *Application Extender* – an imaging system purchased along with the Department of Banking (DOB) and the Office of Consumer Credit Commission (OCCC); and, maintained by DOB.
- *SAGE Fund Accounting* – an internal accounting system purchased by SML.
- *USAS & USPS* – Texas Comptroller's Office accounting and payroll systems.

#### User Access/Termination

When an employee is hired or terminated, a Security Access Request Form is completed by the Human Resources Department and sent to the Department to add or remove access to email, network, application extender, and other programs. The Department grants access to an employee based on the respective job title and locks out the employee when an employee is terminated and then disables their account.

Desktops/laptops that are to be disposed of as state surplus property have their data erased utilizing a third party software. This software essentially writes over the hard drive several times thereby making sensitive data recovery unlikely.

#### Subsequent Event

In May 2016, SML contracted with a third-party information technology managed services vendor that will be responsible for managing SML's network, providing help desk operations, performing backups, hosting and securing data, and managing hardware needs.

## DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

### Annual Internal Audit Report

Fiscal Year 2016

---

#### TAC §202

TAC §202 underwent a major revision effective March 2015, in accordance with the 40 TexReg 1357.

Following are key revisions to TAC §202:

- Clarifies the roles and responsibilities for an agency head related to information security.
- Provides details on the responsibilities for the agency's designated ISO.
- Clarifies the security responsibilities of state agency staff who own, have custody of, or use information resources.
- Highlights the required reporting of security incidents and the biennial security plan to the DIR; and the agency ISO's annual report on security policies, procedures and practices to the agency head.
- Requires each agency to perform and document a risk assessment of its information and information systems, and assess levels of risk on its mission and function.
- Establishes and mandates compliance with a Securities Control Standards Catalog (Control Catalog) published by the DIR, which provides state agencies guidance for implementing security controls in a format that easily aligns with the National Institute of Standards and Technology.

To minimize the impact to state agencies in implementing the requirements of the Control Catalog, DIR has sequenced the implementation deadlines for the various controls to be phased in over a 3 year period. As such, controls already addressed prior to the revision were required to be implemented by February 2015; and, the remaining requirements, dependent on the priority assigned by DIR to each requirement, will be phased in by February 2017.

#### AUDIT OBJECTIVE, SCOPE, AND METHODOLOGY

##### ***Objective***

The objective of our audit was to determine whether SML's policies, procedures and processes in place, as applicable to the MIS area, are sufficient in ensuring compliance with selected requirements of TAC §202 and TGC §2054; selected control groups from the Control Catalog (version 1.3); and with other requirements imposed on state agencies by the DIR and/or other oversight agencies.

##### ***Scope***

The scope of our audit was to determine SML's compliance with selected requirements of TAC §202; to include, selected controls from the Control Catalog that were required to be implemented by February 2016; selected requirements of TGC §2054; and, other requirements as mandated by the DIR and/or other oversight agencies, for the 9 months ended May 31, 2016.

## DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

### Annual Internal Audit Report

Fiscal Year 2016

---

#### ***Methodology***

The audit methodology included a review of policies and procedures, and other internal and external documentation; an interview and correspondence with the MIS Department's personnel; and, an onsite walk-through.

We obtained and/or reviewed the following documentation:

- a. SML's current IT policies and procedures.
- b. An illustration of SML's network diagram.
- c. MIS Department organizational chart.
- d. Vulnerability assessment dated November 20, 2015, performed by DIR.
- e. SML's business continuity plan.
- f. A listing of SML's systems and applications.
- g. An IT inventory listing.
- h. A listing of SML employees which included the date of hire and date of termination that occurred during the period from September 1, 2015 through May 31, 2016.
- i. Monthly incident reports submitted to the DIR for the months of September 1, 2015 through April 30, 2016.
- j. An active directory listing with user's current status.

We performed various procedures, to include the following:

- a. Obtained an understanding of legal and regulatory requirements relevant to SML's information resources management through review of laws and regulations; and, SML's IT policies and procedures.
- b. Reviewed third party assessment reports listed above to identify potential areas of concern.
- c. Reviewed the controls and processes in place, and interviewed with the MIS Department's personnel to evaluate whether SML has established and implemented selected controls outlined in the Control Catalog that were due for implementation by February 2016. We reviewed the security controls associated with the following areas:
  - (1) Encryption requirements for storage devices, data transmission, portable devices, etc.
  - (2) Addition, modification and deletion of user access to the information resources.
  - (3) Audit and accountability for changes made to the information resources.
  - (4) Password settings (complexity, history, change interval).
  - (5) Physical security over information resources.
  - (6) Data backup and disaster recovery.

## **DEPARTMENT OF SAVINGS AND MORTGAGE LENDING**

### **Annual Internal Audit Report**

**Fiscal Year 2016**

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- d. Reviewed the controls and processes in place to ensure sensitive or confidential information is protected from unauthorized access, modification, or destruction.
- e. Reconciled current network users from the active directory listing with current SML employees to ensure only legitimate active accounts existed.
- f. Selected all terminated employees from the listing of SML employees to determine whether user access was removed in a timely manner and whether a Security Access Request Form was properly completed.
- g. Conducted physical observations of MIS hardware to ensure proper safeguards are in place.
- h. Obtained an understanding of the reporting requirements outlined in the TAC §202 and ensured SML's compliance with the reporting submission requirements.
- i. Reviewed the IRM's continuing professional education (CPE) record to ensure compliance with DIR's requirements specified in the IRM Continuing Education Guide.

## DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

### Annual Internal Audit Report

Fiscal Year 2016

---

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

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

- An approved fiscal year 2017 audit plan, as provided by Texas Government Code, Section 2102.008.
- A fiscal year 2016 internal audit annual report, as required by Texas Government Code, Section 2102.009.

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

#### II. Internal Audit Plan for Fiscal Year 2016

The Internal Audit Plan (Plan) included one audit to be performed during the 2016 fiscal year. The Plan also included a follow-up of the prior year audit recommendations, as applicable, other tasks as may be assigned by the Finance Commission, and preparation of the Annual Internal Audit Report for fiscal year 2016.

##### Risk Assessment

Utilizing information obtained through the inquiries and background information reviewed, 14 audit areas were identified as potential audit topics. A risk analysis utilizing our 8 risk factors was completed for each individual audit topic and then compiled to develop an overall risk assessment.

Following are the results of the risk assessment performed for the 14 potential audit topics identified:

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

## DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

### Annual Internal Audit Report

Fiscal Year 2016

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

Fiscal Year 2015:

- Mortgage Examinations

Fiscal Year 2014:

- Consumer Protection

Fiscal Year 2013:

- Thrift Supervision and Compliance

The area recommended for internal audit and other tasks to be performed for fiscal year 2016 were as follows:

<u>Report No.</u>	<u>Audits/Report Titles</u>	<u>Report Date</u>
1.	Management Information Systems	7/25/2016
1.	Annual Internal Audit Report – Follow-Up of Prior Year Internal Audits	7/25/2016
-	Other Tasks Assigned by the Finance Commission	None

### III. Consulting and Nonaudit Services Completed

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

### IV. External Quality Assurance Review

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

# DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

## Annual Internal Audit Report

Fiscal Year 2016

### V. Observations/Findings and Recommendations

Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Status (Implemented, Partially Implemented, Implementation Delayed, No Action Taken, Do Not Plan to Take Corrective Action, or Other)	Fiscal Impact/Other Impact
1	7/25/2016	MIS	<p>1. Disaster Recovery Plan</p> <p>DIR's Security Control Standard Catalog's Contingency Plan (CP-2)(d) states that each state organization shall maintain a written disaster recovery plan for major or catastrophic events that deny access to information resources for an extended period; and, will include the following:</p> <ol style="list-style-type: none"> <li>Contain measures which address the impact and magnitude of loss or harm that will result from an interruption;</li> <li>Identify recovery resources and a source for each;</li> <li>Contain step-by-step implementation instructions; and,</li> <li>Include provisions for annual testing.</li> </ol> <p>In October 2014 SML developed a Continuity of Operation Plan (COOP), which replaced its disaster recovery plan; however, the COOP does not include a disaster recovery plan or any of the above listed requirements.</p> <p><b>Recommendation</b> We recommend that SML develop or update the previous disaster recovery plan to comply with DIR's Security Control Standards Catalog CP-2(d).</p> <p><b>Management's Response</b> In addition to the COOP, the Department has a disaster recovery plan which needs updating. As the Department moves forward with the use of the contracted vendor amendments will be made to update the plan as needed to accommodate these changes and to ensure compliance with the Security Control Standards.</p>		To ensure compliance with DIR's Security Control Standard Catalog.

# DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

## Annual Internal Audit Report

Fiscal Year 2016

Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Status (Implemented, Partially Implemented, Implementation Delayed, No Action Taken, Do Not Plan to Take Corrective Action, or Other)	Fiscal Impact/Other Impact
1	7/25/2016	MIS	<p>2. Risk Assessments</p> <p>TAC §202.25 requires state agencies to perform and document a risk assessment of the agency's information resources and update the risk assessment based on the agency's inherent risk. The inherent risk and frequency of the risk assessment will be ranked, at a minimum, as either "High," "Moderate," or "Low." DIR's Security Control Standards Catalog suggest that risk assessments be performed annually.</p> <p>SML has not performed a risk assessment, but plans to contract a third party vendor to perform the risk assessment, as recommended by DIR.</p> <p><b>Recommendation</b> We recommend that SML continue with their plan to contract a third party vendor to conduct the risk assessments to be compliant with TAC §202.25.</p> <p><b>Management's Response</b> The Department, as indicated during the audit, has been working with a third party vendor, contracted with by DIR, to conduct the required risk assessment for state agencies. Since the audit fieldwork, the contract has been finalized and the work is scheduled to begin in late Fall.</p>		To ensure compliance with TAC §202.

# DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

## Annual Internal Audit Report

Fiscal Year 2016

Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Status (Implemented, Partially Implemented, Implementation Delayed, No Action Taken, Do Not Plan to Take Corrective Action, or Other)	Fiscal Impact/Other Impact
1	7/25/2016	MIS	<p>3. Audit Trails</p> <p>DIR's Security Control Standards Audit Events (AU-2) states that information resources systems shall provide the means whereby authorized personnel have the ability to audit and establish individual accountability for any action that can potentially cause access to, generation of, modification of, or affect the release of confidential information.</p> <p>In addition, it states that appropriate audit trails shall be maintained to provide accountability for updates to mission critical information, hardware and software, and for all changes to automated security or access rules.</p> <p>Our testing and discussions with the Director indicated that such audit trails are currently not in place.</p> <p><b>Recommendation</b> We recommend SML request that the 3<sup>rd</sup> party vendor who is currently managing SML's IT functions, ensure such audit trails are established and able to be reviewed by the Director, as needed.</p> <p><b>Management's Response</b> The Department agrees with the recommendation and will work towards complying with the Security Control Standards Audit Events requirement.</p>		To ensure compliance with DIR Security Control Standards.

**DEPARTMENT OF SAVINGS AND MORTGAGE LENDING**

## Annual Internal Audit Report

Fiscal Year 2016

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Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Status (Implemented, Partially Implemented, Implementation Delayed, No Action Taken, Do Not Plan to Take Corrective Action, or Other)	Fiscal Impact/Other Impact
1	7/25/2016	2016 Follow-Up	<p>Follow-Up of Prior Year Audits</p> <p>Following is that status of the recommendations made during fiscal year 2015 that had not been implemented.</p> <p><u>Mortgage Examinations</u></p> <p>1. Scheduling of Mortgage Examinations</p> <p>Our testing of mortgage banker and company examinations disclosed instances where the examinations were conducted after the required time period required by the Exam Manual.</p> <p>We recommended that SML strengthen their controls to ensure examinations were performed in a timely manner, as prescribed by procedures documented in the Area's Exam Manual(s).</p>	Implemented	

## **DEPARTMENT OF SAVINGS AND MORTGAGE LENDING**

### **Annual Internal Audit Report**

**Fiscal Year 2016**

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#### **VI. External Audit Services Procured in Fiscal Year 2016**

SML procured the internal audit services documented in the Internal Audit Plan for fiscal year 2016.

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

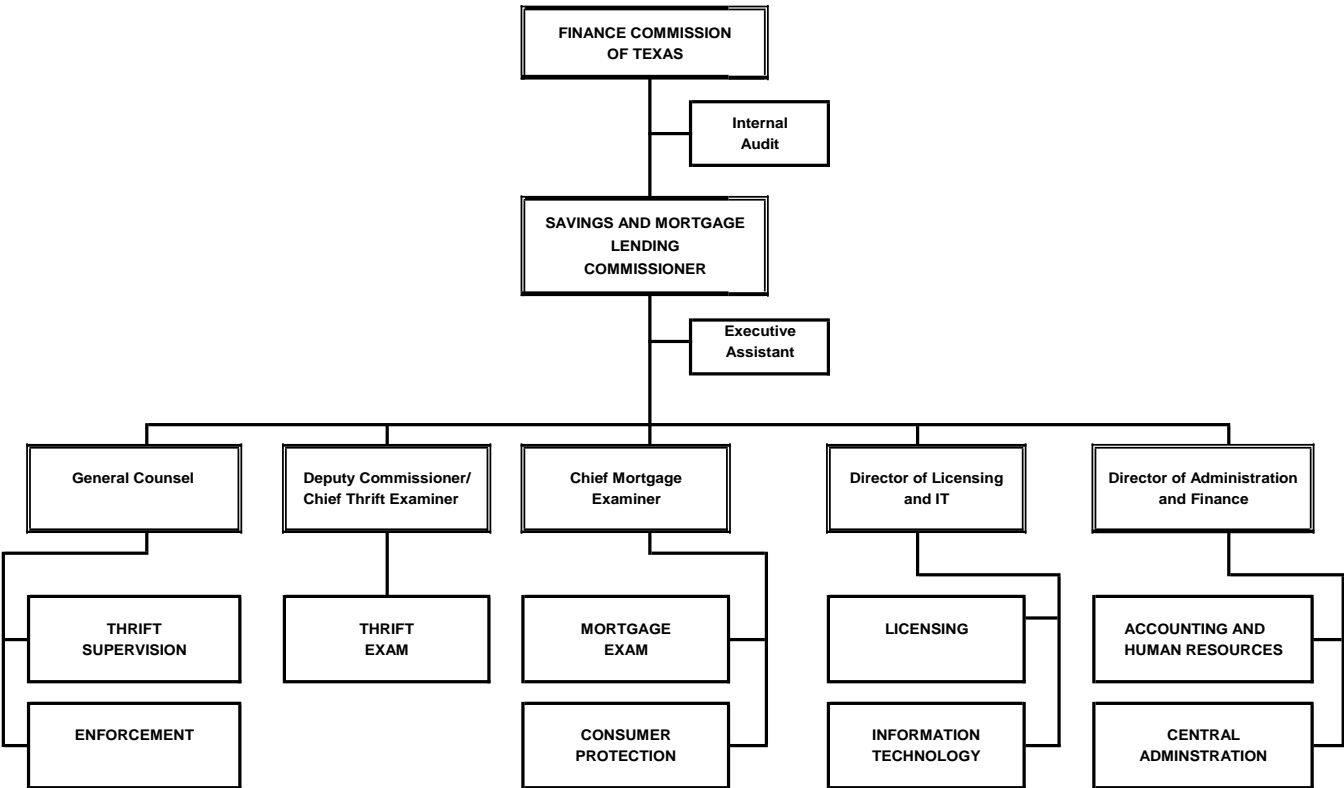
SML has provided information on their home page on how to report suspected fraud, waste, and abuse to the State Auditor's Office (SAO) by posting a link to the SAO's fraud hotline. SML has also developed a Fraud Prevention Policy that provides information on how to report suspected fraud.

#### **VIII. Proposed Internal Audit Plan for Fiscal Year 2017**

The risk assessment performed during the 2016 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 2017. The Internal Audit Plan for Fiscal Year 2017 will be developed and presented to the Finance Commission at a meeting to be determined at a later date.

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

IX. Organizational Chart



Seized Prepaid Funeral Funds	Book Value at February 29, 2016	Interest Income Received	Trustee Fees Paid	Other Deductions	Other Additions	Book Value at May 31, 2016	Trustee	Investment Type	Maturity Date	Interest Rate
El Paso Mission Funeral Home, Inc. PFC No. 606					\$56,674.07	\$56,674.07	Regions Bank	trust	n/a	n/a

<b>Total Seized Funds</b>	\$0.00	\$0.00	\$0.00	\$0.00	\$56,674.07	\$56,674.07				
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**Notes:**

The records and funds related to Permit Number 606 were seized as a result of management fraudulently withdrawing consumer funds without the purchasers' approvals. Further, the funds withdrawn from the PFC restricted account were not forwarded to the purchasers. Subsequent to the seizure, the Department placed a notice in the El Paso newspaper requesting consumers contact our Department. The Department is compiling the information and documents from consumers. The permit holder and its owner have agreed to pay restitution per Agreed Order No. 2015-020a.

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

Prepared By: /s/ Jesus Saucillo Date: 6/20/16

Reviewed By: /s/ Stephanie Newberg Date: 6/20/16

**Trust Funded Prepaid Funeral Guaranty Fund Quarterly Investment Report**  
**March 1, 2016 to May 31, 2016**

<u>Book</u> <u>Book Value at February 29, 2016</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, 2016</u>	<u>Maturity</u> <u>Date</u>	<u>Interest</u> <u>Rate</u>	<u>Accrued Interest</u> <u>on CDs</u>
\$1,295,562.31	\$2,274.93	\$79.31	\$7,692.40	\$11,919.02	\$1,301,984.55	--	--	\$1,117.84

Trust Account Balances at Trustee/Depositories

Texas Treasury Safekeeping Trust Company *	\$328,207.84	6/1/2016	0.22%	
First Bank and Trust of Childress (CD)	\$240,000.00	12/11/2016	0.80%	\$143.05
First State Bank of Yoakum (CD)	\$240,000.00	12/17/2016	0.85%	\$476.54
Citizens State Bank, Buffalo, TX (CD)	\$248,087.76	12/26/2016	0.97%	\$498.25
Pilgrim Bank (money market)	<u>\$245,688.95</u>	n/a	0.87%	
Subtotal	\$1,301,984.55			

(1) Other deductions include: Restitution paid to consumers as follow: a) \$6,331.50 to J. Owens and \$899.00 to G. Hines regarding illegal PFCs sold by Timothy Gaffney; and \$461.90 reimbursement to Ms. Rebecca Motley of travel expenses for the May 2016 Guaranty Fund meeting.

(2) Other additions include: (a) \$269.02 restitution received from Lonnie D. Wright; (b) \$300.00 restitution received from Mr. Dan L. Brothers; (c) \$2,350.00 restitution received from Mr. Kevin Keeney; (d) \$1,500.00 restitution received from Mr. Marc Gonzalez; and (e) \$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: 6/20/16  
Reviewed By: /s/ Stephanie Newberg Date: 6/20/16

**Insurance-Funded Prepaid Funeral Guaranty Fund Quarterly Investment Report**  
**March 1, 2016 to May 31, 2016**

<u>Book</u> <u>Book Value at February 29, 2016</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, 2016</u>	<u>Maturity</u> <u>Date</u>	<u>Interest</u> <u>Rate</u>
\$368,230.05	\$232.10	\$87.25		\$34,694.00	\$403,068.90	1-Jun-2016	0.22%

(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: 6/20/16

Reviewed By: /s/ Stephanie Newberg Date: 6/20/16

**Department of Savings and Mortgage Lending**  
**Mortgage Recovery Trust Fund**

**Investment Officer Report as of May 31, 2016**

**Current Investments/Securities as of May 31, 2016**

Purchase Date	Beginning Market Value	Ending Market Value	Accrued Interest - Estimated	Interest Rate	Maturity Date	Description	Fin. Institution
6/15/2014	245,093.07	250,519.31	-	1.14%	6/15/2016	CD - 24 months	TrustTexas Bank SSB
8/4/2014	240,000.00	240,000.00	98.00	0.70%	8/4/2016	CD - 24 months	First Bank SSB
4/9/2015	245,000.00	245,000.00	333.47	1.00%	10/9/2016	CD - 18 months	Capital Bank
10/18/2014	249,786.42	250,000.00	644.10	1.75%	10/18/2016	CD - 24 months	Dalhart Federal Savings
1/31/2015	250,000.00	250,000.00	155.56	0.80%	1/31/2017	CD - 24 months	Horizon Bank SSB
4/7/2015	240,000.00	242,529.88	389.06	1.05%	4/7/2017	CD - 24 months	Triumph SSB
4/29/2015	240,000.00	240,000.00	530.67	0.20%	4/29/2017	CD - 24 months	Angelina Savings Bank
6/14/2015	250,000.00	250,000.00	2,933.33	1.20%	6/14/2017	CD - 24 months	Pioneer Bank SSB
9/8/2015	245,809.01	246,023.75	145.91	0.35%	9/8/2017	CD - 24 months	Austin Capital SSB
10/2/2015	250,000.00	250,000.00	1,260.42	0.75%	10/2/2017	CD - 24 months	Cypress Bank SSB
12/13/2015	243,813.70	243,813.70	921.07	0.80%	12/13/2017	CD - 24 months	First Fed Community Bank, SSB
12/15/2015	250,000.00	250,000.00	1,178.33	1.01%	12/15/2017	CD - 24 months	Spirit of Texas, SSB
2/4/2016	250,000.00	250,000.00	771.88	0.95%	2/4/2018	CD - 24 months	Third Coast Bank SSB
4/17/2014	250,000.00	250,000.00	320.83	1.05%	4/17/2016	CD - 24 months	South Star Bank SSB
Totals	<b>3,449,502.20</b>	<b>3,457,886.64</b>	<b>9,682.63</b>				

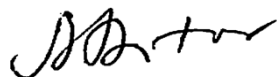
# Department of Savings and Mortgage Lending

## Mortgage Recovery Trust Fund

Investment Officer Report as of May 31, 2016 (continued)

Fund Position for the Quarter Ended May 31, 2016		
Beginning Cash Balance as of February 29, 2016	\$	383,447.86
<b>Receipts</b>		
Licensees' Remittances		15,960.00
Interest from CDs		4,457.36
Interest from overnight repos		229.93
CD - Principal and Interest - Maturity		253,462.96
<b>Total Received</b>	<b>\$</b>	<b>274,110.25</b>
<b>Disbursements</b>		
CD - Purchase		(250,000.00)
Transfer of excess to Operating Fund		-
Bank Fees and Charges		(68.47)
<b>Total Disbursed</b>	<b>\$</b>	<b>(250,068.47)</b>
<b>Total Cash Balance in Trust and Treasury</b>		<b>407,489.64</b>
<b>Reserve</b>		
Reserved for Potential Payment of Claims w/in 90 days	\$	(25,000.00)
<b>Available Cash Balance as of May 31, 2016</b>		<b>382,489.64</b>
<b>Total Amount of Investments</b>		<b>3,457,886.64</b>
<b>Accrued Receivables</b>		<b>12,092.63</b>
<b>Accrued Payables</b>		<b>(24.21)</b>
<b>Fund Balance as of May 31, 2016</b>	<b>\$</b>	<b>3,877,444.70</b>

Claim Payment History		
Fiscal Year	Total Amount \$	# of Payments
2000-2007	209,067.76	9
2008	25,488.14	3
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
2016YTD	-	0
<b>Totals</b>	<b>507,619.05</b>	<b>46</b>



Antonia Antov, Investment Officer

6/22/2016

Date

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

**Office of Consumer Credit Commissioner**  
**Fiscal Year 2016 - 3rd Quarter**

**Residential Mortgage Loan Originator Recovery Trust Fund #3008**

<u>Beginning Balance at 03/01/16</u>	<u>Additions / *(Deductions)</u>	<u>Interest Paid</u>	<u>Paid Bank Fees</u>	<u>Ending Balance at 05/31/16</u>	<u>Current Interest Rate</u>
\$ 112,372.13	\$ 19,825.00	\$ 66.11	\$ (41.37)	\$ 132,221.87	0.22%

Investment Officer: Christina Cuellar Adke

Date: 8/8/16

Reviewed By: [Signature]

Date: 8.8.16

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.

\*Includes transfer amount of \$18,750 which is offset by transfer out from 2nd quarter.

Office of Consumer Credit Commissioner  
Fiscal Year 2016 - 3rd Quarter

**Texas Financial Education Endowment Fund #3071**

	Beginning Balance at 03/01/16	Additions	Interest Paid	Grant Disbursements	Paid Bank Fees	Ending Balance at 05/31/16	Current Interest Rate
Cash	\$ 1,509,704.24	\$ 2,280.36	\$ 867.83	\$ (22,980.00)	\$ (80.36)	\$ 1,489,792.07	0.22%
<b>Invested Portfolio</b>	Beginning Balance at 03/01/16	Additions	Change in Value		Paid Fees	Ending Balance at 05/31/16	
Investments - STIF	\$ 193,474.06	\$ 2,275.50	\$ 112,328.77	\$ -	\$ (1,076.24)	\$ 83,708.20	
Interest & Dividends Receivable	60.91		(26.63)			34.28	
Trade Receivables	-		-			-	
Investments - Equities	33,305.84		18,879.97			52,185.81	
Investments - Alternatives	1,580,131.25		156,419.35			1,736,550.60	
Investments - Fixed Income	120,254.82		4,255.60			124,510.42	
Invested Portfolio	\$ 1,927,226.88	\$ 2,275.50	\$ 291,857.06	\$ -	\$ (1,076.24)	\$ 1,996,989.31	
<b>Liabilities</b>							
Accounts Payable	\$ -	\$ (995.88)	\$ -	\$ -	\$ -	\$ (995.88)	
Trade Payables		(0.16)				\$ (0.16)	
Total Liabilities	\$ -	\$ (996.04)	\$ -	\$ -	\$ -	\$ (996.04)	
Total Net Fiduciary Assets	\$ 1,927,226.88					\$ 1,995,993.27	
Total Endowment Funds	\$ 3,436,931.12					\$ 3,485,785.34	

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

Investment Officer: Christina Cuellar Deke

Date: 8/8/16

Reviewed By: [Signature]

Date: 8.8.16

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**Texas Department of Banking  
Operating Statement and Budget Analysis  
For Period Ending May 2016**

	FY 2015 ACTUAL	FY 2016 BUDGET	QUARTER PERFORMANCE				FY 2016 PERFORMANCE			
			3rd Quarter BUDGET	3rd Quarter ACTUAL	(OVER)/UNDER BUDGET	PERCENT BUDGET	YTD BUDGET	YTD ACTUAL	(OVER)/UNDER BUDGET	PERCENT BUDGET
<b>REVENUE:</b>										
Bank & Trust Regulation	\$21,989,406.54	\$23,335,260.00	\$5,669,717.00	\$6,459,945.18	(\$790,228.18)	113.9%	\$17,315,000.00	\$17,976,564.23	(\$661,564.23)	103.8%
Nonbank Regulation	2,901,040.57	3,009,190.03	464,707.00	595,615.30	(130,908.30)	128.2%	2,571,897.90	2,790,043.68	(218,145.78)	108.5%
Miscellaneous Revenues	11,103.86	8,000.00	2,000.00	8,848.15	(6,848.15)	442.4%	6,000.00	18,658.59	(12,658.59)	311.0%
<b>TOTAL REVENUES:</b>	<b>\$24,901,550.97</b>	<b>\$26,352,450.03</b>	<b>\$6,136,424.00</b>	<b>\$7,064,408.63</b>	<b>(\$927,984.63)</b>	<b>115.1%</b>	<b>\$19,892,897.90</b>	<b>\$20,785,266.50</b>	<b>(\$892,368.60)</b>	<b>104.5%</b>
<b>EXPENDITURES:</b>										
Salaries and Wages										
Exempt Salaries	\$229,000.00	\$229,000.00	\$57,250.00	\$58,631.25	(\$1,381.25)	102.4%	\$173,750.00	\$187,810.75	(\$14,060.75)	108.1%
Classified Salaries	16,104,213.94	16,975,619.19	4,268,588.19	3,959,284.37	309,303.82	92.8%	12,563,311.38	11,937,272.21	626,039.17	95.0%
Longevity	203,620.00	207,120.00	52,280.00	49,700.00	2,580.00	95.1%	153,160.00	149,700.00	3,460.00	97.7%
Other	259,249.17	256,131.57	31,210.66	31,841.60	(630.94)	102.0%	76,469.74	94,225.91	(17,756.17)	123.2%
Payroll Health Ins/Retiree Contrib.	228,193.58	256,858.79	64,887.57	58,801.51	6,086.06	90.6%	191,055.92	176,477.40	14,578.52	92.4%
	<b>\$17,024,276.69</b>	<b>\$17,924,729.55</b>	<b>\$4,474,216.42</b>	<b>\$4,158,258.73</b>	<b>\$315,957.69</b>	<b>92.9%</b>	<b>\$13,157,747.04</b>	<b>\$12,545,486.27</b>	<b>\$612,260.77</b>	<b>95.3%</b>
Travel										
In-State	\$1,361,209.11	\$1,664,611.47	\$511,305.86	\$481,202.18	\$30,103.68	94.1%	\$1,252,334.01	\$1,207,176.56	\$45,157.45	96.4%
Out-of-State	609,531.22	695,721.28	98,794.28	87,995.39	10,798.89	89.1%	409,638.20	391,413.70	18,224.50	95.6%
	<b>\$1,970,740.33</b>	<b>\$2,360,332.75</b>	<b>\$610,100.14</b>	<b>\$569,197.57</b>	<b>\$40,902.57</b>	<b>93.3%</b>	<b>\$1,661,972.21</b>	<b>\$1,598,590.26</b>	<b>\$63,381.95</b>	<b>96.2%</b>
Other Expenditures										
Professional Fees & Services	\$74,282.17	\$149,660.00	\$33,023.43	\$30,753.84	\$2,269.59	93.1%	\$52,344.43	\$50,091.68	\$2,252.75	95.7%
Postage	13,198.53	14,985.00	1,265.00	1,033.00	232.00	81.7%	13,335.00	\$12,329.74	1,005.26	92.5%
Consumable Supplies	179,041.01	515,017.00	331,326.86	342,522.10	(11,195.24)	103.4%	412,030.63	\$417,295.47	(5,264.84)	101.3%
Telephone	250,370.38	265,636.04	56,952.43	52,552.44	4,399.99	92.3%	191,909.52	\$183,094.48	8,815.04	95.4%
Utilities	47,246.06	53,952.00	12,028.00	10,851.73	1,176.27	90.2%	41,890.35	\$40,008.48	1,881.87	95.5%
Rent - Buildings	291,374.53	421,229.00	109,020.00	72,805.74	36,214.26	66.8%	322,904.00	\$277,092.80	45,811.20	85.8%
Rent - Machinery & Other	30,901.34	56,560.00	18,225.00	8,153.95	10,071.05	44.7%	41,820.00	\$28,614.28	13,205.72	68.4%
Other Operating	387,556.68	482,509.00	34,654.96	33,009.99	1,644.97	95.3%	238,864.96	\$252,784.16	(13,919.20)	105.8%
Subscriptions	18,218.31	20,682.00	4,310.00	3,597.19	712.81	83.5%	14,694.00	\$10,909.13	3,784.87	74.2%
Employee Training / Reg. Fees	229,377.87	283,443.20	108,429.05	103,703.93	4,725.12	95.6%	196,300.50	\$186,635.42	9,665.08	95.1%
Claims/SORM Assessment	29,087.73	18,229.00	3,432.00	4,140.25	(708.25)	120.6%	18,229.00	\$19,517.09	(1,288.09)	107.1%
Capital / Other IT Expenditures	90,393.73	60,000.00	0.00	0.00	0.00	0.0%	0.00	0.00	0.00	0.0%
	<b>\$1,641,048.34</b>	<b>\$2,341,902.24</b>	<b>\$712,666.73</b>	<b>\$663,124.16</b>	<b>\$49,542.57</b>	<b>93.0%</b>	<b>\$1,544,322.39</b>	<b>\$1,478,372.73</b>	<b>\$65,949.66</b>	<b>95.7%</b>
Employee Benefits (Less BRP)	\$4,158,951.86	\$4,858,664.46	\$1,212,565.44	\$1,163,585.56	\$48,979.88	96.0%	\$3,565,840.06	\$3,476,734.94	\$89,105.12	97.5%
<b>TOTAL EXPENDITURES:</b>	<b>\$24,795,017.22</b>	<b>\$27,485,629.00</b>	<b>\$7,009,548.73</b>	<b>\$6,554,166.02</b>	<b>\$455,382.71</b>	<b>93.5%</b>	<b>\$19,929,881.70</b>	<b>\$19,099,184.20</b>	<b>\$830,697.50</b>	<b>95.8%</b>
<b>EXPENDITURES (OVER) /</b>	<b>\$106,533.75</b>	<b>(\$1,133,178.97)</b>	<b>(\$873,124.73)</b>	<b>\$510,242.61</b>	<b>(\$1,383,367.34)</b>		<b>(\$36,983.80)</b>	<b>\$1,686,082.30</b>	<b>(\$1,723,066.10)</b>	
<b>UNDER REVENUE:</b>										

## **Texas Department of Banking**

**Overview of Budget Variances for the Third Quarter of Fiscal Year 2016** - (Variances in excess of \$1,000 and 5% from budget are reported).

**Bank & Trust Regulation** – Actual revenues were in excess of budget due to: (1) an assessment increase of approximately 12% to 14%, effective March 1, 2016, which was not in the original budget; and (2) additional trust fees for unbudgeted examinations.

**Nonbank Regulation** – Actual revenues were higher than budgeted due to: (1) unanticipated penalties collected from unlicensed money services businesses; and (2) higher than anticipated prepaid funeral contract, perpetual care cemetery, and money services business examination and travel fee reimbursements.

**Miscellaneous Revenues** – The variance for the quarter relates to higher interest payments from the Treasury than anticipated. Yields on funds at the Treasury have tripled over the prior year and the anticipated budget.

**Classified Salaries and Payroll Health Insurance/Retirement Contribution** – The positive variance relates to vacant staff positions. Vacancies in terms of FTEs as of May 31, 2016 are listed below:

Financial Examiners	15
---------------------	----

**In-State Travel** – The positive variance is due to: (1) vacant examiner positions; (2) lower Department conference expenditures than budgeted; (3) training related travel that did not occur; and (4) overall efficient use of staff.

**Out-of-State Travel** – The positive variance is due to: (1) a bank target review that did not occur; (2) scheduled out of state prepaid funeral contract examinations that were partially performed in state; and (3) lower than anticipated CSBS meeting expenditures.

**Professional Fees and Services** – The positive variance is due to lower than anticipated Department conference speaker expenditures.

**Consumables** – The negative variance relates to additional cubicles that were needed in the Dallas relocation.

**Telephone** – The positive variance is due to lower than budgeted expenditures for the secured lending guide online subscription and lower telephone related expenditures for the two regional office relocations.

**Utilities** – The positive variance is due to lower than anticipated expenditures for Headquarters.

**Rent - Buildings** – The positive variance is due to: (1) Houston regional office moving in the fourth quarter instead of the third quarter; (2) hosting one financial literacy workshop instead of two; (3) no town hall events hosted in the third quarter; and (4) a discount received for Department conference venue rental.

**Rent – Machinery & Other** – The positive variance is due to hosting one financial literacy workshop instead of two and no town hall events hosted in the third quarter.

**TEXAS DEPARTMENT OF BANKING**

**Changes in Cash Balance**

**For the Quarter Ending May 31, 2016**

	<u>Actual</u>
Cash at Beginning of Period	\$14,662,204.47
Revenues Over (Under) Expenditures	\$510,242.61
Increase (Decrease) in Payables/Encumbrances	\$271,763.39
(Increase) Decrease in Receivables	<u>\$26,273.87</u>
Cash at End of Period	<u><u>\$ 15,470,484.34</u></u>

Restricted Cash Balance:

Payroll and Related Payables	\$2,212,745.87
Reserve for Building	<u>5,000,000.00</u>
<b>Total Restricted Cash Balance</b>	<u><u>\$ 7,212,745.87</u></u>

Assigned Cash Balance:

Retirements	\$623,797.71
Future Operations	<u>7,633,940.76</u>
<b>Total Assigned Cash Balance</b>	<u><u>\$ 8,257,738.47</u></u>

**Total Restricted and Assigned Cash Balance**      **\$ 15,470,484.34**

Assigned Cash Balance/FY2016 Monthly Budget      3.61 months

# DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

## OPERATING STATEMENT AND BUDGET ANALYSIS

*For the Period Ended May 31, 2016*

	FY 2015 EXPENDED	FY 2016 BUDGET	FY 2016 PERFORMANCE			
			YTD BUDGET	YTD EXPENDED*	(OVER)/UNDER BUDGET	PERCENT BUDGET
<b>REVENUE:</b>						
Annual Assessment	1,190,853	1,420,213	1,217,325	1,279,781	(62,456)	105.1%
Thrift Application Fees	12,850	12,000	9,000	39,000	(30,000)	433.3%
Licensing Fees	4,244,341	4,161,600	3,662,675	4,003,213	(340,538)	109.3%
Fines and Penalties	827,886	155,000	116,250	1,725,124	(1,608,874)	1484.0%
Recovery Fund Offset	11,043	15,000	0	0	0	0.0%
Depository Interest	4,053	3,000	2,250	13,300	(11,050)	591.1%
Miscellaneous	5,044	3,000	300	168	132	56.0%
Judgments and Settlements	60,000	0	0	60,000	(60,000)	0.0%
<b>TOTAL REVENUE</b>	6,356,071	5,769,813	5,007,800	7,120,586	(2,112,786)	142.2%
<b>EXPENDITURES:</b>						
Salaries and Wages-						
Exempt	190,000	202,540	153,852	153,852	0	100.0%
Classified	3,457,048	3,979,168	2,950,386	2,593,649	356,737	87.9%
Other Personnel Costs	154,570	100,315	76,761	96,246	(19,485)	125.4%
	3,801,618	4,282,023	3,180,999	2,843,747	337,252	89.4%
Travel-						
Transportation & Mileage	322,337	367,500	274,875	217,391	57,484	79.1%
	322,337	367,500	274,875	217,391	57,484	79.1%
Other Expenditures-						
Professional Services/Fees	57,020	53,540	31,800	22,632	9,168	71.2%
Consumable Supplies	11,197	12,500	9,375	7,828	1,547	83.5%
Utilities	24,296	36,252	27,126	21,924	5,202	80.8%
Rent-Space & Equipment	3,697	5,000	4,500	3,794	706	84.3%
Other Operating Expenses	232,093	233,539	186,277	185,031	1,246	99.3%
Capital Expenditures		12,000				
	328,302	352,831	259,078	241,209	17,869	93.1%
Other Agency Costs						
Employee Benefits	1,040,924	1,313,260	983,103	866,465	116,638	88.1%
SWCAP Indirect Costs	28,881	26,000	19,500	17,547	1,953	90.0%
	1,069,805	1,339,260	1,002,603	884,012	118,591	88.2%
<b>TOTAL EXPENDITURES</b>	5,522,062	6,341,614	4,717,555	4,186,359	531,196	88.7%
<b>EXPENDITURES (OVER)/ UNDER REVENUE</b>	834,009	(571,801)	290,245	2,934,227	(\$2,643,982)	N/A

\* Amounts include accruals and encumbrances.

## Department of Savings and Mortgage Lending

### Budget Variance Analysis as of May 31, 2016

#### Revenues:

Overall revenues are at 142% of budget.

Licensing Revenues – Revenues from license and registration fees are 9.3% over budget. The overage is due to higher volume of license applications.

Fines and Penalties – Actual amounts collected are 1384% over budget due to collections of penalties assessed for unlicensed activities.

#### Expenditures:

Overall expenditures are at 89% of budget.

Employees' Salaries and Related Benefits – These categories are at 88% of budget, due to multiple vacancies.

Other Personnel Costs – This category is 25.4% over budget due to higher than budgeted lump sums paid out to separating employees.

Travel – This category is at 79% of budget due to lower travel costs incurred.

<b>DEPARTMENT OF SAVINGS AND MORTGAGE LENDING</b> <b>CHANGES IN CASH BALANCE</b> <i>For the Quarter Ending May 31, 2016</i>	
	Actual
Cash at Beginning of Period	\$ 11,912,038
Revenues Over (Under) Expenditures CY	\$ 464,452
Revenues Over (Under) Expenditures PY	\$ 15,932
Increase (Decrease) in Payables/Encumbrances	\$ (4,824)
(Increase) Decrease in Receivables	\$ 11,314
<b>Cash at End of Period</b>	<b>\$ 12,398,912</b>
Restricted Cash Balance:	
Payroll Payable	\$ 381,580
Other Payables (Net of Receivables)	\$ 76,961
Building	\$ 5,000,000
<b>Total Restricted Cash Balance</b>	<b>\$ 5,458,541</b>
Assigned Cash Balance:	
Retirements	\$ 100,000
Mortgage Enforcement Funds	\$ 618,195
Future Operations	\$ 6,222,177
<b>Total Assigned Cash Balance</b>	<b>\$ 6,940,372</b>
<b>Total Restricted and Assigned Cash Balance</b>	<b>\$ 12,398,912</b>
Assigned Cash Balance/FY2016 Monthly Budget	13.1 months

OFFICE OF CONSUMER CREDIT COMMISSIONER						
OPERATING STATEMENT & BUDGET ANALYSIS						
For the Period Ended May 31, 2016						
75%						
	FY 2015 ACTUAL	FY 2016 BUDGET	FY 2016 PERFORMANCE			
			YTD BUDGET	YTD ACTUAL	(OVER)/UND BUDGET	PERCENT BUDGET
<b>REVENUES:</b>						
Regulated Lenders	\$ 1,766,773	\$ 2,126,750	\$ 2,091,203	\$ 2,244,594	\$ (153,391)	107.3% (1)
Pawn Industry	967,515	1,067,825	699,255	763,999	(64,744)	109.3% (2)
MV Industry	3,595,712	4,163,840	641,232	653,393	(12,161)	101.9%
Credit Access Industry	1,829,820	1,423,400	1,413,015	1,385,585	27,430	98.1%
Penalties	723,238	-	-	678,413	(678,413)	100.0% (3)
Debt Management Services	38,735	41,200	40,477	38,100	2,377	94.1%
Debt Cancellation	-	-	-	2,000	(2,000)	100.0%
RAL Assessment	45,575	45,000	44,951	75,925	(30,974)	168.9%
Precious Metals	55,850	53,500	42,867	37,025	5,842	86.4%
Tax Liens	66,968	59,800	56,675	57,933	(1,258)	102.2%
Sale of Publications	879	-	-	472	(472)	100.0%
Creditor Registration	100,520	143,350	136,533	118,725	17,808	87.0%
Mortgage Loan Originators	95,900	74,400	67,321	95,350	(28,029)	141.6%
Other Revenue	(376)	-	-	182	(182)	100.0%
Investment / Interest Income	3,853	-	-	12,017	(12,017)	100.0%
<b>TOTAL REVENUES</b>	<b>\$ 9,290,962</b>	<b>\$ 9,199,065</b>	<b>\$ 5,233,528</b>	<b>\$ 6,163,713</b>	<b>\$ (930,185)</b>	<b>117.8%</b>
<b>EXPENDITURES:</b>						
Salaries and Wages-						
Base Pay	\$ 4,773,686	\$ 5,345,328	\$ 4,008,996	\$ 3,619,097	\$ 389,899	90.3% (4)
Benefit Replacement Pay	7,188	8,250	6,188	6,161	27	99.6%
Longevity	63,700	75,520	56,640	50,280	6,360	88.8%
	<b>\$ 4,844,574</b>	<b>\$ 5,429,098</b>	<b>\$ 4,071,824</b>	<b>\$ 3,675,538</b>	<b>\$ 396,286</b>	<b>90.3%</b>
Travel-						
Public Transportation, Lodging, Meals & Mileage	911,287	971,922	728,942	562,640	166,302	77.2% (5)
	<b>\$ 911,287</b>	<b>\$ 971,922</b>	<b>\$ 728,942</b>	<b>\$ 562,640</b>	<b>\$ 166,302</b>	<b>77.2%</b>
Other Expenditures-						
Professional Services & Fees	422,702	212,515	159,386	123,480	35,906	77.5%
Consumable Supplies	22,315	30,300	22,725	13,272	9,453	58.4%
Postage & Freight	47,512	49,500	37,125	2,065	35,060	5.6% (6)
Telephone & Communications	62,689	83,550	62,663	45,923	16,740	73.3%
Bldg. & Utilities	72,998	129,250	96,938	37,185	59,753	38.4%
Publication / Printing & Reproduction	3,321	6,300	4,725	2,755	1,970	58.3%
Other Operating	258,555	385,418	289,064	192,788	96,276	66.7% (7)
	<b>\$ 890,092</b>	<b>\$ 896,833</b>	<b>\$ 672,625</b>	<b>\$ 417,468</b>	<b>\$ 255,157</b>	<b>62.1%</b>
Acquisition of Info Technology	\$ 69,882	\$ 114,250	\$ 85,688	\$ 14,746	\$ 70,942	17.2% (8)
Development in Progress	-	410,000	307,500	-	307,500	0.0% (9)
Employee Benefits	1,543,542	1,866,914	1,400,186	1,252,609	147,577	89.5%
SWCAP Reimb to Unapp Gr 0001	40,111	35,000	26,250	7,914	18,336	30.1%
SORM Assessment	4,984	6,000	4,500	5,207	(707)	115.7%
Unemployment Benefits	-	5,000	3,750	5,820	(2,070)	155.2%
	<b>\$ 1,658,519</b>	<b>\$ 2,437,164</b>	<b>\$ 1,827,873</b>	<b>\$ 1,286,296</b>	<b>\$ 541,577</b>	<b>70.4%</b>
<b>TOTAL EXPENDITURES:</b>	<b>\$ 8,304,472</b>	<b>\$ 9,735,017</b>	<b>\$ 7,301,263</b>	<b>\$ 5,941,942</b>	<b>\$ 1,359,321</b>	<b>81.4%</b>
<b>EXPENDITURES (OVER) / UNDER REVENUE</b>	<b>\$ 986,490</b>	<b>\$ (535,952)</b>	<b>\$ (2,067,735)</b>	<b>\$ 221,771</b>	<b>\$ (2,289,506)</b>	

## Office of Consumer Credit Commissioner

### Overview of Budget Variances for 3<sup>rd</sup> qtr. FY 2016

#### Revenues- 118% of budget

- 1.) Regulated Lenders is above budget due to an increase in applications being renewed or amended.
- 2.) Pawn is above budget due to timing in the renewal cycle, which ends June 30.
- 3.) The Penalty Revenue for the ending of the 3<sup>rd</sup> qtr. is comprised of approximately 40% Penalties and 60% late filing fees.

#### Expenditures- 81% of budget

- 4.) Personnel & Employee Benefit costs are 10% below budget due to the staged hiring of vacant positions and turnover during the year.
- 5.) Travel is below budget due to OCCC implementing several strategies that produced significant strategic efficiencies. In addition there has been employee turnover within the Exam Department, and the department postponed hiring to more effectively stage the training of new examiners classes.
- 6.) Postage and Freight is below budget because it had a significant carry forward balance to cover the 1<sup>st</sup> qtr. mail outs. Postage expense will increase in 4<sup>th</sup> quarter.
- 7.) Other Operating Fees are below budget due to bank fees being lower than originally anticipated. In addition, the agency has conserved funds and not expended all registration fees for employee training.
- 8.) Acquisition of Information Technology is below budget due to the procurement cycle of IT purchases. Funds are anticipated to be expensed in the 4<sup>th</sup> quarter.
- 9.) Development in Progress is under budget due to the timing of the beginning of the IT project for Annual Reporting, Complaints, and Examinations. Expenses for the project will be incurred in 4<sup>th</sup> qtr. FY 16, 1<sup>st</sup> qtr. FY 17, and 2<sup>nd</sup> qtr. FY 17.

**Office of Consumer Credit Commissioner  
Changes in Cash Balance  
For the Quarter Ending May 31, 2016**

	<b>Actual</b>
Cash at Beginning of Period	\$ 10,855,735.49
Revenues Over (Under) Expenditures CY	(817,517.00)
Increase (Decrease) in Payables	(9,206.71)
(Increase) Decrease in Receivables	(71,192.85)
Cash at End of Period	<u>\$ 9,957,818.93</u>

<b>Restricted Cash Balance</b>	
Payroll and Payroll Related Payables	\$ 666,272.30
Reserve for Building	5,000,000.00
<b>Total Restricted Cash Balance</b>	<u>\$ 5,666,272.30</u>

<b>Assigned Cash Balance</b>	
Retirement	91,978.76
Information Technology	410,000.00
Future Operations	3,789,567.87
<b>Total Assigned Cash Balance</b>	<u>\$ 4,291,546.63</u>

Total Restricted and Assigned Cash Balance	\$ 9,957,818.93
Assigned Cash Balance / FY 2016 Monthly Budget	4.67

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**Texas Department of Banking  
Budget FY 2017**

	Budget 2016	Estimated FY 2016*	% of 2016 Budget		Budget 2017**	\$ Change Budget 2016 to Budget 2017	% Change Budget 2016 to Budget 2017
<b>REVENUE:</b>							
Bank & Trust Regulation	\$23,335,260.00	\$23,781,200.77	101.9%		\$24,973,502.78	\$1,638,242.78	7.0%
Nonbank Regulation	3,009,190.03	2,917,477.51	97.0%		3,133,629.79	124,439.76	4.1%
Miscellaneous Revenues	8,000.00	20,925.51	261.6%		22,800.00	14,800.00	185.0%
<b>TOTAL REVENUES:</b>	<b>\$26,352,450.03</b>	<b>\$26,719,603.79</b>	<b>101.4%</b>		<b>\$28,129,932.57</b>	<b>\$1,777,482.54</b>	<b>6.7%</b>
<b>EXPENDITURES:</b>							
Salaries and Wages							
Exempt Salaries	\$229,000.00	\$246,492.01	107.6%		\$234,525.00	\$5,525.00	2.4%
Classified Salaries	16,975,619.19	16,393,997.30	96.6%		17,528,545.13	552,925.94	3.3%
Other Personnel Costs	463,251.57	315,620.62	68.1%		466,832.90	3,581.33	0.8%
	<b>\$17,667,870.76</b>	<b>\$16,956,109.93</b>	<b>96.0%</b>		<b>18,229,903.03</b>	<b>\$562,032.27</b>	<b>3.2%</b>
Travel							
In-State	\$1,664,611.47	\$1,583,256.56	95.1%		\$1,648,532.00	(16,079.47)	-1.0%
Out-of-State	695,721.28	693,129.22	99.6%		745,301.00	49,579.72	7.1%
	<b>\$2,360,332.75</b>	<b>\$2,276,385.78</b>	<b>96.4%</b>		<b>\$2,393,833.00</b>	<b>\$33,500.25</b>	<b>1.4%</b>
Other Expenditures							
Professional Fees & Services	\$149,660.00	\$108,591.68	72.6%		\$160,340.00	\$10,680.00	7.1%
Postage	14,985.00	13,979.74	93.3%		12,460.00	(2,525.00)	-16.9%
Consumable Supplies	515,017.00	507,295.47	98.5%		219,800.00	(295,217.00)	-57.3%
Telephone	265,636.04	248,554.42	93.6%		253,538.00	(12,098.04)	-4.6%
Utilities	53,952.00	48,070.13	89.1%		49,201.00	(4,751.00)	-8.8%
Rent - Buildings	421,229.00	376,617.80	89.4%		387,490.00	(33,739.00)	-8.0%
Rent - Machinery & Other	56,560.00	43,354.28	76.7%		36,283.68	(20,276.32)	-35.8%
Other Operating	432,509.00	441,024.16	102.0%		405,745.45	(26,763.55)	-6.2%
Subscriptions	20,682.00	15,999.13	77.4%		18,658.00	(2,024.00)	-9.8%
Employee Training / Reg. Fees	283,443.20	249,419.66	88.0%		362,688.00	79,244.80	28.0%
Claims/SORM Assessment	18,229.00	19,517.09	107.1%		20,404.00	2,175.00	11.9%
Capital Expenditures	60,000.00	30,000.00	50.0%		69,000.00	9,000.00	15.0%
	<b>\$2,291,902.24</b>	<b>\$2,102,423.56</b>	<b>91.7%</b>		<b>\$1,995,608.13</b>	<b>(\$296,294.11)</b>	<b>-12.9%</b>
Total Expenditures before Benefits	<b>\$22,320,105.75</b>	<b>\$21,334,919.27</b>	<b>95.6%</b>		<b>\$22,619,344.16</b>	<b>\$299,238.41</b>	<b>1.3%</b>
Employee Benefits (Less BRP)	\$4,858,664.46	\$4,649,375.98	95.7%		\$5,195,522.36	\$336,857.90	6.9%
Payroll Hlth Care/Retirement Cont.	256,858.79	238,194.25	92.7%		265,066.05	8,207.26	3.2%
SWCAP	\$50,000.00	\$42,010.00	84.0%		\$50,000.00	\$0.00	0.0%
<b>TOTAL EXPENDITURES:</b>	<b>\$27,485,629.00</b>	<b>\$26,264,499.50</b>	<b>95.6%</b>		<b>\$28,129,932.57</b>	<b>\$644,303.57</b>	<b>2.3%</b>
<b>EXPENDITURES (OVER) / UNDER REVENUE:</b>	<b>(\$1,133,178.97)</b>	<b>\$455,104.30</b>			<b>\$0.00</b>	<b>\$1,133,178.97</b>	

FTEs

199.00

192.00

\* FY 2016 forecasted using on a combination of estimated projections and annualized June 30, 2016 actuals. Fourth quarter Bank and Trust and Special Audits assessments forgiven totalled approximately \$1.3 million.

\*\* FY 2017 budgeted assessments are net \$1.2 million in Bank and Trust and \$356,000 in Special Audits that will not be assessed.



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July 28, 2016

Members of the Finance Commission  
State of Texas  
2601 North Lamar Blvd.  
Austin, Texas 78705

RE: Banking Department FY 2017 Budget

Ladies and Gentlemen:

The Independent Bankers Association of Texas (IBAT) is pleased to offer our comments and observations on the Texas Banking Department's (DOB) FY 2017 budget on behalf of the community banks in Texas. As is customary, we have reviewed the proposed budget along with supporting information.

The DOB continues to provide outstanding regulatory oversight to our state chartered banking system, and is an exemplary model of a "tough but fair" and responsive bank regulator. The ongoing economic challenges and increasing complexity in our industry demand more expertise and flexibility from our regulators, and the DOB has risen to that challenge.

IBAT has long supported adequate funding for this agency, and the proposed budget with its focus on bringing Commissioned Examiners and above more into line with FDIC salary levels is an appropriate expenditure of funds. The increases in other line items are more than acceptable as well. We believe that this agency has a proven track record of appropriate spending and takes its "stewardship" of the funds the industry provides very seriously.

We are pleased to support the proposed budget, which should provide appropriate resources to continue the outstanding level of regulatory oversight the state banks in Texas have come to expect.

IBAT continues to appreciate the efficient and effective regulation of our state-chartered banks in Texas, and the outstanding working relationship we have with the Texas Department of Banking.

Thank you for considering our comments, and for your service to Texas.

Sincerely,

Stephen Y. Scurlock  
Executive Vice President

Meredyth Fowler  
Legislative Counsel

**Texas Department of Savings and Mortgage Lending  
Budget FY 2017**

	Budget 2016	Estimated FY 2016	% of 2016 Budget		Budget 2017	\$ Change Budget 2016 to Budget 2017	% Change Budget 2016 to Budget 2017
<b>REVENUE:</b>							
Annual Thrift Assessment	\$1,420,213	\$1,279,781	90.1%		\$1,464,633	\$44,420	3.1%
Thrift Application and Exam Fees	\$12,000	\$39,000	325.0%		\$20,000	\$8,000	66.7%
Licensing Fees	\$4,161,600	\$4,155,694	99.9%		\$3,744,505	(\$417,095)	-10.0%
Fines and Penalties	\$155,000	\$2,300,166	1484.0%		\$0	(\$155,000)	-100.0%
Recovery Fund Offset	\$15,000	\$6,000	40.0%		\$6,000	(\$9,000)	-60.0%
Depository Interest	\$3,000	\$17,733	591.1%		\$9,000	\$6,000	200.0%
Miscellaneous	\$3,000	\$64,787	2159.6%		\$3,000	\$0	0.0%
<b>TOTAL REVENUES:</b>	<b>\$5,769,813</b>	<b>\$7,863,161</b>	<b>136.3%</b>		<b>\$5,247,138</b>	<b>(\$522,675)</b>	<b>-9.1%</b>
<b>EXPENDITURES:</b>							
Salaries and Wages							
Exempt Salaries	\$202,540	\$202,540	100.0%		\$194,750	(\$7,790)	-3.8%
Classified Salaries	\$3,979,168	\$3,719,194	93.5%		\$3,934,913	(\$44,255)	-1.1%
Other Personnel Costs	\$100,315	\$129,567	129.2%		\$98,119	(\$2,196)	-2.2%
Subtotal Salaries and Wages	\$4,282,024	\$4,051,302	94.6%		\$4,227,782	(\$54,241)	-1.3%
Travel	\$367,500	\$293,156			\$351,000	(\$16,500)	
Subtotal Travel	\$367,500.00	\$293,156	79.8%		\$351,000	(\$16,500)	-4.5%
Other Expenditures							
Professional Fees & Services	\$53,540	\$61,983	115.8%		\$62,040	\$8,500	15.9%
Consumable Supplies	\$12,500	\$10,437	83.5%		\$12,500	\$0	0.0%
Utilities	\$36,252	\$29,232	80.6%		\$33,372	(\$2,880)	-7.9%
Rent - Buildings	\$5,000	\$5,059	101.2%		\$6,000	\$1,000	20.0%
Other Operating Expenditures	\$233,539	\$210,160	90.0%		\$256,430	\$22,891	9.8%
Capital Expenditures	\$12,000	\$0	0.0%		\$12,000	\$0	0.0%
Subtotal Other Expenditures	\$352,831	\$316,871	89.8%		\$382,342	\$29,511	8.4%
Subtotal Operating Expenditures	\$5,002,355	\$4,661,329	93.2%		\$4,961,124	(\$41,230)	-0.8%
Employee Benefits (Less BRP)	\$1,313,260	\$1,169,728	89.1%		\$1,310,328	(\$2,932)	-0.2%
SWCAP	\$26,000	\$23,396	90.0%		\$24,000	(\$2,000)	-7.7%
Subtotal Other Direct and Indirect	\$1,339,260	\$1,193,124			\$1,334,328	(\$4,932)	
<b>TOTAL EXPENDITURES:</b>	<b>\$6,341,615</b>	<b>\$5,854,453</b>	<b>92.3%</b>		<b>\$6,295,452</b>	<b>(\$46,163)</b>	<b>-0.7%</b>
<b>EXPENDITURES (OVER) / UNDER REVENUE:</b>	<b>(\$570,803)</b>	<b>\$2,008,708</b>			<b>(\$1,048,314)</b>	<b>(\$477,511)</b>	

FTEs

62.00

61.00



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July 28, 2016

Members of the Finance Commission  
State of Texas  
2601 North Lamar Blvd.  
Austin, Texas 78705

RE: Savings and Mortgage Lending Department FY 2017 Budget

Ladies and Gentlemen:

The Independent Bankers Association of Texas (IBAT) is pleased to offer our comments and observations on the Texas Savings and Mortgage Lending Department's FY 2017 budget on behalf of our member state savings banks in Texas.

We have reviewed the budget information provided by the Department, and are comfortable that the Department continues to run a very efficient operation. The agency's budget contemplates a reduction in both total expenditures and a decrease in FTEs, which is both unusual and appreciated in the public sector space.

We are advised that no increases in assessments for state savings banks are contemplated, and that fourth quarter assessments will be waived.

Further, we are advised that the budgeted deficit of approximately \$1 million will be adequately covered by existing cash reserves.

IBAT continues to appreciate the outstanding working relationship we have with the Texas Department of Savings and Mortgage Lending, and we are pleased to support the budget as proposed.

Thank you for considering our comments, and for your service to Texas.

Sincerely,

Stephen Y. Scurlock  
Executive Vice President

Meredyth Fowler  
Legislative Counsel



**Board of Directors**

Everett Ives

John Hudson

Daniel Jara

Marc Starr

Michael Kilgore

Gary Tucker

August 1, 2016

Caroline C. Jones, Commissioner  
Texas Department of Savings and Mortgage Lending  
2601 N. Lamar  
Suite 201  
Austin, TX 78705

RE: Review of Proposed Budget for Fiscal Year 2017

Dear Mrs. Jones,

Upon your request, our Board of Directors and local Chapter Presidents have reviewed your proposed budget for Fiscal Year 2017.

I am happy to report that we have no objections to any line item.

We are looking forward to working with your department through the coming years.

Yours truly,

Everett Ives

A handwritten signature in blue ink, appearing to read "Everett Ives", is written over the typed name.

**Office of Consumer Credit Commissioner  
Proposed Fiscal Year 2017 Budget**

	Budget 2016	*Annualized	% of 2016 Budget	Proposed 2017	\$ Incr (Decr) (2016 to 2017)	% Increase (Decrease)
<b>REVENUE:</b>						
Regulated Lenders	\$ 2,260,950	\$2,525,305	111.69%	\$2,268,480	\$ 7,530	0.33%
Credit Access Industry	1,423,400	1,463,035	102.78%	1,156,000	(267,400)	-18.79%
MV Industry	4,163,840	4,224,080	101.45%	3,960,375	(203,465)	-4.89%
Pawn Industry	1,067,825	1,053,206	98.63%	1,070,371	2,546	0.24%
Registered Industry	283,050	309,020	109.18%	260,200	(22,850)	-8.07%
<b>TOTAL REVENUES:</b>	<b>\$ 9,199,065</b>	<b>\$9,574,645</b>	<b>104.08%</b>	<b>\$ 8,715,426</b>	<b>\$ (483,639)</b>	<b>-5.26%</b>
<b>EXPENDITURES:</b>						
Salaries and Wages						
Exempt Salaries	\$ 196,000	\$ 201,840	102.98%	\$ 196,000	-	0.00%
Classified Salaries	5,149,328	4,728,879	91.83%	5,257,323	107,995	2.10%
Other Personnel Costs	83,770	74,829	89.33%	83,702	(68)	-0.08%
	<b>5,429,098</b>	<b>\$5,005,547</b>	<b>92.20%</b>	<b>5,537,025</b>	<b>107,927</b>	<b>1.99%</b>
Travel						
In-State	971,922	735,905	75.72%	896,950	(74,972)	-7.71%
Out-of-State	70,000	-	0.00%	91,000	21,000	100.00%
Out-of-State Reimbursements	(70,000)	-	0.00%	(70,000)	-	100.00%
	<b>971,922</b>	<b>735,905</b>	<b>75.72%</b>	<b>917,950</b>	<b>(74,972)</b>	<b>-7.71%</b>
Other Expenditures						
Professional Fees & Services	212,515	129,706	61.03%	293,935	81,420	38.31%
Consumable Supplies	30,300	25,610	84.52%	28,000	(2,300)	-7.59%
Utilities	26,350	23,143	87.83%	26,350	-	0.00%
Rent - Buildings	40,000	13,122	32.81%	15,000	(25,000)	-62.50%
Other Operating	572,418	391,878	68.46%	513,250	(59,168)	-10.34%
Capital Expenditures	46,574	59,751	128.29%	81,850	35,276	75.74%
*Capital Expenditures-IT Legacy Modernization	93,926	182,707	194.52%	483,000	389,074	414.23%
	<b>1,022,083</b>	<b>825,917</b>	<b>80.81%</b>	<b>1,441,385</b>	<b>419,302</b>	<b>41.02%</b>
Total Expenditures before Benefits	<b>7,423,103</b>	<b>6,567,369</b>	<b>88.47%</b>	<b>7,896,360</b>	<b>452,257</b>	<b>5.73%</b>
Employee Benefits	1,787,635	1,444,956	80.83%	1,661,108	(126,527)	-7.08%
Payroll Hlth Care/Retirement Cont.	79,279	72,440	91.37%	81,800	2,521	3.18%
SWCAP	35,000	31,654	90.44%	35,000	-	0.00%
	<b>1,901,914</b>	<b>1,549,050</b>	<b>81.45%</b>	<b>1,777,907</b>	<b>(124,006)</b>	<b>-6.52%</b>
<b>TOTAL EXPENDITURES:</b>	<b>\$ 9,325,017</b>	<b>\$ 8,116,419</b>	<b>87.04%</b>	<b>\$ 9,674,268</b>	<b>\$ 328,251</b>	<b>3.52%</b>
<b>IT RESERVE:</b>						
Capital Expenditure from IT Reserve	(410,000)			(483,000)		
<b>EXPENDITURES (OVER)/UNDER REVENUE:</b>	<b>\$ 284,048</b>	<b>\$ 1,458,226</b>		<b>\$ (475,842)</b>	<b>\$ (811,890)</b>	

FTE's

93.5

93.5

93.5

\* Revenue includes penalties that are not budgeted

\*\* FY 17 Expenditures in excess of revenue are planned to be absorbed through operating reserve funds



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---

## **Texas Financial Education Endowment Report**

TFEE recipients' semi-annual grant reports were due on July 1. Seven of the eight grant recipients submitted their reports and corresponding reimbursement requests by the July 31 due date. The final recipient was granted a 2-week extension to submit their report.

The reports will be reviewed to monitor the program's performance and to ensure the fund's objectives and goals are being met.

The Grant Advisory Committee is currently comprised of the following members:

- Cindy Lyons, *Finance Commission Member*
- Nancy Granovsky, *Education Consultant*
- Leilani Lim-Villegas, *Financial Education Consultant*
- Laura Rosen, *Consumer Advocate Representative*
- Eric Norrington, *CAB Representative*

The committees' responsibilities include providing consultation and technical assistance to Grant Coordinator, assisting with major project management decisions associated with awarded grants, including selecting grant recipients and providing recommendations to the Audit Committee, monitoring grantee project's unspent funds and associated funding, and offering input, interviewing, and recommending new Grant Advisory Committee members to the Grant Coordinator. Additional duties include making recommendations to the Audit Committee for consideration of specific award allocations, termination of grant agreements for noncompliance, and amendments to program policies and procedures.

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