

FINANCE COMMISSION OF TEXAS
AUDIT COMMITTEE MEETING

Thursday, August 16, 2018

1:00 p.m.

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

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

- A. Review and Approval of Minutes of the June 15, 2018, Audit Committee Meeting
- B. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Readoption of the Investment Policies for:
 - 1. Department of Savings and Mortgage Lending
 - 2. Office of Consumer Credit Commissioner
 - 3. Texas Department of Banking
- C. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Department of Savings and Mortgage Lending's 2018 Annual Internal Audit Report as Prepared and Presented by Garza/Gonzales and Associates
- D. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Office of Consumer Credit Commissioner's 2018 Annual Internal Audit Report as Prepared and Presented by Garza/Gonzales and Associates
- E. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Texas Department of Banking's 2018 Annual Internal Audit Report as Prepared and Presented by Garza/Gonzales and Associates
- F. Interviews of Selected Respondents for the Internal Auditor Contract
- G. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Selection of an Internal Auditor for the Finance Commission Agencies for Fiscal Year 2019
- H. Audit Committee Review of Agencies' Activities

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.

- I. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Agencies May 31, 2018 Investment Officer Reports
 - 1. Department of Savings and Mortgage Lending
 - 2. Office of Consumer Credit Commissioner
 - 3. Texas Department of Banking
- J. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Agencies' 2018 Third Quarter Financial Statements
 - 1. Department of Savings and Mortgage Lending
 - 2. Office of Consumer Credit Commissioner
 - 3. Texas Department of Banking
- K. Report on Activities Relating to the Texas Financial Education Endowment Fund
- L. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Agencies' Fiscal Year 2019 Operating Budgets
 - 1. Department of Savings and Mortgage Lending
 - 2. Office of Consumer Credit Commissioner
 - 3. Texas Department of Banking

Note: If all agenda items are not completed on Thursday, August 16, 2018, the Audit Committee will recess and continue on Friday, August 17, 2018 beginning at 8:00 a.m.

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.

**MINUTES OF THE
AUDIT COMMITTEE MEETING
Friday, June 15, 2018**

The Audit Committee of the Finance Commission of Texas convened at 8:00 a.m. on June 15, 2018 with the following members present:

Audit Committee Members in Attendance:

Molly Curl, Chairman
Lori McCool
Vince E. Puente

Additional Members in Attendance:

Stacy G. London
Hector Cerna
Will Lucas
Matt Moore
Paul Plunket

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

AGENDA ITEM	ACTION	LOCATION ON AUDIO FILE
A. Review and Approval of the Minutes of the April 20, 2018, Audit Committee Meeting	Vince Puente made a motion to Approve the Minutes of the April 20, 2018 Audit Committee Meeting. Lori McCool seconded, and the motion passed.	00:17 start of discussion 00:30 vote
B. Audit Committee Review of Agencies' Activities	No Action Required.	00:50 start of discussion
C. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Texas Department of Banking's Audit Report on the Prepaid Funeral Guaranty Funds as Prepared by Garza/Gonzalez and Associates 1. Office of Consumer Credit Commissioner 2. Texas Department of Banking 3. Department of Savings and Mortgage Lending	Lori McCool made a motion to Recommend that the Finance Commission Approve the Texas Department of Banking's Audit Report on the Prepaid Funeral Guaranty Funds as Prepared by Garza/Gonzalez and Associates. Vince Puente seconded, and the motion passed.	04:12 start of discussion 06:19 vote

AGENDA ITEM	ACTION	LOCATION ON AUDIO FILE
D. Discussion of the 2019 Budget Process	No Action Required.	06:42 start of discussion
E. Report on Activities Relating to the Texas Financial Education Endowment Fund	No Action Required.	07:42 start of discussion

There being no further business of the Audit Committee of the Finance Commission of Texas, Molly Curl adjourned the meeting at 8:08 a.m. (08:20) *on the audio file*)

Molly Curl, Audit Committee Chair
Finance Commission of Texas

Charles G. Cooper, Executive Director
Finance Commission of Texas

Anne Benites, Executive Assistant
Finance Commission of Texas

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING INVESTMENT POLICY

Overview

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

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

The Finance Commission reapproved this policy on ~~October 20, 2017~~ August 17, 2018. The policy includes changes stemming from legislation enacted in the 85th Legislative Session. While this agency is not subject to the requirements in the Public Funds Investment Act, efforts are made to closely follow the Act. Previous changes to this policy were approved on ~~October 21, 2016~~ October 20, 2017.

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

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

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

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

Identification of Covered Funds

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

Types of Authorized Investments

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

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

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

1. Asset Backed Securities
2. Certificates of Deposit
3. Commercial Paper
4. Time Deposits
5. Repurchase Agreements
6. Treasury and Government Agency Securities
7. Bank Notes
8. Institutional Money Market Funds
9. Supranationals/Sovereigns
10. Domestic corporate bonds and floating rate notes (FRNs)
11. Interest-bearing deposit accounts
12. Bonds issued, assumed, or guaranteed by the State of Israel
13. No-load money market mutual fund
14. No-load mutual fund

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

1. *Certificates of Deposit & Time Deposits* – Deposit accounts in a depository institution that has its main office or a branch office in this state which are: 1) Insured by a federal deposit insurance agency, or its successor; or, 2) 100% secured by securities allowable under the ERS’ investment policy for cash and cash equivalents; and 3) do not have a maturity exceeding 60 months. Bids for certificates of deposit may be solicited orally, in writing, electronically or in any combination of those methods.
2. *Repurchase Agreements* – Direct or reverse security repurchase agreements with the Texas Treasury Safekeeping Trust Company (or its successor) or another authorized entity under this policy, which are: 1) collateralized on a daily basis at a minimum of 102% of market value; 2) 100% secured by securities allowable under the ERS’ investment policy for cash and cash equivalents; 3) are placed through a primary government securities dealer, as defined by the Federal Reserve, or an insured financial institution domiciled in this state.
3. *Asset Backed Securities* - Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the U.S., the underlying security for which is guaranteed by an agency

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or instrumentality of the U.S., provided that the applicable interest rate is not determined by an index that adjusts opposite to the changes in a market index and the stated final maturity date is not greater than 120 months from the date the collateralized mortgage obligation is acquired by the Department and expected average life of not more than 60 months.

4. *Treasury and Government Agency Securities* – Obligations, including letters of credit, of the United States or its agencies and instrumentalities (including the Federal Home Loan Banks), direct obligations of this state or its agencies and instrumentalities, and obligations of state or local government agencies and instrumentalities of any state rated as to investment quality by a nationally recognized investment rating firm not less than A with a maximum allowable maturity of 60 months.

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

Unauthorized Investments

Unauthorized Investments under this policy are:

1. All investments in securities not specifically listed in this policy as eligible securities;
2. All investments with maturity and credit rating that do not comply with the requirements of this policy;
3. All investments obtained through an unauthorized entity under this policy;
4. All investments which comply with the policy but through inherent characteristics or external influences and factors could prevent the Department to reach its investment goals under this policy;
5. All Investments in companies doing business in Sudan;
6. All Investments in companies doing business in Iran; and
7. All Investments in companies that engage in business with a foreign terrorist organization.

Strategy for Covered Funds

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

Safekeeping of Investments

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

Reporting

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

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

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

Rates of Return and Market Pricing

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

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

Diversification

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

Settlement

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

Investment Officer

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

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

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

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

Within six months of the end of each Legislative session, if amendments have been made to the

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Public Funds Investment Act, the Investment Officer will provide a report to the Finance Commission outlining the amendments and provide recommendations to update the Investment Policy.

Investment Training

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

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

Entities Authorized to Engage in Investment Transactions

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

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

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

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

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

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Appendix

Acknowledgment

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

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

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

Signature of Qualified Representative

Date

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING INVESTMENT POLICY

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

The Finance Commission reapproved this policy on August 17, 2018. The policy includes changes stemming from legislation enacted in the 85th Legislative Session. While this agency is not subject to the requirements in the Public Funds Investment Act, efforts are made to closely follow the Act. Previous changes to this policy were approved on October 20, 2017.

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

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

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

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

Identification of Covered Funds

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

Types of Authorized Investments

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

According to Texas Finance, Code, Section 156.501 (c), the amounts in the fund may be invested

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

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

1. Asset Backed Securities
2. Certificates of Deposit
3. Commercial Paper
4. Time Deposits
5. Repurchase Agreements
6. Treasury and Government Agency Securities
7. Bank Notes
8. Institutional Money Market Funds
9. Supranationals/Sovereigns
10. Domestic corporate bonds and floating rate notes (FRNs)
11. Interest-bearing deposit accounts
12. Bonds issued, assumed, or guaranteed by the State of Israel
13. No-load money market mutual fund
14. No-load mutual fund

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

1. *Certificates of Deposit & Time Deposits* – Deposit accounts in a depository institution that has its main office or a branch office in this state which are: 1) Insured by a federal deposit insurance agency, or its successor; or, 2) 100% secured by securities allowable under the ERS’ investment policy for cash and cash equivalents; and 3) do not have a maturity exceeding 60 months. Bids for certificates of deposit may be solicited orally, in writing, electronically or in any combination of those methods.
2. *Repurchase Agreements* – Direct or reverse security repurchase agreements with the Texas Treasury Safekeeping Trust Company (or its successor) or another authorized entity under this policy, which are: 1) collateralized on a daily basis at a minimum of 102% of market value; 2) 100% secured by securities allowable under the ERS’ investment policy for cash and cash equivalents; 3) are placed through a primary government securities dealer, as defined by the Federal Reserve, or an insured financial institution domiciled in this state.
3. *Asset Backed Securities* - Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the U.S., the underlying security for which is guaranteed by an agency or instrumentality of the U.S., provided that the applicable interest rate is not determined by

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an index that adjusts opposite to the changes in a market index and the stated final maturity date is not greater than 120 months from the date the collateralized mortgage obligation is acquired by the Department and expected average life of not more than 60 months.

4. *Treasury and Government Agency Securities* – Obligations, including letters of credit, of the United States or its agencies and instrumentalities (including the Federal Home Loan Banks), direct obligations of this state or its agencies and instrumentalities, and obligations of state or local government agencies and instrumentalities of any state rated as to investment quality by a nationally recognized investment rating firm not less than A with a maximum allowable maturity of 60 months.

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

Unauthorized Investments

Unauthorized Investments under this policy are:

1. All investments in securities not specifically listed in this policy as eligible securities;
2. All investments with maturity and credit rating that do not comply with the requirements of this policy;
3. All investments obtained through an unauthorized entity under this policy;
4. All investments which comply with the policy but through inherent characteristics or external influences and factors could prevent the Department to reach its investment goals under this policy;
5. All Investments in companies doing business in Sudan;
6. All Investments in companies doing business in Iran; and
7. All Investments in companies that engage in business with a foreign terrorist organization.

Strategy for Covered Funds

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

Safekeeping of Investments

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

Reporting

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

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

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

Rates of Return and Market Pricing

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

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

Diversification

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

Settlement

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

Investment Officer

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

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

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

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

Within six months of the end of each Legislative session, if amendments have been made to the Public Funds Investment Act, the Investment Officer will provide a report to the Finance

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Commission outlining the amendments and provide recommendations to update the Investment Policy.

Investment Training

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

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

Entities Authorized to Engage in Investment Transactions

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

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

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

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

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

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INVESTMENT POLICY

Appendix

Acknowledgment

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

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

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

Signature of Qualified Representative

Date

OFFICE OF CONSUMER CREDIT COMMISSIONER
INVESTMENT POLICY STATEMENT

[Effective ~~August 17, 2018~~ ~~October 20, 2017~~]

1. Overview

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

The Finance Commission met on ~~August 17, 2018~~ ~~October 20, 2017~~ to re-approve this ~~policy as revised to include concepts from legislation enacted in the 85th Legislative Session and augment or clarify content within this policy.~~ ~~Previously, this~~ This policy was ~~previously~~ reviewed and approved on ~~October 20, 2017~~ ~~October 21, 2016~~.

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

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

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

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

2. Identification of Covered Funds

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

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

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

	act was committed. Recovery is limited by the provisions of §341.606 to an aggregate of \$25,000 per claim.
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Texas Financial Education Endowment Fund (TTSTC #3071)	
Enabling Legislation	§393.628, TEX. FIN. CODE
Distribution Policy	Annual distributions, payable quarterly or annually, are calculated as 3.5% times the twenty-quarter, moving-average value of the Fund as of June 30 for distributions to be made the following fiscal year.

3. Types of Authorized Investments

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

In accordance with Section 341.602(f) of the Finance Code, the OCCC Residential Mortgage Loan Originator Recovery Fund may be invested and reinvested in the same manner as funds of the Employees Retirement System of Texas, and the interest from these investments shall be deposited to the credit of the fund. An investment may not be made under Section 341.602(f) if the investment will impair the necessary liquidity required to satisfy payment of judgment awarded under Chapter 341, Subchapter G of the Finance Code.

The Texas Financial Education Endowment Fund is to be invested with the TTSTC. In accordance with Section 393.628(b) of the Finance Code and Title 7, Section 7.105 of the Texas Administrative Code, Texas Financial Education Endowment funds may be invested and reinvested in the same manner as funds of the Employees Retirement System of Texas under Texas Government Code Chapter 815, Subchapter D, and interest from those investments will be deposited to the credit of the account. The Investment Policy Statement for Texas ~~Financial Education~~ Endowment Funds ~~s managed by of~~ the TTSTC is adopted by reference for the oversight of the Texas Financial Education Endowment Fund. [See <http://ttstc.com/reports/investmentpolicies/EndowmentIPS.pdf>]. These policies include:

- An investment return objective of 6%
- A securities lending objective to enhance current income to the extent consistent with the preservation of capital and maintenance of liquidity
- Portfolio rebalancing
- Portfolio hedging and overlays
- Asset allocation targets and performance benchmarks
- Risk management guidelines
- Investment manager expectations
- Fixed income, equity, real estate and all asset strategies

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

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

purchase by the Agency.

- Obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks, with a maximum allowable maturity of 10 years;
- Direct obligations of this state or its agencies and instrumentalities with a maximum allowable maturity of 10 years;
- Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the U.S., the underlying security for which is guaranteed by an agency or instrumentality of the U.S. provided that the applicable interest rate is not determined by an index that adjusts opposite to the changes in a market index and the stated final maturity date is not greater than 10 years from the date the collateralized mortgage obligation is acquired by the Agency;
- Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, this state or the U.S. or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or by the explicit full faith and credit of the U.S. with a maximum allowable maturity of 10 years;
- Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent with a maximum allowable maturity of 10 years. If the rating of the issuing entity is downgraded below investment quality during the time an investment is held from that entity, all prudent measures must be taken to liquidate the investment within a reasonable period of time, consistent with the guidelines in this policy;
- Bonds issued, assumed, or guaranteed by the State of Israel;
- Interest-bearing deposit accounts that are guaranteed or insured by the FDIC or its successor;
- Other interest-bearing deposit accounts not described above if:
 - The funds are invested through a broker with a main office or branch office in this state as selected by the Agency from an approved list, or through a depository institution with a main office or branch office in this state;
 - The selected broker or depository institution arranges for the deposit of the funds in deposit accounts in one or more federally insured institutions, regardless of where located;
 - The full amount of principal and accrued interest in such deposit accounts is insured by the U.S. or an instrumentality of the U.S.; and
 - The Agency appoints a custodian of the deposit accounts that is:
 - The depository institution selected to broker the deposits;
 - A state or national bank designated by the comptroller as a state depository with its main office or a branch office in this state, that has capital stock and surplus of \$5 million or more;
 - The Texas Treasury Safekeeping Trust Company
 - A Federal Reserve Bank or a branch of a Federal Reserve Bank;
 - A Federal Home Loan Bank;
 - A financial institution authorized to exercise fiduciary powers that is designated by the comptroller as custodian; or
 - A clearing broker dealer registered with the Securities and Exchange Commission (SEC) and operating under SEC Rule 15c3 (17 C.F.R. Section 240.15c3-3)

- A certificate of deposit issued by depository institution that has its main office or a branch office in this state, if the certificate :
 - Is guaranteed or fully insured by the FDIC, or its successor; or,
 - Is secured by obligations allowable under Gov't Code § 2256.009(a) for direct investment by the Agency; or
 - Is secured as provided under the Public Funds Collateral Act (Gov't Code Ch. 2257); and
 - Does not have a maturity exceeding 36 months.

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

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

In general, investments that were authorized at the time they were purchased or otherwise obtained may be retained under this policy even if later revisions of the policy render the investments in noncompliance. One exception is any investment that requires a minimum rating if the rating declines to below the minimum.

The investing entity is required to take all prudent measures that are consistent with its investment policy to liquidate an investment that does not have the minimum rating. An exception also exists with respect to investments in companies that engage in business in Sudan or Iran, or with a foreign terrorist organization, as set forth in the state's divestiture requirements in Gov't Code Chapter 2270. These divestiture requirements expire in 2037.

4.Unauthorized Investments

The following are not authorized investments under this policy:

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

5.Safekeeping of Investments

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

6.Reporting

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

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

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

7.Rates of Return and Market Pricing

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

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

8.Diversification

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

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

9.Settlement

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

10.Investment Officer

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

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

If the Investment Officer has a personal business relationship with a business organization offering to engage in an investment transaction with the Agency, the Officer shall file a statement disclosing that personal business interest. For the purposes of this policy, an investment officer has a personal business relationship with a business organization if:

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

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

Within 180 days of the end of each Legislative session, the Agency will provide a report to the Finance Commission outlining any recent amendments pertaining to the Public Funds Investment Act, and will provide appropriate recommendations to update the Investment Policy.

11.Investment Training

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

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

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

12. Entities Authorized to Engage in Investment Transactions

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

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

A written copy of this policy must be presented to any business organization¹ offering to engage in an investment transaction with the Agency. A qualified representative of the business organization offering to engage in an investment transaction with the Agency shall execute a written acknowledgment (Appendix #1) that the business organization:

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

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

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

Appendix #1

Acknowledgment

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

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

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

Signature of Qualified Representative

Date

OFFICE OF CONSUMER CREDIT COMMISSIONER
INVESTMENT POLICY STATEMENT
[Effective August 17, 2018]

1. Overview

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

The Finance Commission met on August 17, 2018 to re-approve this. Previously, this policy was reviewed and approved on October 20, 2017.

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

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

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

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

2. Identification of Covered Funds

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

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

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

	act was committed. Recovery is limited by the provisions of §341.606 to an aggregate of \$25,000 per claim.
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Texas Financial Education Endowment Fund (TTSTC #3071)	
Enabling Legislation	§393.628, TEX. FIN. CODE
Distribution Policy	Annual distributions, payable quarterly or annually, are calculated as 3.5% times the twenty-quarter, moving-average value of the Fund as of June 30 for distributions to be made the following fiscal year.

3.Types of Authorized Investments

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

In accordance with Section 341.602(f) of the Finance Code, the OCCC Residential Mortgage Loan Originator Recovery Fund may be invested and reinvested in the same manner as funds of the Employees Retirement System of Texas, and the interest from these investments shall be deposited to the credit of the fund. An investment may not be made under Section 341.602(f) if the investment will impair the necessary liquidity required to satisfy payment of judgment awarded under Chapter 341, Subchapter G of the Finance Code.

The Texas Financial Education Endowment Fund is to be invested with the TTSTC. In accordance with Section 393.628(b) of the Finance Code and Title 7, Section 7.105 of the Texas Administrative Code, Texas Financial Education Endowment funds may be invested and reinvested in the same manner as funds of the Employees Retirement System of Texas under Texas Government Code Chapter 815, Subchapter D, and interest from those investments will be deposited to the credit of the account. The Investment Policy Statement for Texas Endowment Funds managed by the TTSTC is adopted by reference for the oversight of the Texas Financial Education Endowment Fund.

[See <http://ttstc.com/reports/investmentpolicies/EndowmentIPS.pdf>]. These policies include:

- An investment return objective of 6%
- A securities lending objective to enhance current income to the extent consistent with the preservation of capital and maintenance of liquidity
- Portfolio rebalancing
- Portfolio hedging and overlays
- Asset allocation targets and performance benchmarks
- Risk management guidelines
- Investment manager expectations
- Fixed income, equity, real estate and all asset strategies

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

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

- Obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks, with a maximum allowable maturity of 10 years;
- Direct obligations of this state or its agencies and instrumentalities with a maximum allowable maturity of 10 years;
- Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the U.S., the underlying security for which is guaranteed by an agency or instrumentality of the U.S. provided that the applicable interest rate is not determined by an index that adjusts opposite to the changes in a market index and the stated final maturity date is not greater than 10 years from the date the collateralized mortgage obligation is acquired by the Agency;
- Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, this state or the U.S. or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or by the explicit full faith and credit of the U.S. with a maximum allowable maturity of 10 years;
- Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent with a maximum allowable maturity of 10 years. If the rating of the issuing entity is downgraded below investment quality during the time an investment is held from that entity, all prudent measures must be taken to liquidate the investment within a reasonable period of time, consistent with the guidelines in this policy;
- Bonds issued, assumed, or guaranteed by the State of Israel;
- Interest-bearing deposit accounts that are guaranteed or insured by the FDIC or its successor;
- Other interest-bearing deposit accounts not described above if:
 - The funds are invested through a broker with a main office or branch office in this state as selected by the Agency from an approved list, or through a depository institution with a main office or branch office in this state;
 - The selected broker or depository institution arranges for the deposit of the funds in deposit accounts in one or more federally insured institutions, regardless of where located;
 - The full amount of principal and accrued interest in such deposit accounts is insured by the U.S. or an instrumentality of the U.S.; and
 - The Agency appoints a custodian of the deposit accounts that is:
 - The depository institution selected to broker the deposits;
 - A state or national bank designated by the comptroller as a state depository with its main office or a branch office in this state, that has capital stock and surplus of \$5 million or more;
 - The Texas Treasury Safekeeping Trust Company
 - A Federal Reserve Bank or a branch of a Federal Reserve Bank;
 - A Federal Home Loan Bank;
 - A financial institution authorized to exercise fiduciary powers that is designated by the comptroller as custodian; or
 - A clearing broker dealer registered with the Securities and Exchange Commission (SEC) and operating under SEC Rule 15c3 (17 C.F.R. Section 240.15c3-3)

- A certificate of deposit issued by depository institution that has its main office or a branch office in this state, if the certificate :
 - Is guaranteed or fully insured by the FDIC, or its successor; or,
 - Is secured by obligations allowable under Gov't Code § 2256.009(a) for direct investment by the Agency; or
 - Is secured as provided under the Public Funds Collateral Act (Gov't Code Ch. 2257); and
 - Does not have a maturity exceeding 36 months.

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

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

In general, investments that were authorized at the time they were purchased or otherwise obtained may be retained under this policy even if later revisions of the policy render the investments in noncompliance. One exception is any investment that requires a minimum rating if the rating declines to below the minimum.

The investing entity is required to take all prudent measures that are consistent with its investment policy to liquidate an investment that does not have the minimum rating. An exception also exists with respect to investments in companies that engage in business in Sudan or Iran, or with a foreign terrorist organization, as set forth in the state's divestiture requirements in Gov't Code Chapter 2270. These divestiture requirements expire in 2037.

4.Unauthorized Investments

The following are not authorized investments under this policy:

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

5.Safekeeping of Investments

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

6.Reporting

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

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

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

7.Rates of Return and Market Pricing

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

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

8.Diversification

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

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

9.Settlement

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

10.Investment Officer

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

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

If the Investment Officer has a personal business relationship with a business organization offering to engage in an investment transaction with the Agency, the Officer shall file a statement disclosing that personal business interest. For the purposes of this policy, an investment officer has a personal business relationship with a business organization if:

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

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

Within 180 days of the end of each Legislative session, the Agency will provide a report to the Finance Commission outlining any recent amendments pertaining to the Public Funds Investment Act, and will provide appropriate recommendations to update the Investment Policy.

11.Investment Training

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

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

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

12. Entities Authorized to Engage in Investment Transactions

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

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

A written copy of this policy must be presented to any business organization¹ offering to engage in an investment transaction with the Agency. A qualified representative of the business organization offering to engage in an investment transaction with the Agency shall execute a written acknowledgment (Appendix #1) that the business organization:

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

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

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

Appendix #1

Acknowledgment

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

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

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

Signature of Qualified Representative

Date

OCCC Investment Training				
Staff Member	Date	Course	Sponsor	Hours
Christina Cuellar Hoke	5/14/2017	PFIA	Texas State Univ	5
Juan V Garcia	8/11/2017	PFIA	Univ North Texas	5
Leslie Pettijohn	6/7/2017	PFIA	Texas State Univ	5
Adrian Hernandez	8/17/2018	PFIA	Univ North Texas	5



TEXAS DEPARTMENT OF BANKING

★ Dedicated to Excellence in Texas Banking ★

ADMINISTRATIVE MEMORANDUM – 2027

~~August 18, 2017~~ August 17, 2018

TO: Finance Commission Members

FROM: Charles G. Cooper, Banking Commissioner

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

Overview

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

The Finance Commission met on ~~August 18, 2017~~ August 17, 2018 to re-approve this policy. ~~as revised to include legislation enacted in the 85th Legislative Session; specify notice requirements for the Investment Officer; and augment or clarify content within this memorandum. Previously, this~~ This policy was ~~previously~~ reviewed and ~~changes were~~ approved on ~~October 21, 2016~~ August 18, 2017.

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

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

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

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

Identification of Covered Funds

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

Types of Authorized Investments

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

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

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

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

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

Bids for certificates of deposit may be solicited:

- Orally;
- In writing;
- Electronically; or

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

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

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

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

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

Unauthorized Investments

The following are not authorized investments under this policy:

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

Strategies for Covered Funds

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

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

Safekeeping of Investments

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

Reporting

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

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

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

Rates of Return and Market Pricing

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

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

Diversification

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

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

Settlement

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

Investment Officer

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

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

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

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

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

Investment Training

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

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

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

Entities Authorized to Engage in Investment Transactions

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

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

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

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

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

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

Appendix

Acknowledgment

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

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

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

Signature of Qualified Representative

Date



TEXAS DEPARTMENT OF BANKING

★ Dedicated to Excellence in Texas Banking ★

ADMINISTRATIVE MEMORANDUM – 2027

August 17, 2018

TO: Finance Commission Members

FROM: Charles G. Cooper, Banking Commissioner

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

Overview

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

The Finance Commission met on August 17, 2018 to re-approve this policy. Previously, this policy was reviewed and changes were approved on August 18, 2017.

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

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

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

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

Identification of Covered Funds

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

Types of Authorized Investments

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

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

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

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

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

Bids for certificates of deposit may be solicited:

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

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

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

requirements in Gov't Code Chapter 2270, effective September 1, 2017. These divestiture requirements expire in 2037.

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

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

Unauthorized Investments

The following are not authorized investments under this policy:

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

Strategies for Covered Funds

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

seizure or liquidation. Court-appointed liquidators will be used when possible to manage funds under liquidation.

Safekeeping of Investments

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

Reporting

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

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

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

Rates of Return and Market Pricing

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

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

Diversification

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

- The aggregate investment in no-load mutual funds described in Gov't Code § 2256.014(b) may not exceed 15% of the monthly average fund balance of a covered investment fund held by the Department, excluding bond proceeds and reserves and other funds held for debt service;

- No one covered fund shall invest in mutual funds in the aggregate more than 80% of its monthly average balance; and,
- Investment in any one mutual fund may not exceed 10% of the total assets of the mutual fund.

Settlement

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

Investment Officer

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

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

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

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

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

Investment Training

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

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

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

Entities Authorized to Engage in Investment Transactions

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

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

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

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

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

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

Appendix

Acknowledgment

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

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

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

Signature of Qualified Representative

Date

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DEPARTMENT OF SAVINGS AND MORTGAGE LENDING
Austin, Texas

ANNUAL INTERNAL AUDIT REPORT

Fiscal Year 2018



DEPARTMENT OF SAVINGS AND MORTGAGE LENDING
Austin, Texas

Annual Internal Audit Report
Fiscal Year 2018

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Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

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

We performed tests of management's assertion about the effectiveness and efficiency of the Department of Savings and Mortgage Lending's (SML) internal control structure over the Thrift Supervision and Compliance area (area) and its established policies and procedures, as applicable to the area, for the purpose of determining SML's compliance with applicable laws and regulations provided in the Texas Finance Code and Texas Administrative Code, for the 8 months ended April 30, 2018.

The results of our tests disclosed that SML's internal control structure over the area and its established policies and procedures, were generally adequate and no material instances of noncompliance were noted; however, we did identify certain matters that are included in this report, that are opportunities for strengthening internal controls and ensuring compliance with established policies and procedures. Based on the degree of risk or effect of these matters in relation to the audit objective(s), these matters were rated as either Priority, High, Medium, or Low, as further described in the "Summary and Related Rating of Observations/Findings and Recommendations", which is included in page 14 of this report.

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

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



May 25, 2018

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

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INTRODUCTION

The Department of Savings and Mortgage Lending (SML) was originally established as the Savings and Loan Department, a regulatory body, to regulate the state's thrift industry. The 58th and 73rd Legislatures enacted the Texas Savings and Loan Act; and, the Texas Savings Bank Act, respectively, for the chartering, regulation, examination and supervision of state-chartered savings banks and savings and loan associations. With the enactment of the Mortgage Broker License Act by the 76th Legislature, in the late 1990s, SML was also tasked with regulating the state's mortgage industry. SML's regulatory authority over the state's mortgage industry has expanded with a series of additional acts that were enacted by subsequent Legislatures.

The Finance Commission appoints a qualified SML Commissioner, who serves as the chief executive officer of the agency; and, executes the Finance Commission's orders and direction.

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; instead, 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.

SML's mission is "to supervise and regulate the residential mortgage lending and state savings industries in order to protect Texans, provide a healthy residential mortgage lending environment, and maintain safe and sound savings banks and savings associations."

SML's primary goals and activities are as follows:

1. Thrift Safety and Soundness

- Perform full and limited scope examinations and participate with federal regulators in joint examinations.
- Monitor and enforce the safe and sound operation and compliance with applicable laws and regulations.

2. Mortgage Regulation

- Process mortgage license applications and registrations for entities and individuals and enforce licensing standards of conduct.
- Perform examination of mortgage licensees and registrants and enforce regulatory requirements.

3. Consumer Responsiveness

- Provide a means for consumers to report complaints regarding thrift institutions; and, mortgage entities and individuals.
- Review and investigate complaints and inquiries as appropriate; and, take appropriate supervisory action when warranted.

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

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2018 Internal Audit Plan

Following are the internal audits and other functions performed, as identified in SML's 2018 Internal Audit Plan, dated November 27, 2017 and approved by the Finance Commission's Audit Committee and Commissioners on December 15, 2017:

- Thrift Supervision and Compliance
- Follow-up of Prior Year Internal Audits
- Other Tasks

This report contains the results of our audit of the Thrift Supervision and Compliance area; reflects the results of the follow-up procedures performed in the current year of the findings that were presented in the prior year annual internal audit report; and, meets the State of Texas Internal Audit Annual Report requirements.

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

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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

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

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

- An approved fiscal year 2019 audit plan, as provided by Texas Government Code, Section 2102.008.
- A fiscal year 2018 internal audit annual report, as required by Texas Government Code, Section 2102.009.

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

II. **Consulting and Nonaudit Services Completed**

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

III. **External Quality Assurance Review**

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

IV. **Internal Audit Plan for Fiscal Year 2018**

The approved Internal Audit Plan (Plan) included one audit to be performed during the 2018 fiscal year. The Plan also included a follow-up of the prior year audit recommendations, other tasks as may be assigned by the Finance Commission, and preparation of the Annual Internal Audit Report for fiscal year 2018.

Risk Assessment

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

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

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

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

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

Fiscal Year 2017:

- Thrift Examinations
- Follow-Up of the Prior Year Internal Audits

Fiscal Year 2016:

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

Fiscal Year 2015:

- Mortgage Examinations
- Follow-Up of the Prior Year Internal Audits

The internal audit and other tasks performed for fiscal year 2018 were as follows:

Report No.	Audits/Report Titles	Report Date
1.	Thrift Supervision and Compliance <i>Objective:</i> To determine whether SML's policies, procedures, and processes in place, as applicable to the Thrift Supervision and Compliance area (area), are sufficient to ensure compliance with applicable laws and regulations.	5/25/2018
1.	Annual Internal Audit Report – Follow-Up of Prior Year Internal Audits	5/25/2018
-	Other Tasks Assigned by the Finance Commission	None

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

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V. Executive Summary

Thrift Supervision and Compliance

BACKGROUND

A. Thrift Supervision

The Thrift Supervision area regulates and supervises state savings banks and savings and loan associations (collectively “thrift institutions”) under the authority of the Texas Savings Act (Texas Finance Code (TFC), Title 3, Subtitle C) and the Texas Savings and Loan Act (TFC, Title 3, Subtitle B), respectively. The Thrift Supervision area is headed by a Deputy Commissioner who is also the Director of Thrift (Director), managed by a Chief Thrift Examiner (CTE), who reports to the Director; and, staffed with 3 supervisory analysts (analyst) who are responsible for performing operational tasks. Each analyst performs supervisory activities for their assigned portfolio of thrift institutions, as follows:

- Monitor their financial condition through review of quarterly Call Reports, report of examinations (ROEs), and annual audit reports.
- Evaluate and process applications and requests they submit.
- Respond to their inquiries.
- Pursue appropriate supervisory and/or enforcement action against violation of applicable regulations, when necessary.

As of April 30, 2018, SML regulated 25 state savings banks (SSBs); and, no state savings and loan associations. As of March 31, 2018, the date of the most current available data, combined assets of regulated state savings banks were \$23.3 billion.

Monitoring

The Analysts perform ongoing analysis and monitoring of thrift institutions to timely detect problematic trends utilizing various public and confidential/proprietary information, including:

- ROEs of safe and soundness examinations conducted jointly with the Federal Deposit Insurance Corporation (FDIC) or the Federal Reserve Bank (Fed).
- Annual financial statements and accompanying auditor’s reports.
- Quarterly Call Reports submitted to FDIC.
- Other information; such as, trade association publications and newspapers to identify industry issues and trends.

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Upon receipt of the Call Reports, which are due 30 days after each calendar quarter, the Analysts perform a quarterly financial review and prepare a corresponding *Offsite Review Worksheet* (Worksheet) for each of their assigned thrift institutions. In this Worksheet, Analysts document their risk-focused observation that is performed, using historical 5-quarter Call Report data, and the Quarterly Information Supplement report. The Quarterly Information Supplement is a report submitted directly to SML by thrift institutions and includes amounts of adversely classified assets categorized by a self-assessed risk level: Substandard, Doubtful, and Loss. Each Worksheet, which is accompanied by the corresponding historical 5-quarter Call Report data and the Information Supplement report, is reviewed by the Director or CTE. To ensure timeliness, Analysts are required to complete the Worksheets on or before the 20th day of the second month after each quarter (November 20, February 20, May 20, and August 20).

Quarterly financial data from the Call Reports and the Information Supplement report is also entered into *ThriftPRO*, a financial monitoring software, to generate the *ThriftPRO* Report. The *ThriftPRO* Report summarizes each thrift institution's financial condition in amounts and ratios; and, provides the Early Detection Score (EDS), which is an indicator of the thrift institution's safe and soundness, as calculated by the software. The *ThriftPRO* Report is reviewed by the Commissioner, Director, CTE, and the 2 Senior Supervisory Analysts.

Application Processing

Thrift institutions are required to submit an application to obtain SML's approval for various types of activities, as required by the TAC, with the following being the most common:

- Branch Office (new or relocation)
- Merger, Reorganization, Consolidation, or Purchase and Assumption Transaction
- Subsidiary
- Change of Control

SML has developed a form for each type of application, as regulatory requirements vary significantly by application type. The most commonly used applications are posted on SML's website; while, all others are available by contacting SML. In lieu of the standard, long-form application, thrift institutions meeting TAC 75.25 eligibility requirements, may file an *expedited application* for certain types of applications, which requires less documentation and often have reduced fees.

All applications consist of the following 3 parts:

- **Introduction** identifies applicable laws and rules and provides general information; such as, submission instruction and confidentiality statement.
- **Application procedure** outlines SML's application processing procedure.
- **Application form** is a form to be completed by an applicant and includes a list of required items to be submitted with the application form.

A completed application form, along with required items listed in the application form, and the application fee, may be submitted in person or via common carrier. Applications are generally processed by the respective thrift institution's assigned Analyst.

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To ensure that applications are properly completed and processed in accordance with applicable sections of the TFC and TAC, the Thrift Supervision area has developed an *application checklist* for each type of application, which is completed by the assigned Analyst. A *Deficiency Letter* is sent to the applicant when the application is found to be incomplete or additional information is needed. When the application is complete and accepted, the Analyst sends a *Notice Letter* to the applicant notifying them that the application has been accepted. SML has also developed an *application docket sheet*, which serves as a tool for Analysts to monitor adherence to various time requirements established in the TAC, and to document the status and correspondence during the time the application is being processed.

In accordance with TAC Chapter 75 and TFC Sec. 92.057, the public is given an opportunity to protest proposed applications in a hearing before the Commissioner. Within 15 days after receipt of the *Notice Letter*, the applicant must publish proposed action in a newspaper in the county/counties, as specified by the applicable sections of the TAC, and submit proof of publication to SML within 10 days of publication. The application is considered open for public protest for 10 days after the publication date. During this 10-day *publication period*, the public may request a hearing, by filing a protest with SML along with a \$2,500 protest filing fee. The requested hearing is waived if SML does not receive a protest during the publication period and the applicant had submitted proof of publication to SML. For protests that are received, along with the protest filing fee, within the publication period, SML sets a hearing date that is acceptable to all parties, that is within 60 days from the date the protest was filed.

SML's decision to approve or deny the application, as determined by the Supervisory Analysts under the delegated authority of the Deputy Commissioner for non-complex (i.e. most) applications, must be rendered within 30 calendar days after the application is complete, for expedited filings; 30 calendar days after the final ruling is issued in the hearing; or, within 30 calendar days after the application is deemed substantially complete, if the hearing is waived. SML issues a formal letter to notify the applicant of its decision. If approved, the letter will include the approved order signed by the Commissioner and a request for the effective date of operation to be provided by the applicant. If denied, the letter will state the grounds for denial.

During the period from September 1, 2017 to April 30, 2018, SML received 14 applications. Of these 14 applications received, 12 were approved, 1 was withdrawn by the applicant, and 1 remained pending approval. During the same period, there were no protests of applications filed with SML.

Application Fees

Following is a list of common application fees assessed by SML and the section of the TAC that authorizes the respective fee:

<i>Type of Application</i>	<i>Fee</i>	<i>TAC Section</i>
Branch Office	\$1,500	\$76.92
Reorganization, Merger, Consolidation	\$2,000	\$76.99
Subsidiary	\$100 to 1,500 ⁽¹⁾	\$76.102
Change of Control	\$10,000	\$76.101
Expedited Applications	\$250 to \$2,500 ⁽²⁾	\$76.100

(1): Exact fee is dependent on the type of subsidiary application.

(2): Exact fee is dependent on the type of application being expedited.

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During the period from September 1, 2017 to April 30, 2018, SML collected \$10,600 in application fees.

B. Compliance

To promote the thrift institutions' compliance with various consumer protection and lending regulations, SML has established the Compliance Observation Program (the program), which is headed by a Supervisory Compliance Examiner and staffed with 2 other compliance examiners. Although the program is organizationally positioned under the Director of Mortgage Examinations, it reports to the Deputy Commissioner/ Director of Thrift on matters related to the program. There is no statutory or regulatory requirement applicable to the program.

Under the program, SML participates in compliance examinations conducted by the FDIC and the Fed, who are responsible for timely scheduling of examinations. During the examination, an SML examiner(s) may participate in the examination activities following the procedures set by the federal agencies, but does not prepare nor sign the report of examination (ROE). Instead, at the conclusion of an examination, the SML examiner who participated in the examination will prepare an internal memorandum to document activities he/she performed and major issues and/or significant violations identified during the examination. Documentation of examination scoping and outcome is obtained from the federal agency and attached to the internal memorandum. The internal memorandum is reviewed by the Deputy Commissioner/Director of Thrift and the Supervisory Compliance Examiner.

During the period from September 1, 2017 through April 30, 2018, 2 compliance examinations were completed, 2 examinations were complete but SML was pending receipt of the ROE from the federal agencies; and, 1 examination was ongoing as of April 30, 2018.

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

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AUDIT OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

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

Scope

The scope of our audit was to review SML's established policies and procedures and the processes and controls in place over the area; and, relevant activities performed for the 8-month period from September 1, 2017 through April 30, 2018.

Methodology

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

We obtained and/or reviewed the following documentation:

- a. Texas Finance Code Title 3, Subtitle C (Texas Savings Bank Act) and Texas Finance Code Title 3, Subtitle B (Texas Savings and Loan Act), as amended.
- b. Texas Administrative Code Title 7, Part 4, Chapters 75, 76, and 77, as amended.
- c. Organizational chart for the area.
- d. SML's written policies and procedures:
 - (1) *Supervision Manual*, approved July 1, 2017
 - (2) *Applications Manual*, approved November 2016
 - (3) *Procedures for Finance Commission Reports, Thrift Division*, approved July 1, 2017
 - (4) *ThriftPRO Procedures*, approved July 1, 2017
 - (5) *Performance Measures – Thrift Division*, approved July 1, 2017
 - (6) *Procedures for Background Checks for Charters*, approved July 1, 2017
 - (7) *Compliance Observation Program Official Manual*, updated January 2018
- e. Listings for the period from September 1, 2017 through April 30, 2018:
 - (1) Applications filed by thrift institutions during the period (the *Application Log*).
 - (2) General ledger detail of application fees received from thrift institutions.
 - (3) Quarterly financial reviews.
 - (4) Compliance examinations commenced during the period.
- f. The ThriftPRO Reports for the quarters ended September 30, 2017 and December 31, 2017.

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- g. For 5 applications, application files containing:
 - (1) Application form
 - (2) Accompanying required documents submitted by the applicant.
 - (3) Application checklist, docket sheet
 - (4) Letter and email correspondents
- h. For 10 quarterly financial reviews, the Offsite Review Worksheet including the following required attachments:
 - 5-quarter financial profile
 - Quarterly Information Supplement
- i. For 4 compliance examination observations,
 - (1) Internal Memorandum including the following required attachments:
 - FDIC's Assessment of Risk of Consumer Harm (ARCH)
 - FDIC's Fair Lending Scope and Conclusions (FLSC) memorandum
 - A copy of the agenda for exit meeting(s) if applicable.
 - (2) Required internal email records.
- j. Compliance examination schedule spreadsheet as of April 30, 2018.
- k. Selected fiscal year 2017 key annual performance measures reported at the October 2017 Finance Commission meeting and the supporting documentation.

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

- a. Updated our understanding of the laws and regulations provided in the Texas Finance Code and the Texas Administrative Code applicable to the area.
- b. Reviewed the area's written policies and procedures; collected available documentation; and, conducted interviews, to document the formal/ informal processes and controls in place and to assess whether such processes and controls adequately ensure compliance with regulatory requirements.
- c. Selected 5 of the 14 applications received by SML during the period from September 1, 2017 through April 30, 2018, to test for the following attributes:
 - (1) Application form is complete.
 - (2) All required items listed in the application form were submitted by the applicant.
 - (3) Application processing procedures were followed, including:
 - General information such as bank name, filing date, and fee received was accurately documented in the application log, application checklist, and docket sheet.
 - Application checklist and docket sheet were complete. Docket sheet was properly signed by the Analyst and the Chief Thrift Examiner.
 - Approval order was signed by the Commissioner.
 - (4) Correct application fee was assessed and collected.

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- (5) SML processed the application in accordance with the following time requirements:
 - Days between filing and the “First Response Letter” was 30 days or less.
 - Days between publication and approval was 15 days or more.
 - Days between completion of application and approval was 30 days or less.
- d. Selected 10 of the 50 quarterly financial reviews performed during the period from September 1, 2017 through April 30, 2018 (2 quarterly reviews per each of the 25 thrift institutions), to test for the following attributes:
 - (1) The Offsite Review Worksheet was complete and electronically signed and dated by the Analyst who prepared it; and, reviewed by the Chief Thrift Examiner or the Deputy Commissioner/Director of Thrift, as denoted by electronic signature.
 - (2) Required attachments (Quarterly Information Supplement and 5-quarter financial profile) are properly included in the Worksheet.
 - (3) The amounts of the adversely classified assets in the Information Supplement are accurately entered into the Offsite Review Worksheet and ThriftPRO.
- e. For the only quarterly financial review that was not completed timely during the audit period, reviewed email records to verify extension was properly approved.
- f. Selected 4 of the 5 compliance examination observations commenced during the period from September 1, 2017 through April 30, 2018, to test for the following attributes:
 - (1) The Internal Memorandum was complete and an email notice was sent to the Deputy Commissioner/Director of Thrift and the Supervisory Compliance Examiner upon completion with an internal link to the document.
 - (2) Required attachments (FDIC’s Assessment of Risk of Consumer Harm (ARCH); FDIC’s Fair Lending Scope and Conclusions (FLSC) memorandum; and, a copy of the agenda(s) attended by SML staff if applicable) were properly referenced in and attached to the Memorandum.
- g. Selected 2 key annual measures relevant to the audit area (Number of state-chartered thrift institutions; and, Dollar amount of assets under regulation) for fiscal year 2017 reported at the October 2017 Finance Commission meeting and verified that the reporting was substantiated with supporting documentation.

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

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

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

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

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OBSERVATIONS/FINDINGS and RECOMMENDATIONS

Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Current Status (Fully Implemented, Substantially Implemented, Incomplete/Ongoing, or Not Implemented) with brief description if not yet implemented	Fiscal Impact/Other Impact
1	5/25/2018	Thrift Supervision and Compliance	<p>1. Applications Manual</p> <p>SML has developed the Applications Manual (the Manual) to ensure supervisory analysts (the Analysts) properly process various types of applications submitted by thrift institutions. For each type of application, the Manual provides, (a) procedures (Tasks) performed by an Analyst; (b) application form; and, (c) application checklist used by an Analyst. We reviewed the current Manual updated in November 2016 and identified the following instances where contents of the Manual have not been updated to reflect current laws, rules and/or practices:</p> <p>(1) Notice to Industry Certain application forms include a procedure for SML to notify "the industry and other interested parties" of the application filing. Analyst's Task in the Manual also include a procedure to mail an industry notice when the application is deemed substantially complete. These procedures relate to historical TAC §75.4, <i>Notice to Other Savings Institutions</i>, which was repealed effective May 2016, and are no longer performed by SML.</p> <p>(2) Processing Time Requirements Certain application forms include an obsolete procedure where a hearing date is used as the point of reference in determining when a hearing can be waived, as in "10 days before the hearing date." The procedure was reflective of the historical TAC §75.2 where a hearing date was always set upon acceptance of the application. With the rule amendment effective May 2016, a hearing date is not set until a protest is properly filed.</p> <p>In addition, certain Analyst's Tasks include a procedure for compliance with the same historical TAC §75.2 for setting a hearing date within 90 days of acceptance of an application. However, the current rule requires a hearing date to be set within 60 days after the protest is filed and protest filing fees received.</p> <p>(3) Local Service Area Designation Certain application forms require information related to the <i>Local Service Area Designation</i>, citing the Texas Savings Bank Act Section 94.201 and TAC §77.74(b), which were repealed effective September 2013. Local Service Area Designation is also still included in the corresponding application checklist.</p>		To ensure application forms and processing procedures align with current statute, rules, and practices.

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Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Current Status (Fully Implemented, Substantially Implemented, Incomplete/Ongoing, or Not Implemented) with brief description if not yet implemented	Fiscal Impact/Other Impact
1	5/25/2018	Thrift Supervision and Compliance	<p>(4) Length of Publication Analyst's Task for various types of applications includes a procedure to direct the applicant to publish a notice of application for at least 15 days in a newspaper. This procedure is inconsistent with SML's current practice that requires publication for only one day.</p> <p>(5) Rule Number Change TAC §79.71-§79.73 are still referenced in certain procedures although they were moved to TAC §76.71-§76.73 effective January 2012.</p> <p>Recommendation We recommend that SML perform a thorough review of its Manual and application forms to ensure contents reflect current statutes, rules, and practices.</p> <p>Management's Response The Applications Manual will be updated by August 31, 2018 to reflect the recommendations as suggested.</p> <p style="text-align: center;"><u>OBSERVATIONS</u></p> <p>1. Documentation of Expedited Application Eligibility Thrift institutions meeting eligibility requirements in TAC §75.25, may file an expedited application in lieu of certain types of applications. When such application is received, the Applications Manual requires the assigned Analyst to first confirm that the applicant qualifies for expedited processing. However, in practice, eligibility for expedited application is typically determined prior to the application filing when a thrift institution inquires of an Analyst to determine eligibility. Eligibility verification for expedited filing that is performed prior to filing is not formally documented in the application file.</p> <p>Recommendation We recommend that SML establish and implement a process to retain documentary evidence of a thrift institution's eligibility for expedited application filing.</p> <p>Management's Response The Applications Checklist will be updated by August 31, 2018 to document whether the application qualifies for expedited processing.</p>		Expedited application eligibility is documented.

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Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Current Status (Fully Implemented, Substantially Implemented, Incomplete/Ongoing, or Not Implemented) with brief description if not yet implemented	Fiscal Impact/Other Impact
			<p>2. Incorrect Application Checklist</p> <p>Our testing of 5 applications disclosed one instance where an Analyst used the incorrect application checklist. In this instance, an eligible thrift institution properly filed an expedited application for a Purchase and Assumption Transaction, and the long-form application checklist instead of the Expedited Application Checklist was used. As a result, a number of items were marked "N/A" due to the nature of the expedited application.</p> <p>Recommendation</p> <p>We recommend that SML continue its quality control effort in ensuring policies and procedures for application processing are consistently followed and to complete checklists in an efficient manner.</p> <p>Management's Response</p> <p>A quality control process will be implemented by August 31, 2018 to determine and document whether the application qualifies for expedited processing and the resulting form to be used.</p>		Ensure all required documentation is obtained and properly reviewed before application approval.

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Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Current Status (Fully Implemented, Substantially Implemented, Incomplete/Ongoing, or Not Implemented) with brief description if not yet implemented	Fiscal Impact/Other Impact
1	5/25/2018	2018 Follow-Up	<p>Follow-Up of Prior Year Internal Audits</p> <p>Following is the status of the recommendations made during fiscal year 2017 that had not been implemented.</p> <p><u>Thrift Examinations</u></p> <p>1. Checklists for “Internal Audits” of Examination Workpapers</p> <p>Checklists should be completed in their entirety or comments be included in the checklist to justify the omission, to provide for a comprehensive quality control review.</p> <p>2. Follow-up of “Audit” Exceptions</p> <p>The “internal audit” exceptions should be identified as significant/insignificant in the internal audit memorandum or the subsequent audit memorandum indicate that the previous audit exceptions were considered insignificant for follow up.</p> <p>3. Examination Workpaper Numbering System [Observation]</p> <p>SML should revise Exam Bulletin #13-03 to reflect the current practice to ensure examiners are provided with proper guidance and workpapers are numbered in a uniform manner.</p> <p>Following is the status of the recommendations made during fiscal year 2016 that had not been implemented.</p> <p><u>Management Information Systems</u></p> <p>1. Risk Assessments</p> <p>SML should continue with their plan to contract a third-party vendor to conduct the risk assessments to be compliant with TAC §202.25.</p> <p>2. Audit Trails</p> <p>SML should request that the third party vendor, who is currently managing SML’s IT functions, ensure audit trails are established and able to be reviewed by the Director, as needed.</p>	<p>Fully Implemented</p> <p>Fully Implemented</p> <p>Fully Implemented</p> <p>Fully Implemented</p> <p>Incomplete/ Ongoing</p>	

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Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Current Status (Fully Implemented, Substantially Implemented, Incomplete/Ongoing, or Not Implemented) with brief description if not yet implemented	Fiscal Impact/Other Impact
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Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Current Status (Fully Implemented, Substantially Implemented, Incomplete/Ongoing, or Not Implemented) with brief description if not yet implemented	Fiscal Impact/Other Impact
1	5/25/2018	2018 Follow-Up	<p><i>2018 Follow-Up:</i></p> <p>SML has obtained an estimated cost from a vendor for implementing the required audit trail functionalities. SML's inquiry of DIR for more cost-effective options has been unanswered. SML continues exploring other options.</p>		

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VII. External Audit Services Procured in Fiscal Year 2018

SML procured the internal audit services documented in the approved Internal Audit Plan for fiscal year 2018. No other external audit services were performed.

VIII. Reporting Suspected Fraud and Abuse

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

IX. Proposed Internal Audit Plan for Fiscal Year 2019

The risk assessment performed during the 2018 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 2019. The Internal Audit Plan for Fiscal Year 2019 will be developed and presented to the Audit Committee and Finance Commission, for acceptance and approval, at a meeting to be determined at a later date.

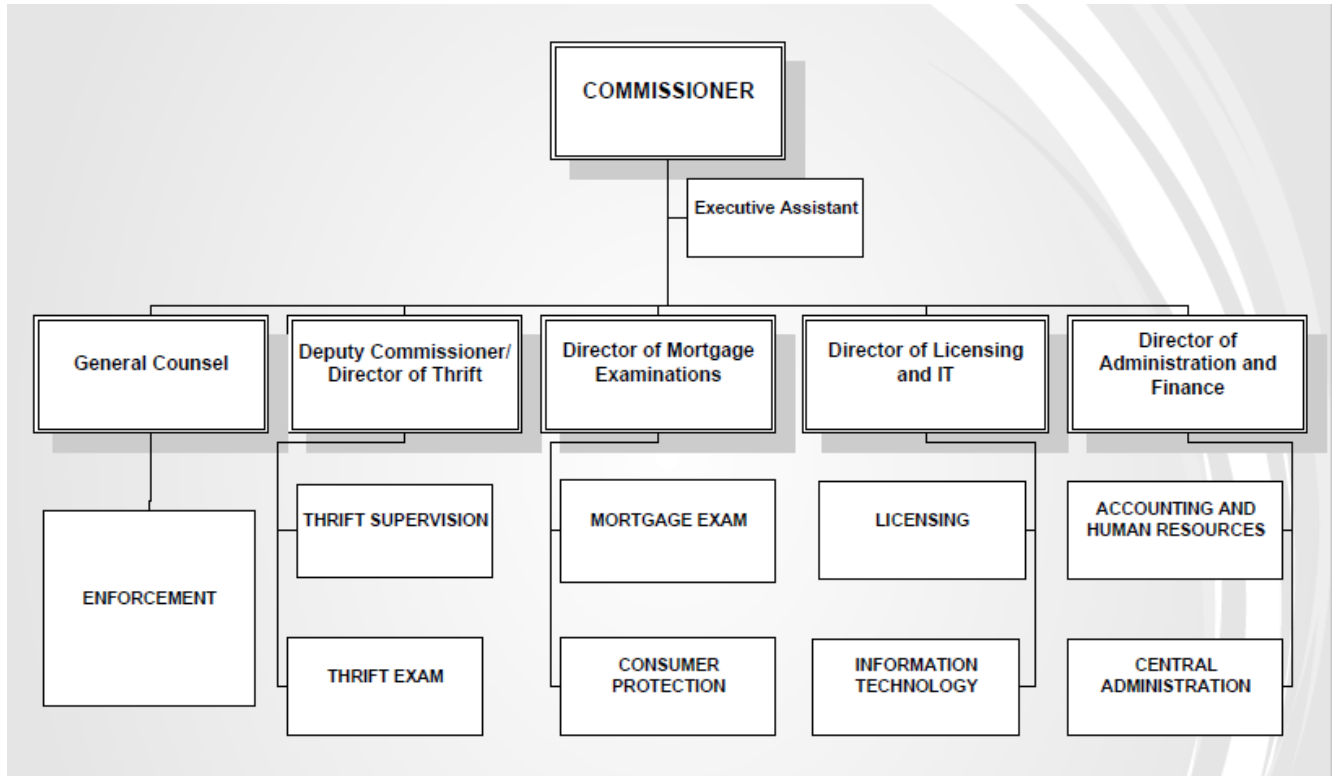
- Records Management
- Follow-up of Prior Year Internal Audits
- Other Tasks Assigned by the Finance Commission

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

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Fiscal Year 2018

X. Organizational Chart



Source: SML

ATTACHMENT

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING
History of Areas Audited
For Fiscal Year 2018

POTENTIAL AUDIT TOPIC		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1	Consumer Protection							A			
2	Financial Reporting		E								B
3	Fixed Assets		A/E*					E*			
4	Legal and Enforcement				A						B
5	Management Information Systems	C*	B*/C*		C*		C*		C*	A	B*
6	Mortgage Examinations	A							A		B*
7	Mortgage Licensing and Registration					A					
8	Payroll and Human Resources		A/E				F*	E			
9	Purchasing and Travel		E					E			B
10	Records Management		A								
11	Revenue Accounting Process				A						B
12	Risk Management	D2*	D1*	D1*			D1*	D1*		D1*	D1*
13	Thrift Examinations		B*	A*/B							A
14	Thrift Supervision and Compliance						A				

Note: Performance Measures was audited as a separate auditable area in fiscal year 2008. Effective fiscal year 2015, Performance Measures was removed as a separate auditable area and is now included in the scope of the applicable audit area(s).

Legend (audits/reviews with asterisk are considered limited scope for the audit area)

- A** Internal audit performed by Garza/Gonzalez & Associates
- B** Audit performed by the State Auditor's Office (SAO)
- C** Controlled penetration test performed by the Department of Information Resources
- D1** Risk Management Program Review (RMPR) or On-Site Consultation (OSC) performed by the State Office of Risk Management (SORM)
- D2** Audit of building safety, emergency evacuation procedures, and overall work conditions performed by SORM
- E** Post-payment audit performed by the Comptroller of Public Accounts
- F** Personnel policies & procedures review performed by the Texas Workforce Commission

OFFICE OF CONSUMER CREDIT COMMISSIONER
Austin, Texas

ANNUAL INTERNAL AUDIT REPORT

Fiscal Year 2018



OFFICE OF CONSUMER CREDIT COMMISSIONER
Austin, Texas

Annual Internal Audit Report
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Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

Finance Commission Members and Audit Committee Members
Office of Consumer Credit Commissioner
Austin, Texas

We performed tests of management's assertion about the effectiveness and efficiency of the Office of Consumer Credit Commissioner's (OCCC) internal control structure over the Property Tax Lender Examinations area (area) and its established policies and procedures, as applicable to the area, for the purpose of determining OCCC's compliance with applicable laws and regulations provided in the Texas Finance Code, the Texas Tax Code, and the Texas Administrative Code, for the 9 months ended May 31, 2018.

The results of our tests disclosed that OCCC's internal control structure over the area and its established policies and procedures, were generally adequate and no material instances of noncompliance were noted; however, we did identify certain matters included in this report, that are opportunities for strengthening internal controls and ensuring compliance with state requirements and OCCC's established policies and procedures. Based on the degree of risk or effect of these matters in relation to the audit objective(s), these matters were rated as either Priority, High, Medium, or Low, which is further described in the "Summary and Related Rating of Observations/Findings and Recommendations", which is included in page 13 of this report.

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

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



June 29, 2018

OFFICE OF CONSUMER CREDIT COMMISSIONER

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INTRODUCTION

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

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

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

2018 Internal Audit Plan

Following are the internal audits and other functions performed, as identified in OCCC's 2018 Internal Audit Plan, dated November 27, 2017 and approved by the Finance Commission's Audit Committee and Commissioners on December 15, 2017:

- Property Tax Lender Examinations
- Follow-up of Prior Year Internal Audits
- Other Tasks

This report contains the results of our audits of the Property Tax Lender Examinations area; reflects the results of the follow-up procedures performed in the current year of the findings that were presented in the prior year annual internal audit report; and, meets the State of Texas Internal Audit Annual Report requirements.

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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 OCCC's system of internal control and the quality of performance in carrying out assigned responsibilities. The audit scope included the following objectives:

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

OFFICE OF CONSUMER CREDIT COMMISSIONER

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

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

- An approved fiscal year 2019 audit plan, as provided by Texas Government Code, Section 2102.008.
- A fiscal year 2018 internal audit annual report, as required by Texas Government Code, Section 2102.009.

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

II. Consulting and Nonaudit Services Completed

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

III. External Quality Assurance Review

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

IV. Internal Audit Plan for Fiscal Year 2018

The approved Internal Audit Plan (Plan) included one audit to be performed during the 2018 fiscal year. The Plan also included a follow-up of the prior year audit recommendations, other tasks as may be assigned by the Finance Commission, and preparation of the Annual Internal Audit Report for fiscal year 2018.

RISK ASSESSMENT

Utilizing information obtained through the completed questionnaires received and background information reviewed, 19 audit areas were identified as potential audit topics. A risk analysis, utilizing 8 risk factors, was completed for each of the 19 potential audit topics and then compiled to develop an overall risk assessment.

OFFICE OF CONSUMER CREDIT COMMISSIONER

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Following are the results of the risk assessment performed for the 19 potential audit topics identified:

HIGH RISK	MODERATE RISK	LOW RISK
Regulated Lenders Examinations	Motor Vehicle Sales Finance Examinations	Billing and Collection Fees
Pawn Examinations	Credit Access Business Examinations	Fixed Assets
Legal and Enforcement	TFEE Fund Grant Administration	Records Management
Property Tax Lender Examinations	Compliant Intake and Investigation	Fiscal Division (Includes Purchasing, Travel, & Payroll)
	Management Information Systems	Business Licensing
	TFEE Fund Investment Portfolio Administration	Professional Licensing (Pawnshop Employees & MLO)
		Registration
		Human Resources
		Risk Management

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

Fiscal Year 2017:

- Registration
- TFEE Fund – Investment Portfolio Administration
- Follow-Up of the Prior Year Internal Audits

Fiscal Year 2016:

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

Fiscal Year 2015:

- TFEE Fund – Grant Administration
- Follow-Up of the Prior Year Internal Audits

The internal audit and other tasks performed for fiscal year 2018 were as follows:

Report No.	Audits/Report Titles	Report Date
1.	Property Tax Lender Examinations <i>Objective:</i> To determine whether OCCC's policies, procedures, and processes in place, as applicable to the Property Tax Lender Examinations area (area), are sufficient to ensure compliance with applicable laws and regulations.	6/29/2018
1.	Annual Internal Audit Report – Follow-Up of Prior Year Internal Audits	6/29/2018
-	Other Tasks Assigned by the Finance Commission	None

OFFICE OF CONSUMER CREDIT COMMISSIONER

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V. Executive Summary

Property Tax Lender Examinations

BACKGROUND

A property tax lender (PTL) makes loans to property owners to pay delinquent or due property taxes. Such loans are secured by a superior tax lien transferred from a taxing unit to the PTL, which allows the PTL to foreclose on the property if the loan defaults. PTLs are regulated by Chapter 351 of the Texas Finance Code (the Property Tax Lender License Act; the Act) and the Texas Tax Code (TX) Sec. 32.06 and Sec. 32.065. Title 7, Chapter 89 of the Texas Administrative Code (TAC) provides rules to assist in the administration and enforcement of the Act. A PTL must hold a license to conduct authorized property tax lending activities in Texas unless explicitly excluded by the Act; and, can charge only the types of fees authorized by the Act. As of May 31, 2018, there were 90 licensed PTLs in the state.

The Act authorizes OCCC to conduct examinations of PTL licensees and provides the extent to which examiners can access PTL's records. As such, OCCC conducts compliance examinations to assess a licensee's compliance with the Act; TX Section 32; TAC, Chapter 89; as well as, federal consumer lending laws including the Truth in Lending Act, the Equal Credit Opportunity Act, and the Fair Credit Reporting Act.

Organizational Structure

The Director of Consumer Protection (the Director), who reports to the Commissioner, is responsible for administering the Examination and Enforcement area, which performs PTL examinations. The Examination and Enforcement area, headquartered in Austin, is staffed with 4 review examiners, 1 out-of-state coordinator, 1 financial analyst, and 3 administrative support positions. Field examiners are based in 3 regional offices located in Dallas-Fort Worth; Houston; and, San Antonio. Each regional office is managed by a regional supervisory examiner, who reports to the Director, and staffed with a team of 12 to 13 field examiners that are led by an assistant supervisor.

ALECS Examination Module

Effective March 2017, OCCC transitioned its entire examination processes to an online examination module within its licensing portal, the *Application Licensing Examination Compliance System* (ALECS). An examination is referenced as a *workitem* within ALECS. Each workitem contains sections and subsections that are comparable to the examination workflow and include menus; such as, *Examination Information and Rating*, *Exam Details*, and *Online Examination Tool*. The Examiner in Charge (EIC) is responsible for ensuring completion of all sections/subsections in a workitem.

The ALECS examination module has various built-in internal controls; to include, the following:

- Role-based user access control.
- Licensee information auto-feeds applicable to the examination module.
- Appropriate examination checklists are automatically loaded based on license type.
- Required fields are clearly marked – a user cannot save a section/subsection unless all “required” fields are completed.

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- Expandable required fields that adjust to user input. (e.g., if an examiner selects a 4- or 5-rating, additional required fields are automatically loaded for the examiner to document the approver's name and date.)
- Automated logging for examination status change and document upload.
- Generates Report of Examination using the static data and data input from examination.
- Workpaper and report are locked once finalized.
- Tracking functionality to ensure timely review.

Examination Process

The examination process consists of 3 phases: examination scheduling, conducting the examination; and, if applicable, an examination review.

Examination Scheduling

OCCC schedules compliance examinations for all license types, together, as opposed to scheduling separately by license type. The 3 regional supervisory examiners are responsible for monthly examination scheduling for their respective region. The primary determining factor for examination scheduling is the licensee's risk, as assessed by OCCC. A risk score for each licensee is calculated by ALECS using the following risk factors:

- Last examination date, or licensed date, if never examined
- Last examination rating
- Number of complaints received
- Licensee's market share

In addition to the risk score, other factors; such as, staff availability and budget/travel constraints are also considered in scheduling. Staff availability is especially relevant to PTL examinations since few examiners are qualified to perform PTL examinations due to PTL's statutory requirements considered the most complex among license types regulated by OCCC.

Conducting PTL Examinations

Examination activities consist of *Pre-Work* and *Site Exam*. Pre-work generally includes review of various documentation available offsite; such as, previous examination reports, financial reports and complaints, and completing records requests. The examination period is from the last examination date through the current examination date.

The EIC leads the site exam utilizing checklists in the ALECS Online Examination Tool section. These checklists are based on the examination work papers OCCC had developed over the years and covers applicable sections of the Act, TX, TAC, and federal consumer lending laws. As part of the examination process, examiner(s) review a sample of PTL loans (*transactions*) to ensure compliance with applicable state and federal requirements; including, authorized charges and disclosures. The minimum transaction sample size for a PTL examination is 30; and, if the population size is smaller than 30, all transactions are reviewed. Any compliance violations identified during the examination are documented in ALECS as *comments*; and, as *special instructions* if the licensee must take certain remedial action. Special instructions often relate to a monetary correction where a licensee is required to either refund or credit the borrowers' account(s). In such cases, correction amounts are listed in the *Monetary Correction Worksheet*.

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Upon completion of all examination procedures, the EIC assigns an examination rating, using a scale of 1 to 5, based on the licensee's level of compliance. An examination rated "4" or "5" requires either the Director's or a review examiner's approval. OCCC's current examination rating policy is as follows:

Rating	Basis
1	No exceptions; no comment report.
2	Few exceptions; no significant examination issues.
3	Several exceptions; few significant issues requiring remedy; possible minimal refunding required.
4	Several significant issues requiring urgent remedy; moderate refunding required; prior examination issues not addressed by licensee; moderate procedural or systemic error; follow-up examination is required.
5	Significant issues requiring immediate remedy; substantial refunding required; repeated examination issues on previous exams not addressed by licensee; serious procedural or systemic errors; follow-up examination is required; licensee will be monitored until unacceptable level of compliance is cleared or administrative action is taken.

At the conclusion of an examination, which is generally the last day of the site exam, the EIC generates a Report of Examination (ROE) through ALECS. The standardized report is populated with the licensee's general information, and the comments and special instructions documented by the EIC during the examination. Once the ROE is finalized by the EIC, the licensee is notified that it may be accessed in ALECS, and the ROE is locked to prevent modification.

If applicable, the licensee must complete the remedial action specified in the special instructions section of the ROE and submit evidence of remediation to OCCC within 60 days of the report date. For each monetary correction identified in the Monetary Correction Worksheet, the licensee must document either refund and/or adjustment, and return the completed worksheet to OCCC along with evidence of compliance; such as, the refund check image or an image of the borrower's statement where the adjustment was made. Review examiners are responsible for ensuring that the licensee completes all remedial actions specified in the special instructions section of the ROE. A reminder/notification letter is sent to licensees who fail to provide a response within the 60-day follow-up period to inform them that their response is overdue. Failure to correct the matter(s) may result in a follow-up examination and/or administrative action.

During the period from September 1, 2017 to May 31, 2018, OCCC completed 20 PTL examinations, with the following ratings:

	Ratings					Total
	1	2	3	4	5	
PTL Exams	9	--	10	1	--	20

Examination Review

All 4- and 5-rated ROEs and a sample of 3-rated ROEs are reviewed by the Director, a review examiner, or a supervisory examiner to—

- Ensure accuracy, including grammar and spelling;
- Determine whether a proper sample size was selected; and,

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- Evaluate the licensee's response to special instruction(s).

An examination becomes available for review after the 60-day follow-up period. Once a week, a review examiner, who performs review coordinator duties, generates a list of finalized reports ready for review from ALECS and assigns them to authorized reviewers. OCCC's goal is to review examination reports within 30 days after assignment to a reviewer. Summary of review activities is documented by the reviewer in appropriate sections of the work item in ALECS. The reviewer will close the work item when all review activities are completed.

Annual Report

In accordance with Sec. 351.164 of the Act and TAC §89.404, by March 31 of each year, each licensee must file with OCCC an annual report for the prior calendar year's property tax lending activity. OCCC has developed an Excel reporting template for licensees to complete and submit their activity through ALECS. OCCC must then annually prepare and publish, on its website, a consolidated analysis and recap of these reports. OCCC prepares the PTL Consolidated Volume Report using consolidated raw data that is extracted and aggregated from individual reports in ALECS. To enhance data quality, ALECS validates reported data and a Financial Analyst manually researches outliers.

AUDIT OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The objective of our audit was to determine whether OCCC's policies, procedures, and processes in place, as applicable to the Property Tax Lender Examinations area (the area), are sufficient and operating effectively to ensure compliance with applicable laws and regulations provided in the Act, TX, and TAC.

Scope

The scope of our audit was to review OCCC's established policies and procedures and the processes and controls in place over the area; and, relevant activities performed during the 9-month period from September 1, 2017 through May 31, 2018 (audit period).

Methodology

The audit methodology included a review of applicable laws and regulations, policies and procedures, and other internal and external documentation; an interview and correspondence with OCCC employees, to include the Director of Consumer Protection, a Review Examiner, and a Financial Analyst; and, a review of sample examination work papers and reports.

We obtained and/or reviewed the following documentation:

- a. Texas Finance Code Chapter 351 (the Property Tax Lender License Act (the Act)), the Texas Tax Code (TX) Sec. 32.06 and 32.065; and, Texas Administrative Code (TAC) Title 7, Part 5, Chapter 89.
- b. Examination and Enforcement organizational chart.

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- c. OCCC's written policies and procedures:
 - (1) Examination Manual SECTION VIII (Property Tax Loans) and SECTION XII (General and PTL segments), reviewed and revised January 2018
 - (2) Examination Policy, effective January 2018
 - (3) Examination Scheduling Procedure, effective January 2018
 - (4) Examination Procedure, effective January 2018
 - (5) Examination Review Policy, reviewed and updated January 2018
 - (6) Financial Examiner Training Procedures, effective September 1, 2017
 - (7) Financial Examiner Initial Training Curriculum
- d. OCCC's examination templates:
 - (1) Summary of Loans Reviewed
 - (2) Report of Examination
 - (3) Monetary Correction Worksheet
 - (4) Finance Charge Calculator Spreadsheet
 - (5) PTL Statement Affidavit and Records Affidavit
- e. OCCC's internal log/report/listing:
 - (1) Active PTL licenses as of May 31, 2018
 - (2) PTL examinations completed during the audit period
 - (3) Field examiners qualified for PTL examinations, fiscal year 2017
 - (4) PTL Annual Reporting Delinquent Report as of April 27, 2018
- f. ALECS user roles matrix as of June 19, 2018, which were applicable to the audit period.
- g. Various screenshots of ALECS examinations module, including checklists.
- h. Financial Examiner Initial Training Curriculum and Texas Finance Code Chapter 351 Lesson Plan.
- i. PTL Consolidated Volume Report for Calendar Year 2016 and supporting documentation.
- j. Performance measures reports and supporting documentation for the following periods:
 - FY 2018, second quarter for quarterly measures
 - FY 2017 for annual measures
- k. For 6 examinations completed during the audit period:
 - (1) ALECS screenshots of examination and review history
 - (2) *Summary of Loans Reviewed* spreadsheet
 - (3) Report of Examination
 - (4) Correspondence between OCCC and license holder
 - (5) *Monetary Correction Worksheet* and evidence of refund/credit, if applicable
- l. For 10 annual reports for calendar year 2017:
 - (1) ALECS screenshots of submission records
 - (2) Annual report spreadsheet, as uploaded to ALECS by licensee
 - (3) Annual report raw data, as extracted by ALECS
- m. For 4 examiners qualified for PTL examinations:
 - (1) Training records
 - (2) Property Tax Examination Certification Report

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

1. Updated our understanding of the laws and regulations provided in the Act and applicable sections in the TX and TAC.
2. Reviewed the area's written policies and procedures; collected available documentation; and, conducted interviews to document the formal/ informal processes and controls in place.
3. Assessed whether such processes and controls in place are adequate to ensure compliance with regulatory requirements.
4. Reviewed the Online Examination Tool (checklists) in the ALECS examination module to ensure inclusion of significant and applicable compliance requirements of the Act, TX, and TAC.
5. For the following quarterly/annual performance measures, verified that the reporting was substantiated and that supporting documentation was retained:

Quarterly measure (fiscal year 2018, second quarter)

- Number of Compliance Examinations Performed

Annual measures (fiscal year 2017)

- Percentage of Examinations Reporting Acceptable Level of Compliance
- Percentage of Licensees Examined Annually
- Percentage of Re-examinations Resulting in Acceptable Compliance Rating

6. Selected 6 of the 20 examinations conducted by OCCC during the audit period to test for the following attributes:
 - (1) The *Number Reviewed* summary in the *Summary of Loans Reviewed* spreadsheet accurately summarized the attached transactions list.
 - (2) Sample size was at least 30 transactions; or, all transactions if the population size was less than 30.
 - (3) If the population size was less than 30, assessed whether the small population size was accurate based on the number of loans reported by the licensee in its annual reporting.
 - (4) If special instructions were included in the ROE—
 - the licensee was given a 60-day follow-up period to respond; and,
 - an acknowledgement signature was obtained from the licensee and uploaded to ALECS.
 - (5) If monetary corrections were required—
 - the correction amounts in the ROE agree to those in the Monetary Correction Worksheet; and,
 - evidence of correction/refund for each item listed in the Monetary Correction Worksheet was included in the workpapers.
 - (6) If 4- or 5-rated, the examination was reviewed timely, in accordance with review procedures.

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7. Selected 10 of the 90 active PTL licensees as of May 31, 2018 to test for the following attributes:
 - (1) Annual report for calendar year 2017 was submitted timely.
 - (2) Reported data in the uploaded file agreed to the aggregated raw data extracted by ALECS.
 - (3) If annual report was not submitted by the deadline--
 - licensee was listed in the Annual Reporting Delinquent Report;
 - licensee was referred for enforcement action; and,
 - a letter was sent to the licensee to notify them of the enforcement action.
8. Selected 4 of the 9 field examiners qualified for PTL examinations to test for the following attributes:
 - (1) Examiner completed the required initial training hours.
 - (2) Examiner passed the competency test.
 - (3) The *Property Tax Examination Certification Report* was prepared and submitted to the examiner's supervisor, the Director, and the training coordinator upon successful completion of training.
9. Reviewed ALECS user roles matrix to evaluate adequacy of assigned roles for each user based on the user's position and job responsibilities.

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

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

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

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Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Current Status (Fully Implemented, Substantially Implemented, Incomplete/Ongoing, or Not Implemented) with brief description if not yet implemented	Fiscal Impact/Other Impact
1	6/29/2018	Property Tax Lender Examinations	<p>1. Annual Report Consolidation</p> <p>Our review of the annual report consolidation process disclosed the following:</p> <p>(1) Average Interest Rates</p> <p>Interest rates had to be manually copied from each of the licensee's annual report to calculate the average interest rates reported in the <i>Consolidated Volume Report for Calendar Year 2016</i> since they were not properly extracted by ALECS due to the inconsistencies in the formats reported. Of the 72 annual reports included in the aggregated raw data, 3 reports had the interest rate values expressed as a percentage; 1 report as a fraction of 1; and, 36 reported a zero value instead of the correct value. The remaining 32 properly reported a zero or no value.</p> <p>(2) Data Validation</p> <p>Our testing of annual reports for calendar year 2017 for 10 licensees, disclosed 1 instance where the licensee was able to enter data into the incorrect fields in the Excel reporting template due to deficiencies in data validation and worksheet protection. The built-in data validation within ALECS also did not detect the error. As a result, incorrect data was included in the aggregated raw data that had to be manually corrected by OCCC staff, for the following fields in Schedule D:</p> <ul style="list-style-type: none"> • Total Closing Costs, Residential • Total Closing Costs, Non-Residential • Average Interest Rate, Residential • Average Interest Rate, Non-Residential <p>Recommendation</p> <p>We recommend that OCCC review and revise, as considered necessary, the annual report Excel template to enhance data quality and improve efficiency.</p> <p>Management's Response</p> <p>(1) Average Interest Rates</p> <p>A Programming Change has been implemented and is in place for the 2017 reporting cycle. This will allow the data that is entered by the licensee for interest rates to be correctly exported.</p>		Accuracy, timeliness, and efficient consolidation of annual reports required by Sec. 351.164 of the Act.

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Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Current Status (Fully Implemented, Substantially Implemented, Incomplete/Ongoing, or Not Implemented) with brief description if not yet implemented	Fiscal Impact/Other Impact
1	6/29/2018	Property Tax Lender Examinations	<p>(2) Data Validation</p> <p>Licensees can currently enter incorrect data or correct data in incorrect places. Before publishing aggregate reports a review for reasonableness of data is conducted. When licensees input incorrect data they are notified and required to re-report that information correctly. In addition, we are in the planning stages of transitioning away from Excel reports to web forms and will have this completed within one year. Licensees will not be able to enter data into invalid fields on web forms.</p>		

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Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Current Status (Fully Implemented, Substantially Implemented, Incomplete/Ongoing, or Not Implemented) with brief description if not yet implemented	Fiscal Impact/Other Impact
1	6/29/2018	2018 Follow-Up	<p>Follow-Up of Prior Year Internal Audits</p> <p>Following is the status of the recommendations made during fiscal year 2017 that had not been implemented.</p> <p><u>TFEE</u></p> <p>1. TFEE Cash Equivalent Account Reconciliation</p> <p>OCCC should ensure the timely completion of TFEE Fund reconciliations to identify any discrepancies or unusual items in a timely manner.</p> <p>2018 Follow-Up: OCCC has implemented the TFEE Bank Reconciliation procedure to complete bank reconciliation by the 25th of the following month. Our review of the 3 TFEE Fund cash equivalent account monthly reconciliations prepared during fiscal year 2018, identified 1 instance where the reconciliation was completed 3 months after the month-end due to staff turnover and increased workload during preparation of the annual financial report.</p> <p>2. TFEE Grant Program Disbursements</p> <p>OCCC should strengthen its controls over the review of reimbursement requests to ensure grantees are reimbursed only for allowable costs.</p> <p>3. Number of Registrations Processed</p> <p>OCCC should calculate the performance measure in accordance with the established method of calculation to ensure actual performance is reported in alignment with the approved definition</p> <p>Following is the status of the recommendations made during fiscal year 2016 that had not been implemented.</p> <p><u>Motor Vehicle Sales Finance (MVSF) Examination</u></p> <p>1. ROE Review</p> <p>OCCC should strengthen controls to comply with the established goal.</p>	<p>Substantially Implemented</p> <p>Fully Implemented</p> <p>Fully Implemented</p> <p>Substantially Implemented</p>	

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Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Current Status (Fully Implemented, Substantially Implemented, Incomplete/Ongoing, or Not Implemented) with brief description if not yet implemented	Fiscal Impact/Other Impact
1	6/29/2018	2018 Follow-Up	2018 Follow-up: OCCC has implemented a new procedure to ensure timely review effective 12/11/2017; however, our review of the 13 MVSF examinations completed, 1 instance was identified where an examination completed on 12/15/2017 had never been reviewed. The OCCC has confirmed that this exception was due to a system error during implementation and that the problem has been corrected.		

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VII. External Audit Services Procured in Fiscal Year 2018

OCCC procured the internal audit services documented in the approved Internal Audit Plan for fiscal year 2018. No other external audit services were performed.

VIII. Reporting Suspected Fraud and Abuse

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

IX. Proposed Internal Audit Plan for Fiscal Year 2019

The risk assessment performed during the 2018 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 2019. The Internal Audit Plan for Fiscal Year 2019 will be developed and presented to the Audit Committee and Finance Commission, for acceptance and approval, at a meeting to be determined at a later date.

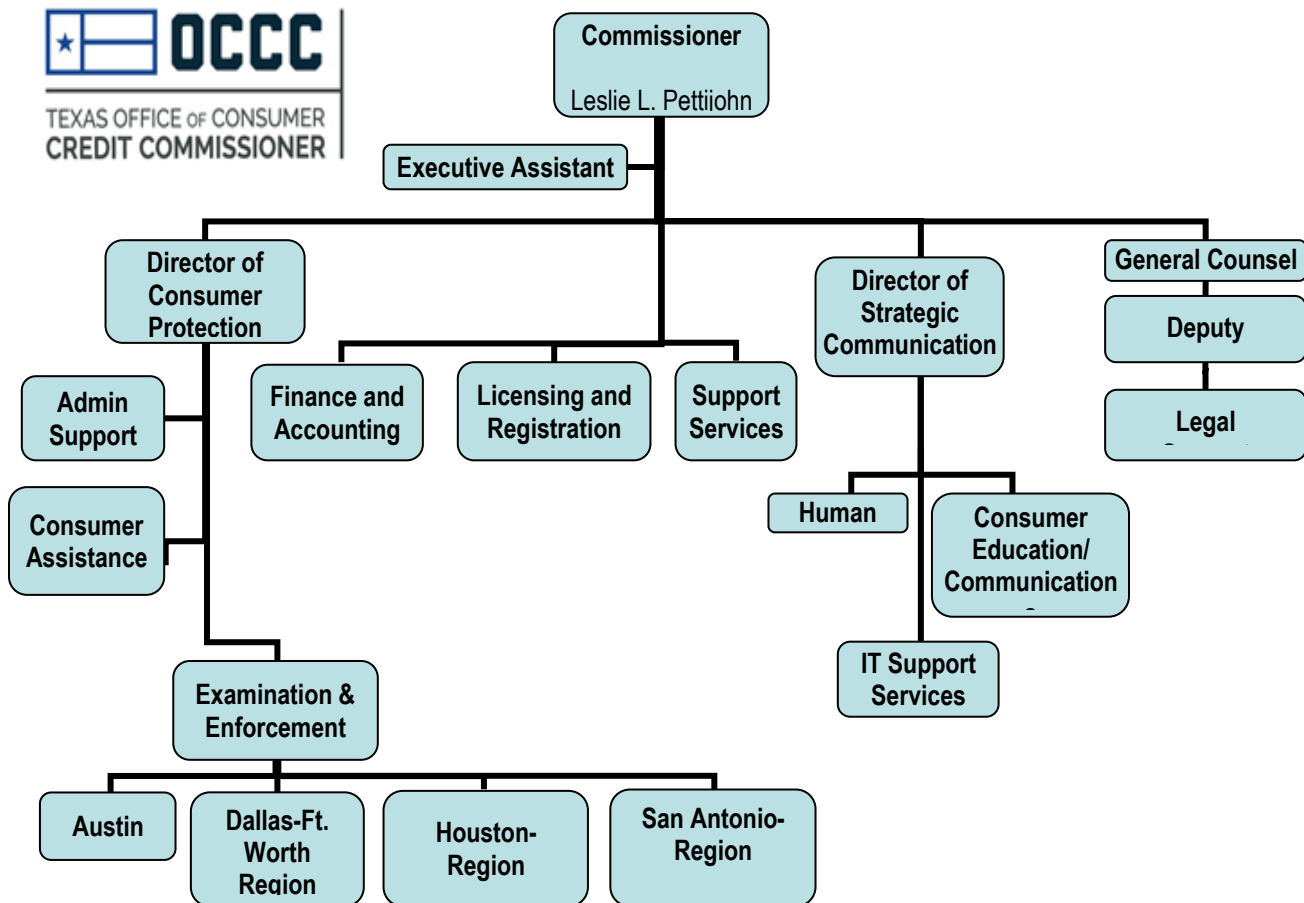
- Regulated Lenders Examinations
- Follow-up of Prior Year Internal Audits
- Other Tasks Assigned by the Finance Commission

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X. Organizational Chart



Source: OCCC

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ATTACHMENT

OFFICE OF CONSUMER CREDIT COMMISSIONER
History of Areas Audited
For Fiscal Year 2018

POTENTIAL AUDIT TOPIC		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1	Billing and Collection of Fees		A								B
2	Business Licensing	B			A					F*	B*
3	Complaint Intake and Investigation	B				A					
4	Credit Access Business Examinations (Effective FY 2012)						A				
5	Fiscal Division (includes Purchasing, Travel & Payroll)			C			C				B
6	Fixed Assets	A		C*			C*				
7	Human Resources		A	C			C/G*				
8	Legal and Enforcement (Effective FY 2018)										B*
9	Management Information Systems	E*	E*		A		E*	E*	E*		B*/E1
10	Motor Vehicle Sales Finance Examinations	B								A	
11	Pawn Examinations			A							
12	Professional Licensing (Pawnshop Employees & MLO) (Effective FY 2012)							A		F*	B*
13	Property Tax Lender Examinations (Effective FY 2012)										
14	Records Management	A									
15	Registration (Effective FY 2012)										A
16	Regulated Lenders Examinations			A							
17	Risk Management		D			D				D	
18	TFEE Fund Grant Administration (Effective FY 2013)								A		A*
19	TFEE Fund Investment Portfolio Administration (Effective FY 2017)										A

Note: Performance Measures was audited as a separate auditable area in fiscal year 2009. Effective fiscal year 2015, Performance Measures was removed as a separate auditable area and is now included in the scope of the applicable audit areas(s).

Legend (audits/reviews with asterisk are considered limited scope for the audit area)

- A** Internal audit performed by Garza/Gonzalez & Associates
- B** Audit performed by the State Auditor's Office (SAO)
- C** Post payment audit performed by the Comptroller of Public Accounts
- D** Risk Management Program Review (RMPR) or On-Site Consultation (OSC) performed by the State Office of Risk Management (SORM)
- E** Controlled penetration test performed by the Department of Information Resources
- E1** Cyber security and risk assessment performed by NTT Data
- F** Criminal history record audit performed by the Department of Public Safety
- G** EEO policy review performed by the Texas Workforce Commission

TEXAS DEPARTMENT OF BANKING
Austin, Texas

ANNUAL INTERNAL AUDIT REPORT

Fiscal Year 2018



TEXAS DEPARTMENT OF BANKING
Austin, Texas

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Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

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

We performed tests of management's assertion about the effectiveness and efficiency of the Texas Department of Banking's (DOB) internal control structure over the Trust Examinations Area (Area) and its established policies and procedures, as applicable to the Area, for the purpose of determining DOB's compliance with applicable sections of the Texas Finance Code and the Texas Administrative Code, for the 7 months ended March 31, 2018.

The results of our tests disclosed that DOB's internal control structure over the Area and its established policies and procedures, were generally adequate and no material instances of noncompliance were noted; however, we did identify certain matters, included in this report, that are opportunities for strengthening internal controls and ensuring compliance with established policies and procedures. Based on the degree of risk or effect of these matters in relation to the audit objective(s), these matters were rated as either Priority, High, Medium, or Low, which is further described in the "Summary and Related Rating of Observations/Findings and Recommendations", which is included in page 13 of this report.

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

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



May 15, 2018 – Trust Examinations
May 23, 2018 – 2018 Follow-up

TEXAS DEPARTMENT OF BANKING

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INTRODUCTION

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

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

The major functions of DOB are to:

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

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

2018 Internal Audit Plan

Following are the internal audits and other functions performed, as identified in DOB's 2018 Internal Audit Plan, dated November 27, 2017 and approved by the Finance Commission's Audit Committee and Commissioners on December 15, 2017:

- Prepaid Funeral Guaranty Funds
- Trust Examinations
- Follow-up of Internal Audit Performed in Prior Years
- Other Tasks

This report contains the results of our audit of the Trust Examinations Area; reflects the results of the follow-up performed in the current year of the findings that were presented in the prior year annual internal audit report; and, meets the State of Texas Internal Audit Annual Report requirements. The report of the Prepaid Funeral Guaranty Funds, dated April 10, 2018, will be presented to the Finance Commission's Audit Committee and Commissioners at the June 15, 2018 meeting.

INTERNAL AUDIT OBJECTIVES

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

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

TEXAS DEPARTMENT OF BANKING

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

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

- An approved fiscal year 2019 audit plan, as provided by Texas Government Code, Section 2102.008.
- A fiscal year 2018 internal audit annual report, as required by Texas Government Code, Section 2102.009.

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

II. **Consulting and Nonaudit Services Completed**

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

III. **External Quality Assurance Review**

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

IV. **Internal Audit Plan for Fiscal Year 2018**

The approved Internal Audit Plan (Plan) included two audits to be performed during the 2018 fiscal year. The Plan also included a follow-up of the findings that were presented in the prior year annual internal audit report, other tasks as assigned by the Finance Commission, and preparation of the Annual Internal Audit Report for fiscal year 2018.

TEXAS DEPARTMENT OF BANKING

Annual Internal Audit Report

Fiscal Year 2018

Risk Assessment

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

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

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

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

Fiscal Year 2017:

- Fixed Asset Management
- Bank Examinations
- Follow-Up of the Prior Year Internal Audits

Fiscal Year 2016:

- IT Examinations
- Imaging & Records Management

Fiscal Year 2015:

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

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Fiscal Year 2018

The internal audits and other tasks performed for fiscal year 2018 were as follows:

Report No.	Audits/Report Titles	Report Date
1.	Prepaid Funeral Guaranty Funds <i>Objective:</i> To gain an understanding of DOB's internal control structure over administration of the Prepaid Funeral Guaranty Funds to determine its compliance with applicable laws and regulations and established policies and procedures.	4/10/2018
2.	Trust Examinations <i>Objective:</i> To determine whether DOB's policies, procedures, and processes in place, as applicable to the Trust Examinations Area (Area), are sufficient to ensure trust examinations are administered and performed in an effective and timely manner to enforce applicable laws and regulations.	5/15/2018
2.	Annual Internal Audit Report – Follow-Up of Prior Year Internal Audits	5/23/2018
-	Other Tasks Assigned by the Finance Commission	None

V. Executive Summary

Trust Examinations

Background

The Trust Examinations Area (Area) is under the Bank and Trust Supervision Division (Division) of the Texas Department of Banking (DOB). The Area is supervised by the Director of Examination Support Activities, who reports directly to the Division Director, and is comprised of a Chief Trust Examiner (CTE) and 8 trust examiners. The Area's primary function is to examine and supervise trust companies and trust departments.

Types of Trusts

Trust companies, regulated by the Texas Finance Code (TFC) Chapters 181-187, 199, 271, 274 and 275, also referred to as the Texas Trust Company Act, maintain a trust company charter and have the authority to loan money and/or accept deposits under specific requirements and conditions. An exempt trust company is exempt from certain provisions of the TFC and do not conduct business with the public. As of March 31, 2018, there were 16 exempt and 17 non-exempt trust companies supervised by DOB.

Trust departments, regulated by TFC Chapter 31, also referred to as the Texas Banking Act, are maintained under a bank charter and have received specific authority to offer fiduciary services to the public. As of March 31, 2018, there were 38 trust departments supervised by DOB.

Systems

Examination Division Information System On the Network (EDISON) – The Division's internally developed application used to schedule and track examinations; maintain trust department and company information; and, to obtain performance measures data.

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Examination Tools Suite System (ETS) – Developed through a cooperative effort between DOB, the Federal Deposit Insurance Corporation (FDIC) and the Federal Reserve Bank (FRB). The Area utilizes ETS to prepare the Report of Examinations (ROE).

Examination Process

In accordance with TFC §31.105 and §181.104, the Area conducts on-site examinations to assess the trust company's and department's overall financial condition, assign composite and component ratings, and determine compliance with applicable chapters of the TFC and TAC.

The frequency and type of examination is dependent on the fiduciary assets and assigned CAMEL or MOECA ratings from the prior examination. Examinations are generally conducted annually; however, for trust companies or departments meeting certain criteria, examinations are performed every 18 months. Examinations of trust departments may be conducted jointly with the FDIC or FRB. The types of examinations range from full scope, resulting in a formal *Report of Examination* (ROE), to a targeted specific risk, resulting in a *Letter of Findings*.

Examinations are scheduled by the Chief Trust Examiner (CTE) using EDISON; and, assigned to an examiner-in-charge (EIC), who is responsible for conducting the examination and preparing the ROE. Joint examinations are scheduled in conjunction with the FDIC or FRB.

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

The Division has developed tailored examination work programs that are used to document the examination and results of procedures performed, examination ratings, etc. The Division has adopted the modified federal *Uniform Interagency Trust Rating System* (UITRS) to assess the condition of the fiduciary operations by assigning a composite rating based on the evaluation of five essential component factors (MOECA), which address the capability of Management; adequacy of Operations, controls, and audits; the quality and level of Earnings; the quality and level of Compliance; and, management of fiduciary Assets. In addition to the modified UITRS, the *Trust Company Rating System* (CAMEL) is used to evaluate the strength of the trust company. The five primary aspects that are evaluated and rated are Capital adequacy, Asset quality, Management, Earnings, and Liquidity. The CAMEL and UITRS ratings are assessed using a scale of 1 to 5, with 1 being the highest and 5 being the lowest. Any noted findings are documented in the Summary of Findings page of the work program and are identified as either "Report Worthy" or "Discretionary Report Worthy".

Upon completion of the examination, the EIC prepares and signs the ROE using ETS, which is sent to the CTE and Director for review. The CTE is authorized to sign ROEs for trust departments with fiduciary assets less than \$2 billion and a UITRS rating of a "1" or "2"; and, for trust companies with fiduciary assets less than \$2 billion and with UITRS and CAMEL ratings of a "1" or "2". The CTE may only sign those ROEs where he/she did not perform the initial review. Those that were initially reviewed by the CTE or those with fiduciary assets of \$2 billion or more are signed by the Director. ROEs rated a "3" or above are required to be signed by the Deputy Commissioner.

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Report of Examination (ROE) Review

The Area follows a 42-day processing schedule. Based on this schedule, the EIC has 7 days, from the examination end date, to prepare the ROE and submit it to the CTE for review. Upon receipt of the ROE, the CTE has 17 days to review it and submit it to DOB's headquarters (Austin) for the Director's review, who then has 18 days to complete the review, for a total of 42 days.

An initial quality control and limited review is conducted on all examination workpapers and ROEs by a trust examiner, assigned by the CTE, before the ROE is reviewed by the CTE. The review consists of ensuring workpapers are complete; documents are properly embedded in work programs; scanned documents are properly scanned and legible; and, all findings reported in the Summary of Findings are included in the ROE; etc. Critique forms are completed for each examination detailing the findings of the review, which are sent to the Director for review.

As of March 31, 2018, the Division completed a total of 21 examinations for 9 trust departments and 12 trust companies.

Examination Fees

TAC §17.22 authorizes DOB to assess examination fees at a rate of \$110 per examiner hour plus reimbursable expenses; such as, mileage, meals, etc. At the end of an examination, the EIC gathers all the hours and expenses from the examiners assigned to the respective examination and enters the information into EDISON. Once all the time sheets and travel vouchers have been submitted, the CTE reconciles the information entered into EDISON to the respective time sheets and travel vouchers; prints the invoice from EDISON; prepares an accompanying letter; and, signs and mails the invoice and letter to the trust company or department. The trust company or department has 30 days from the invoice receipt date, to submit payment to DOB.

As of March 31, 2018, examination fees in the total amount of \$807,589 were assessed; of which, \$697,048 was collected.

Trust Companies Investigations

The Corporate Activities Division (CAD) is responsible for processing applications for trust company charters and ensuring the required fees are paid. The Area is responsible for performing an investigation and issuing a report on investigation (ROI) prior to DOB issuing a charter. The purpose of the investigation and ROI is to determine whether there is good and sufficient proof that conditions enumerated in TFC §182.003 exist.

As of March 31, 2018, the Area performed an investigation and issued a ROI for 1 trust company that was issued a charter.

Exempt Trust Companies

In accordance with TFC §182.013, an exempt trust company is required to file an annual certification with DOB before June 30th of each year indicating they maintain the conditions and limitations of its exemption status and pay a filing fee of \$100, as required by TAC §21.2(b). Before June 30th, the Division's financial analyst will send the certification form to exempt trust companies for completion and to return to the Division. Upon receipt of the form and filing fee, the accounting department will process the fees and date stamp the form, which is then sent to the financial analyst, who prepares and sends the exempt trust companies an acknowledgement letter and a copy of the stamped form no later than 30 days after the certification is filed. The certification forms and fees are tracked by the financial analyst in EDISON.

TEXAS DEPARTMENT OF BANKING

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As of March 31, 2018, DOB collected \$900 in filing fees from the 16 exempt trust companies it supervises.

Training

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

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

Workpaper Review

Annually, the Examiners' Council (EC), comprised of bank, trust, and IT examiners, conducts a review of randomly selected workpaper files to ensure complete and accurate workpapers support the ROE. Upon completion of the review, the EC issues a memorandum summarizing the workpapers reviewed, findings, and recommendations. Findings are categorized as critical, important, or technical. An overall rating of the workpaper review is also applied, which can be *Satisfactory* or *Needs Improvement*.

The 2017 workpaper review, conducted in August 2017, included a review of 2 trust examinations, which both resulted in no critical findings and scores sufficient for an overall rating of "*Satisfactory*". The 2018 workpaper review is scheduled to be conducted in August 2018.

Audit Objective, Scope, and Methodology

Objective

The objective of our audit was to determine whether DOB's policies, procedures, and processes in place, as applicable to the Trust Examinations Area (Area), are sufficient to ensure trust examinations are administered and performed in an effective and timely manner to enforce applicable laws and regulations.

Scope

The scope of this audit was to review and/or test selected functions and examinations performed by the Area during the 7 months ended March 31, 2018.

Methodology

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

TEXAS DEPARTMENT OF BANKING

Annual Internal Audit Report

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We obtained and/or reviewed the following information:

- a. Sections of the Texas Finance Code and the Texas Administrative Code related to the Area.
- b. DOB's written policies and procedures, supervisory memorandums, administrative memorandums, and examiner's bulletins related to the Area.
- c. Organizational charts.
- d. A listing of Report of Examinations (ROEs) issued during the period from September 1, 2017 through March 31, 2018; and, the supporting examination work programs, reports, and examination fees for the selected items.
- e. A listing of examinations reviewed by the Examiners' Council (EC) during fiscal year 2017.
- f. EC workpaper review findings reports, memorandums, and screenshots of the EC review system for selected examination reviews.
- g. Trust workpaper and exam critique forms and screenshots of the EDISON system for Quality Control reviews for selected examinations.
- h. Listing of exempt trust companies as of March 31, 2018.
- i. Annual Certification of Exempt Status forms and acknowledgement letters for selected exempt trust companies.
- j. Detailed general ledger showing fees collected.
- k. EDISON reports used to track the status of submission of the forms and fees collected.
- l. Samples of work programs, scheduling reports, and planning documents.
- m. Performance measures report for the 2nd quarter and supporting EDISON reports.

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

1. Reviewed and obtained an understanding of the laws and regulations provided in the Texas Finance Code (TFC) and the Texas Administrative Code (TAC).
2. Obtained and reviewed the Division's written policies and procedures, supervisory memorandums, administrative memorandums, and examiner's bulletins; collected available documentation; and, conducted interviews to document formal/informal processes and controls performed by the Area.
3. Reviewed examination procedures included in the workpapers used in the examination process to ensure inclusion of significant compliance requirements of the TFC and TAC.

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4. Obtained a list of ROEs issued during the period from September 1, 2017 to March 31, 2018 and randomly selected 5 or 25 percent of the 21 ROEs issued to test for the following attributes:
 - a. Compliance with the examination frequency requirements.
 - b. Completion and approval of the scope form; and, applicable examination work programs/procedures.
 - c. Rating documented on work programs agreed to ROE.
 - d. Compliance with the ROE processing schedule.
 - e. Proper approval and signature on the ROE.
 - f. Examination fees were properly assessed and collected in accordance with the TAC and agreed to the respective timesheets and travel vouchers.
5. Ensured a quality control review was performed for 2 of the 5 examinations selected above by reviewing the respective Peer Review of Examination Work Papers Critique form.
6. From the 5 examinations selected for testing above, 4 examinations were tested further to ensure all findings included in the work programs were properly included in the ROE and vice versa.
7. Obtained a list of trust companies with charters that were approved during the period September 1, 2017 through March 31, 2018 and selected the 1 trust company to ensure:
 - a. An investigation was performed prior to the approval of the charter;
 - b. Investigation fee was paid by the applicant;
 - c. Investigation workpapers were properly completed by the trust examiner; and,
 - d. A report on investigation was properly prepared.
8. Obtained a list of exempt trust companies as of March 31, 2018 and selected 4 or 25 percent of 16 exempt trust companies to ensure:
 - a. The Annual Certification of Exempt Status form (form) was filed before June 30th.
 - b. Form was properly date stamped with the date the form was received.
 - c. Acknowledgment letter and a copy of stamped form was mailed to the exempt trust company within 30 days of receipt.
 - d. Certification fee was properly collected and recorded in the general ledger.
9. Obtained a listing of the Examiners' Council (EC) Trust Workpaper Reviews conducted during fiscal year 2017 and haphazardly selected one of the two workpaper reviews performed to ensure:
 - a. Findings on the EC workpaper review agreed to the Examiner Bulletin.
 - b. The EC Workpaper Review System agreed to the EC Workpaper Review Findings Report.
 - c. The total number of findings listed in the memo agreed to the EC Workpaper Review Findings Report.

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10. Obtained and agreed the performance measures report for the 2nd quarter to EDISON reports.
11. Obtained the training policy to gain an understanding of the training process and requirements for trust examiners. Selected 5 of the 8 examiners and tested for the following attributes:
 - a. Obtained the “personal training profile” report to ensure it reflected completion of the courses required for the examiner’s classification.
 - b. Obtained the ITP to ensure completeness and approval by the CTE.
 - c. Examiners completed the required Core Curriculum course needed for their position.
 - d. Selected a training course taken by 4 of the 5 examiners and reviewed supporting documentation.
 - e. Required training was received prior to employee’s promotion date.

TEXAS DEPARTMENT OF BANKING

Annual Internal Audit Report

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VI. Observations/Findings and Recommendations

SUMMARY and RELATED RATING of OBSERVATIONS/FINDINGS and RECOMMENDATIONS

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

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

TEXAS DEPARTMENT OF BANKING

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Fiscal Year 2018

OBSERVATIONS/FINDINGS and RECOMMENDATIONS

Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Current Status (Fully Implemented, Substantially Implemented, Incomplete/Ongoing, or Not Implemented) with brief description if not yet implemented	Fiscal Impact/Other Impact
1	5/15/2018	Trust Examinations	<p>1. Investigation Workpapers</p> <p>Due to a trust examiner's computer "crashing", the workpapers for a trust company investigation were lost and could not be recovered, since the workpapers were not backed up to an external device/source.</p> <p>Recommendation We recommend that DOB continue with its plan to implement a cloud-based backup system for its workpapers, to ensure automatic back up, in near real time, and ease of data recovery. Workpapers and other critical data should be backed up to an external device/source until the cloud-based backup system has been implemented.</p> <p>Management's Response The Department agrees to implement laptop back-up procedures to help prevent the loss of charter investigation data. The Department will begin using Microsoft's OneDrive to automatically backup all documents in the users' My Documents and Desktop folders to Microsoft's government cloud. We anticipate having these changes implemented by September 30, 2018. Until the automatic OneDrive backup procedures are implemented, examiners will back up charter investigation data to the Department's main drive.</p> <p>2. Investigation Fees</p> <p>TFC §182.004(b) states that DOB shall thoroughly investigate charter applications at the expense of the organizers. Applicants for a trust company charter shall pay an investigation fee of \$10,000 once the application is filed with DOB, in accordance with TAC §21.2. Per TAC §21.2, failure to pay the investigation fee timely constitutes grounds for denial of application.</p> <p>Our testing of an investigation conducted on November 6, 2017, indicated that the \$10,000 investigation fee was not collected; however, the charter was approved and became effective on March 5, 2018.</p> <p>Recommendation We recommend the Area perform a reconciliation of the number of investigations performed and the investigation fees collected to ensure fees are properly collected prior to the approval of the charter.</p> <p>Management's Response The Department agrees with this recommendation and has changed Corporate Division processing procedures to ensure that investigation fees are tracked and collected. The fee mentioned in the audit report was collected on May 22, 2018.</p>		<p>To ensure all workpapers can be recovered in case of computer failure or disaster.</p> <p>To ensure investigation fees are collected prior to approval of the charter.</p>

TEXAS DEPARTMENT OF BANKING

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Fiscal Year 2018

Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Current Status (Fully Implemented, Substantially Implemented, Incomplete/Ongoing, or Not Implemented) with brief description if not yet implemented	Fiscal Impact/Other Impact
1	5/15/2018	Trust Examinations	<p><u>Observation</u></p> <p>1. Examination Fee Payments</p> <p>TAC §17.22 indicates that examination fees are due to DOB no later than the 30th day after the bill is submitted; however, the due date is not documented on the invoice or letter which accompanies the invoice.</p> <p><u>Recommendation</u></p> <p>We recommend that the examination fee due date be documented on the invoice or letter to ensure the trust company/department is aware of the due date.</p> <p><u>Management's Response</u></p> <p>The Department agrees to amend the trust company invoice document to reflect the due date of the payment. Procedures will be changed to provide the CTE with a monthly report of all outstanding but unpaid invoices. Both of these changes were implemented in June 2018</p>		To ensure trust companies and departments are aware of payment due dates.

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Fiscal Year 2018

VII. External Audit Services Procured in Fiscal Year 2018

DOB procured the internal audit services documented in the approved Internal Audit Plan for fiscal year 2018. No other external audit services were performed.

VIII. Reporting Suspected Fraud and Abuse

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

IX. Proposed Internal Audit Plan for Fiscal Year 2019

The risk assessment performed during the 2018 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 2019. The Internal Audit Plan for Fiscal Year 2019 will be developed and presented to the Audit Committee and Finance Commission, for acceptance and approval, at a meeting to be determined at a later date.

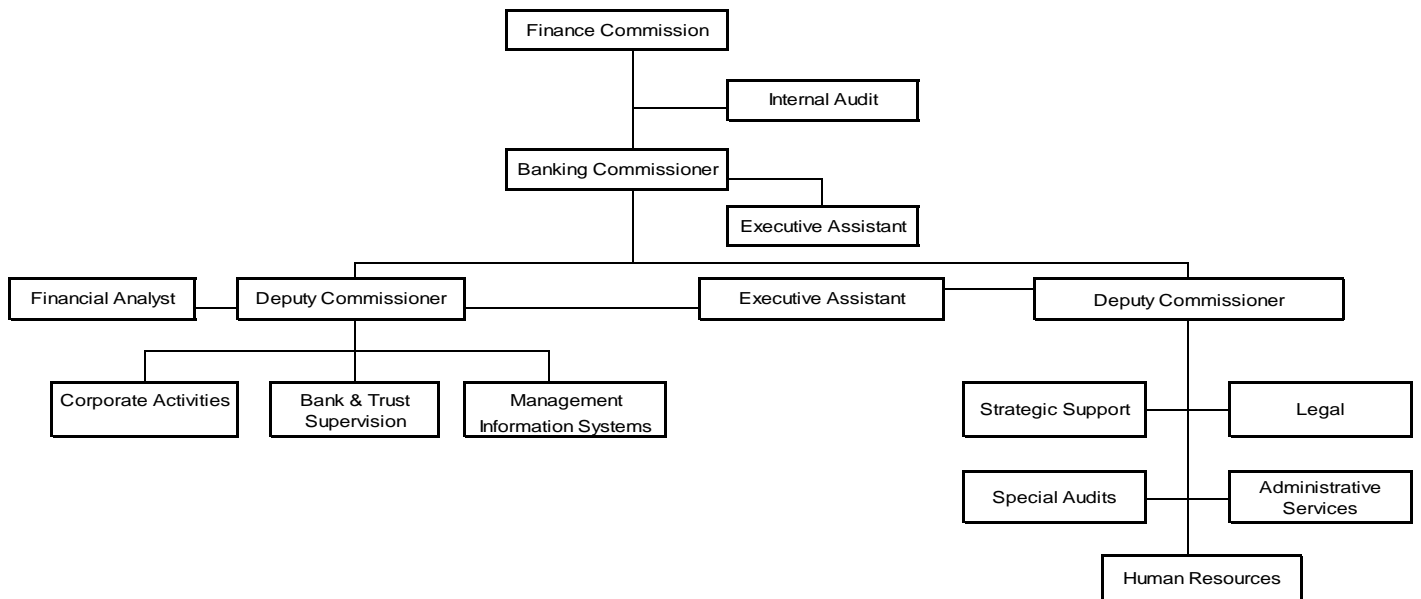
- Payroll and Human Resources
- Purchasing
- Follow-up of Prior Year Internal Audits
- Other Tasks Assigned by the Finance Commission

TEXAS DEPARTMENT OF BANKING

Annual Internal Audit Report

Fiscal Year 2018

X. Organizational Chart



ATTACHMENT

TEXAS DEPARTMENT OF BANKING
History of Areas Audited
For Fiscal Year 2018

POTENTIAL AUDIT TOPIC		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1	Bank Examinations		B	B*		A/B1*	B1*				A/B*
2	Corporate Activities	A					A			H*	
3	Financial Reporting (Effective FY 2011)				A						B
4	Fixed Asset Management		A	C*				C*			A
5	Imaging and Records Management	A								A	
6	IT Examinations			A						A	
7	Management Information Systems	D*	D*	A/D*	D*	D*	D*/E	A/D*	D*	D*/H*	B/D*
8	Money Service Businesses			A				A			B*
9	Payroll and Human Resources			C	A*	G	H*	C		H*	
10	Perpetual Care Cemeteries		A						A		B*
11	Prepaid Funeral Contracts	A					A				B*
12	Prepaid Funeral Guaranty Funds (Effective FY 2012)					A					
13	Purchasing			C	A*			C			B*
14	Revenue Accounting Process (Effective FY 2011)				A				A		B
15	Risk Management	F	F	F				F	F		F
16	Travel			C	A*			C			B*
17	Trust Examinations				A						

Note: Performance Measures was audited as a separate auditable area in fiscal year 2009. Effective fiscal year 2015, Performance Measures was removed as a separate auditable area and is now included in the scope of the applicable audit area(s).

Legend (audits/reviews with asterisk are considered limited scope for the audit area)

- A** Audit performed by Garza/Gonzalez & Associates
- B** Audit performed by the State Auditor's Office
- B1** Off-site review of outstanding audit findings performed by the State Auditor's Office
- C** Post-payment audit performed by the Comptroller of Public Accounts
- D** Controlled penetration test performed by the Department of Information Resources
- E** Information security assessment review performed by Gartner
- F** Risk Management Program Review (RMPR) or On-Site Consultation performed by the State Office of Risk Management
- G** Review of personnel policies & procedures system performed by the Texas Workforce Commission Civil Rights Division
- H** Criminal history record audit performed by the Department of Public Safety

DOB Audit Firm History

Fiscal Year	Audit Firm	Expended
FY 2000	Garza/Gonzales & Associates	30,690.00
FY 2001	Garza/Gonzales & Associates	30,132.00
FY 2002	Garza/Gonzales & Associates	28,800.00
FY 2003	Garza/Gonzales & Associates	9,720.00
FY 2004	Garza/Gonzales & Associates	27,504.00
FY 2005	Garza/Gonzales & Associates	20,376.00
FY 2006	Wiener Strickler LLP	27,330.00
FY 2007	Strickler & Prieto LLP	30,360.00
FY 2008	Garza/Gonzales & Associates	27,600.00
FY 2009	Garza/Gonzales & Associates	31,373.00
FY 2010	Garza/Gonzales & Associates	31,987.00
FY 2011	Garza/Gonzales & Associates	35,200.00
FY 2012	Garza/Gonzales & Associates	35,024.00
FY 2013	Garza/Gonzales & Associates	37,136.00
FY 2014	Garza/Gonzales & Associates	29,392.00
FY 2015	Garza/Gonzales & Associates	31,960.00
FY 2016	Garza/Gonzales & Associates	36,625.00
FY 2017	Garza/Gonzales & Associates	38,715.00
FY 2018*	Garza/Gonzales & Associates	39,450.00

* Budgeted amount.

Note: 2018 is the final renewal year for Garza/Gonzales & Associates' existing contract. An new RFP was issued and proposal evaluations are in progress to acquire internal auditing services for 2019.

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Department of Savings and Mortgage Lending
Outstanding Audit Issues Report as of August 6, 2018

Auditor	Garza/Gonzalez	Audit Report Date
Audit Area	Management Information Systems	7/25/2016
Recommendation	Status Update	
Establish audit trails	Completed. The Department has implemented a program to provide audit trails as required.	

Auditor	Garza/Gonzalez	Audit Report Date
Audit Area	Thrift Supervision	5/25/2018
Recommendation	Status Update	
Update the Application Manual	In progress. To be completed by August 31, 2018.	
Update the Application Checklist	In progress. To be completed by August 31, 2018.	
Implement a quality control process	In progress. To be completed by August 31, 2018.	

Auditor	Comptroller of Public Accounts	Audit Report Date
Audit Area	Post-Payment and Procurement Audit	N/A
Recommendation	Status Update	
N/A	Pending. Field work completed on May 11, 2018.	

Office of Consumer Credit Commissioner
Outstanding Audit Findings Report as of 8/03/2018

There are currently no outstanding audit findings



On-Site Consultation Report

Office of Consumer Credit Commissioner

July 9, 2018

Conducted by:
Caleb Walker, Risk Manager



July 9, 2018

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

Agency # 466

Re: On-Site Consultation (OSC)

Dear Commissioner Pettijohn:

The State Office of Risk Management (SORM) conducted an On-Site Consultation (OSC) of the Office of Consumer Credit Commissioner (OCCC) on July 2, 2018. The review was conducted under the authority of Texas Labor Code, Title V, Subtitle A, Chapter 412, and is designed to assist state agencies to develop and implement comprehensive risk management programs that meet Risk Management for Texas State Agencies (RMTSA) guidelines.

The following observations were reviewed and discussed during the visit:

- There have been no reported property claims over the past five fiscal years.
- 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.
- OCCC had a total of two claims since FY2014 for a total of \$274.20 in medical costs. The main cause of injury was by strain.

Noteworthy observations made during this consultation include the following:

- The staff interviewed during the OSC was knowledgeable of the safety and risk management protocols.

Commissioner Pettijohn

July 9, 2018

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- The working knowledge at the OCCC is extensive and can be identified from the executive director through all staff.
- OCCC staff was helpful, cooperative, and open to suggestions for improving the risk management program.

During this visit, SORM discussed the recommendations generated as a result of previous OSC's, which are now **closed**:

16-05-01 Risk Management: Policies and Procedures: Armed Intruder

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

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

As a result of this on-site consultation there are no new recommendations.

Thank you for your cooperation and assistance during the consultation. Please convey my appreciation to all your staff for their cooperation and assistance during the consultation. If you have any questions or concerns regarding the information detailed in this report, please call me at (512) 936-2926.

Sincerely,



Caleb Walker

Risk Manager

State Office of Risk Management

cc: Ms. Christina Cuellar, Accounting Manager, OCCC
Mr. Juan V. Garcia, Director, Strat. Communications, Admin & Planning, OCCC
Ms. Candace Vargas, Human Resources Specialist, OCCC
Ms. Kimberly Wilson, Network Administrator, OCCC



Important Dates & Resources

[SORM Training Calendar](#)

[SORM Safety Videos](#)

[Workers' Compensation Healthcare Network](#)

[State Risk Management Employment Opportunities](#)

SORM Contact Information

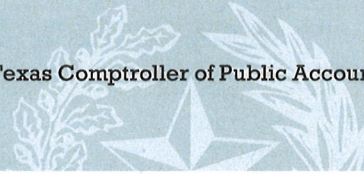
www.sorm.state.tx.us

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Texas Department of Banking
Outstanding Audit Findings/Recommendations Report as of August 6, 2018

Auditor	<i>Garza/Gonzalez & Associates</i>	Audit Report Date	<i>May 2018</i>
Audit Area	<i>Trust Supervision – Bank & Trust Division</i>		
Findings	Status Update		
<i>Investigation Workpapers</i>	<i>In process</i> – The Department will begin using Microsoft’s OneDrive to automatically backup all documents in the users’ My Documents and Desktop folders to Microsoft’s government cloud. We anticipate having these changes implemented by September 30, 2018. Until the automatic OneDrive backup procedures are implemented, examiners will back up charter investigation data to the Department’s main drive.		
<i>Investigation Fees</i>	<i>Completed</i> – The Corporate Division has changed processing procedures to ensure that investigation fees are tracked and collected. The fee mentioned in the audit report was collected on May 22, 2018.		
<i>Examination Fee Payments (Observation)</i>	<i>Completed</i> – The Department amended its trust company invoice document to reflect the due date of the payment. Procedures have been changed to provide the Chief Trust Examiner with a monthly report of all outstanding but unpaid invoices. Both of these changes were implemented in June 2018.		
Auditor	<i>Texas Workforce Commission</i>	Audit Report Date	<i>May 2018</i>
Audit Area	<i>Personnel Policies and Procedures – Human Resources</i>		
Findings	Status Update		
<i>EEO Hiring Compliance Verification</i>	<i>Completed</i> – The Department developed and implemented an EEO compliance review checklist form and EEO compliance stamp for hiring packets effective July 31, 2018.		
<i>EEO Disciplinary Action Compliance Verification</i>	<i>Completed</i> – The Department began using a stamp to document disciplinary action files’ EEO compliance reviews effective July 31, 2018.		



June 29, 2018

Mr. Charles G. Cooper
Banking Commissioner
Texas Department of Banking
2601 North Lamar Blvd.
Austin, Texas 78705-4294

Dear Mr. Cooper:

We have completed a post-payment audit of certain payroll, purchase and travel transactions of the Texas Department of Banking (Department). We would like to thank you and your staff for your responsiveness and cooperation in assisting us with this audit. A draft of this audit report was sent to the Director of Administrative Services, Sami Chadli, on April 12, 2018. The Department's response to the draft is included in this report.

Our purpose was to determine whether the Department's expenditures complied with certain state laws and rules concerning expenditures and with the processing requirements of the Uniform Statewide Accounting System (USAS) and the Uniform Statewide Payroll/Personnel System (USPS). The Department is responsible for ensuring that its staff is knowledgeable in these areas.

We intend for this report to be used by the Department's management and certain state officials and agencies as listed in Texas Government Code, Section 403.071. However, this report is a public record and its distribution is not limited.

We noted other matters involving the processing of expenditures by the Department that we communicated to Sami Chadli in an email dated April 12, 2018.

The Department may inquire about and register for training related to expenditures through the Fiscal Management [Training Center](#).

We would like input from you or your designee on the quality of the audit process and the service the audit staff provided while conducting this audit. Please take our [Post-Payment Audit Survey](#) to rate and comment on the post-payment audit process. Your feedback is greatly appreciated.



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Mr. Charles G. Cooper

June 29, 2018

Page Two

Thank you for your cooperation. If we can be of any further assistance, please contact alberto.lanas@cpa.texas.gov or 512-463-4582.

Sincerely,



Lisa M. Nance

Manager, Statewide Fiscal Services

Fiscal Management Division

Attachments

cc: Stephanie S. Newberg, Deputy Commissioner, Texas Department of Banking
Sami Chadli, Director of Administrative Services, Texas Department of Banking
Alberto Lañas, Auditor, Texas Comptroller of Public Accounts



Fiscal Management Division
Statewide Fiscal Services Dept.
Expenditure Audit Section
Auditor: Alberto Lañas

Audit Report # 451-18-01
June 29, 2018

Post-Payment Audit of the Texas Department of Banking



Glenn Hegar
Texas Comptroller of Public Accounts

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EXECUTIVE SUMMARY

Audit scope

We audited a sample of the Texas Department of Banking (Department) payroll, purchase and travel transactions that processed through the Uniform Statewide Accounting System (USAS) and the Uniform Statewide Payroll/Personnel System (USPS) during the period beginning June 1, 2016, through May 31, 2017, to determine compliance with applicable state laws.

The Department receives appendices with the full report that includes a list of the identified errors. Copies of the appendices may be requested through a [Public Information Act](#) inquiry.

The audit provides a reasonable basis for the findings set forth in this report. The Department should implement the recommendations listed in the Detailed Findings of this report. It is the Department's responsibility to seek refunds for all overpayments unless it determines it is not cost effective to do so. If necessary, the Comptroller's office may take the actions set forth in Texas Government Code, Section 403.071(h), to ensure that the Department's documents comply in the future. The Department must ensure that the findings discussed in this report are resolved.

Texas law requires the Texas Comptroller of Public Accounts (Comptroller's office) to audit claims submitted for payment through the Comptroller's office. All payment transactions are subject to audit regardless of amount or materiality.

Payroll transactions and payroll deductions

Payroll transactions were audited for compliance with the General Appropriations Act (GAA), the [Texas Payroll/Personnel Resource](#) and other pertinent statutes.

- No issues were identified.

Purchase transactions

Purchase transactions were audited for compliance with the GAA, [eXpendit](#), the [State of Texas Procurement and Contract Management Guide](#) and other pertinent statutes.

The audit identified:

- Three contracts missing Central Master Bidders List (CMBL) solicitations.

The Department did not incur and pay any prompt payment interest during the audit period.

Travel transactions

Travel transactions were audited for compliance with the GAA, [Textravel](#) and other pertinent statutes.

The audit identified:

- Five transactions lack conservation of state funds.

Special reports

The audit included a review of several reports to test conformance with a variety of topics. Procurement and travel card transactions were audited for compliance with [eXpendit](#), the [State of Texas Procurement and Contract Management Guide](#), the [State of Texas Contract Management Guide](#), [Textravel](#) and other pertinent statutes.

The audit identified:

- Nine transactions with incorrect billing account number entered in the invoice number field.
- One expenditure with unauthorized travel card use.

Security

The audit included a security review to identify any of the Department's employees with security in USAS or on the voucher signature cards who were no longer employed or whose security had been revoked. Upon termination or revocation, certain deadlines must be observed so that security can be revoked in a timely manner.

- No issues were identified.

Internal control structure

The Department's internal control structure was reviewed. The review was limited to obtaining an understanding of the Department's controls sufficient to plan the audit and did not include tests of control policies and procedures.

The audit identified:

- Two employees could process and release payments in USAS without oversight, process and release payrolls in USPS without oversight, pick up warrants from the Comptroller's office and approve vouchers, adjust vendor profiles in TINS and approve vouchers, and process and release payments between the Department's internal system and USAS without oversight.

EXECUTIVE SUMMARY

Fixed assets

The audit included a limited number of fixed assets acquired by the Department during the audit period to test for proper tracking in the Department's internal system. All assets tested were in their intended location and properly recorded in the State Property Accounting (SPA) System.

- No issues were identified.

Prior post-payment audit and current audit recurring finding

A prior post-payment audit of the Department's payroll, purchase and travel transactions was concluded on Aug. 18, 2014.

During the current audit, the following recurring finding was identified:

- Control weakness over expenditure processing.

Contact:

Alberto Lañas, MBA, CTCM
Lead Auditor
(512) 463-4582

Contributing Auditors:

Derik Montique, MBA, CFE, CTP
Jesse Ayala

DETAILED FINDINGS — PURCHASE

Missing Central Master Bidders List Solicitation

Finding

The Department did not retain documentation of the search on the Central Master Bidders List (CMBL) of all eligible suppliers for three contracts prior to their award. The Department stated that the CMBL searches were performed but it was an oversight that the search and profile printout listing all eligible suppliers was not retained.

The CMBL is a database of registered vendors who have provided contact information, as well as a list of the goods and services they offer. Vendors pay a nominal annual fee to receive notification of opportunities for solicited commodities and/or services through an invitation for bid, request for proposal, request for offer or request for qualifications. Unless exempted by law, the CMBL must be used for all procurements subject to the authority of the Statewide Procurement Division (SPD). The CMBL must also be used to gather information for noncompetitive procurement processes and vendor performance data.

Agencies must print the awarded vendor's CMBL profile showing the expiration date for file documentation. See [State of Texas Procurement and Contract Management Guide](#), Centralized Master Bidders List. Proof that the CMBL system was checked prior to any award or contract renewal being made by Texas state government entities must be obtained. See [Texas Government Code Sections 2155.263-2155.264](#) and [34 Texas Administrative Code Section 20.107\(g\)](#).

Recommendation/Requirement

To ensure adherence with the procurement rules, the Department must use the CMBL for all purchases, including services, for which competitive bidding or competitive sealed proposals are required. A copy of the CMBL search results from the specified website must be used as evidence that the Department performed a vendor search and must be included in the contract file.

Department Response

The Department agrees that the CMBL must be used and has always used the CMBL for purchases, including service, for which competitive bidding or competitive sealed proposals are required. For two of the three cited errors, the Department provided documentation to show that the vendor selected was on the CMBL before the bid was awarded. You must first go to the complete CMBL for the product or service before you can print the screen with just one vendor; thus documenting the search was performed as required. For the third cited error, the purchaser did not retain the documentation of the search but was able to show through other means that the vendor selected was on the CMBL.

Procedures have been enhanced to ensure the complete required CMBL documentation is included and retained in each applicable file. When contracts are routed for approval, the Director of Administrative Services will now review each contract file to ensure all required documentation was obtained and is included in the applicable file.

Comptroller's Response

The Comptroller appreciates the Department's revision of its procedures, as a result of the audit, to require documentation showing that the CMBL search was performed prior to the contract award. The CMBL documentation must directly relate to the contract prior to its award.

The primary purpose of a CMBL search is to determine which prequalified vendors are on the list for the agency to consider before the award phase of the procurement. All agencies are required to keep in the contract file a printout of the CMBL search results reflecting the exact date of the search, which must be prior to the award date; thereby creating a transparent selection.

DETAILED FINDINGS — TRAVEL

Lack of Conservation of State Funds

Finding

We identified five instances totaling \$1,888.54, where the Department reimbursed travelers for mileage incurred while operating personal vehicles to conduct official business. However, based on the applicable car rental rates, related taxes, cost of gas and the standard mileage rates in effect at the time of travel, we determined it was cost effective to the state if the travelers used a rental vehicle instead of personal vehicles. The Department's travel policies and procedures do not require agency travelers to use the cost comparison of rental car versus personal vehicle spreadsheet available in [TexTravel](#) prior to travel.

According to [Texas Government Code, Section 660.007\(a\)](#), a state agency shall minimize the amount of travel expenses paid or reimbursed by the agency. The agency shall ensure that each travel arrangement is the most cost effective considering all relevant circumstances. Supporting documentation must be made available to the Comptroller's office in the manner required by the Comptroller's office. See [34 Texas Administrative Code Section 5.51\(e\)\(2\)-\(3\)](#).

Recommendation/Requirement

The Department must exercise caution in its use of state funds and ensure that expenditures are fiscally responsible. The Department should prepare a cost comparison analysis before each trip showing the cost of using a rental car versus that of using a personal vehicle to ensure the most cost-effective alternative is used. The Department should develop procedures for travelers to complete cost comparisons prior to travel and subject to approval.

Department Response

The Department agrees that conservation of state funds is paramount. Historically, the Department has required cost comparisons between employees flying and driving for the conservation of state funds; however, we did not have a requirement for a comparison between an employee driving a personal vehicle and renting a vehicle. We concur that this comparison should be routinely made but we disagree with the Schedule of Errors included as Appendix 3.

Modifying our current driving versus flying comparison form (which is currently included in our Travel/Per Diem Guidelines and Reimbursement policy) for rental vehicle versus personal vehicle, we determined that it was less expensive to claim mileage as compared to rental vehicle charges in four out of the five vouchers listed in Appendix 3. For the remaining case, we calculated that the monetary impact was \$585.96 instead of the \$952.85 computed by the Comptroller's office.

In our calculation methodology, we included mileage to and from the rental car company to pick up and drop the car off. In addition, we included the hourly salary for each employee, including benefits, related to the pick-up and drop-off times for the rental vehicle. (The salary

DETAILED FINDINGS — TRAVEL

data is currently included in our Travel/Per Diem Guidelines and Reimbursement policy for the flying/driving comparison form which has not be criticized by the Comptroller's office.) We concur these comparisons were not completed at the time of travel but had they been, as stated above, four examiners would still have driven as the least costly expense for the state.

The Department's Travel/Per Diem Guidelines and Reimbursement policy was revised to include a requirement for the rental vehicle versus driving comparison as well as other changes related to conservation of state funds and disseminated to all employees in April 2018. Henceforth, comparison forms will be completed before travel occurs.

Comptroller's Response

The Comptroller's office appreciates the Department's efforts to conserve state funds in the past and in the future by revising its policies and procedures as a result of this audit. However, at the time of the audit, these procedures and conservation methods were not in place and were not applied to the transactions in question prior to the actual travel.

DETAILED FINDINGS — SPECIAL REPORTS

Incorrect Billing Account Number

Finding

We ran a report outside of the sample to identify potential payments processed incorrectly to third-party vendors by the Department for the audit period. During our review of this report, we identified nine payments totaling \$29,297.05 that processed incorrectly to the state's credit card vendor.

The Department failed to provide the correct billing account number as prescribed by Citibank and documented in [Processing Third-Party Transactions in USAS for Payment/Travel Cards, Direct Bill Payments and Reimbursements \(FPP A.043\)](#) and [USAS and CAPPS Financials Invoice Number Field Requirements \(FPP E.023\)](#). As a result, the vendor may not be able to directly post payments to the Department's procurement and travel card accounts. The Department stated that it used the invoice number recommended by its Citibank contact.

Recommendation/Requirement

The Department must enhance its procedures to ensure payments for third-party transactions are processed in accordance with [FPP A.043](#) and [FPP E.023](#). To avoid any account delinquency or reconciliation issues, we recommend the Department review its account with Citibank to ensure the payments were posted correctly.

Department Response

The Department implemented Citibank payment procedures per FPP A.043 to process payments at the vendor level and FPP E.023 to include all required account number digits.

As related to the incorrect billing account issue, we previously used the invoice number recommended by our Citibank contact to ensure proper application of payment to our account. The missing two digits are leading zeros and ultimately do not change the essential digits needed to identify the correct account/vendor.

During the audit, Citibank confirmed all payments without the two leading zeros were posted properly and timely for the Department; therefore, no state rebates were lost.

Comptroller's Response

The Comptroller's office appreciates the Department's efforts to comply with the requirements of FPP A.043 and E.023. However, FPP A.043 and E.023 were created to guide and support all the state agencies participating in the Citibank State of Texas Commercial Charge Card Program to ensure consistent processes and procedures in handling transactions related to the program. Agencies are expected to follow these policies as prescribed. In addition, the risk of account delinquency, reconciliation issues and Citibank program rebate losses still exists, if requirements are not met.

Unauthorized Use of State-Issued Travel Card

Finding

During our review of 23 transactions of the travel card expenses outside of the sample, we identified one instance where an employee used a state-issued travel card to purchase alcoholic beverages. The Department indicated that its travel policies and procedures require monitoring of expenditures made with the state-issued credit card, but in this instance, the monitoring did not identify this charge. The Department indicated that all state-issued travel card transactions are paid by the employees and only appropriate expenses are reimbursed to the employees with State Treasury funds. The Department assured that this particular transaction was not reimbursed to the employee and the error occurred due to oversight.

A state agency may not reimburse a state employee for the purchase of alcoholic beverages. See [Texas Government Code, Section 660.113](#) and [TexTravel – Prohibited Reimbursements](#). A credit card issued to a public servant under a program where the card is issued at the direction and under the control of the State of Texas for state purposes may not be used for personal expenditures or any other type of expenditure not reimbursable as a state business expense under state law. See [Ethics Advisory Opinion No. 147 – Texas Ethics Commission](#). According to [34 Texas Administrative Code Section 20.413](#), state agencies shall cancel a state-issued travel credit card when the employee:

- Fails to pay the charges timely.
- Uses the card for personal transactions, or
- Is responsible for any other misuse of the credit card.

Recommendation/Requirement

The Department must ensure that all state-issued travel card transactions are properly reviewed, and ensure its travel cards are used in accordance with the applicable rules and requirements. In addition, the Department must revise its monitoring process to ensure restricted purchases do not occur in the future. The current state credit card administrator, Citibank, offers reports that can assist the Department monitor its credit card usage. The Department must offer periodic training to its credit card holders on proper use of state-issued credit cards.

Department Response

The Department has implemented this recommendation. The finding was related to an employee's accidental use of the state card for an alcoholic beverage charge of \$21.79. At the conclusion of the audit at the suggestion of the Comptroller, we contacted Citibank and had them block merchant code 5813 - Bar, Lounge, Disco, Nightclub, Tavern-Alcoholic Drinks. Employee travel cards will now be denied if attempted to use at businesses with this merchant description.

DETAILED FINDINGS — SPECIAL REPORTS

In 2017, Department employees (as a group) used their state issued credit card for approximately 4,600 charges totaling approximately \$555,000. We have enhanced our monthly audit of these Citibank transactions. In addition to the type and nature of Citibank transactions, we now audit transactions based on the merchant descriptions and review charges incurred within an employee's duty point location. Any unusual charges are investigated. We have also updated our Travel/Per Diem Guidelines and Reimbursement policy to further define the repercussions related to non-business use of the card.

Lastly, our annual Conflict of Interest form filing has been revised to require each employee to review the Department's policy statement related to the use of the state credit card and attest that they understand this policy annually.

DETAILED FINDINGS — SECURITY

Control Weakness Over Expenditure Processing

Finding

We reviewed certain limitations the Department placed on its accounting staff's ability to process expenditures. We reviewed the Department's security for USAS, USPS and Texas Identification Number System (TINS) as well as signature cards. We did not review or test any internal or compensating controls that the agency may have relating to USAS, USPS or TINS security or internal transaction approvals.

We identified two employees with multiple security capabilities. Both employees had the security to:

- Process and release payments through USAS without oversight.
- Process and release payrolls through USPS without oversight.
- Pick up warrants from the Comptroller's office and approve paper vouchers.
- Adjust vendor profiles in TINS and approve vouchers.
- Process and release payments between the Department's internal system and USAS without oversight.

We ran a report to determine whether any of the Department's payment documents processed through USAS during the audited period because of the action of only one individual. The report did not identify any expenditures processed without oversight. We also verified that during the audit period the Department did not have any documents that were released by unauthorized users.

The Department stated this issue occurred due to its small size. The Department stated that it makes every effort to ensure one individual does not process payments without oversight. The Department stated it implemented and took several measures to strengthen internal controls and ensure proper segregation of duties as related to expenditure processing without oversight. The Department considers it is taking all possible measures to ensure a viable internal control structure.

Recommendation/Requirement

To reduce risks to state funds, the Department must have controls over expenditure processing that segregate each accounting task to the greatest extent possible. Ideally, no individual should be able to process transactions without another person's involvement.

The Department must implement the following recommendations:

1. The Department must limit the access at the time it is set up (96A screen) by limiting user access to either enter/change vouchers or release/approve batches.

2. The Department must elect to have the document tracking control edit on the Agency Profile (D02) set to either:
 - Prevent a user from releasing a batch that the same user entered or altered for the agency.
 - OR–
 - Warn the user when the same user attempts to release his or her own entries or changes. See [USAS Accounting and Payment Control \(FPP B.005\)](#).
3. The Department must work with Comptroller's office Statewide Fiscal Systems security staff to set up user profiles that separate the entry and approval of payroll transactions in USPS.
4. The Department must limit user access by removing the user from the Agency Authorization for Warrant Pickup list or by removing the ability to release/approve vouchers in USAS from the user.
5. The Department must limit access for users who can enter/change vouchers or release/approve batches in USAS to view only in TINS (PTINS02). An individual must not be able to create a vendor or change a vendor profile, create a payment and approve the payment.
6. The Department must ensure that employees with voucher/payment entry/change/delete status in the Department's internal system are not able to also approve/release payments in the internal system or in USAS. A supervisor or another employee must approve vouchers in the internal system.

Department Response

We have implemented Recommendation 2. The Department's D02 profile was updated to have USAS initiate a warning when the same user attempts to release a document that he/she already entered or altered.

As confirmed during the first day of the audit field work, the risky document report generated by the Comptroller's Office shows there were no instances during the audit period where the same individual entered and released the same payment in USAS.

We respectfully disagree with the need for the remaining recommendations. The Department makes every effort to ensure one individual does not process expenditure payments without oversight. However, as a small agency with a limited accounting staff, it is necessary for certain key staff to have this ability in emergency situations. We believe our current robust internal controls are appropriate and reliable to ensure only proper expenditures are processed by the Department. In addition to the above, the following controls are in place:

1. *Based on a recommendation from the 2016 State Auditor's Office audit, a MUSL (our internal payment processing system) monthly report is run and compared to USAS reports (DAFR2901 and USAS screen 37) to document if any entry and release by the*

same employee in the internal accounting system and USAS has occurred. This report is presented to the Deputy Commissioner for review monthly. Since implementation, there have been no such instances identified.

- 2. In the event an individual must process and release a payment, the related transactions are required to be reviewed the following day by the Director of Administrative Services, the Chief Accountant, or the Deputy Commissioner.*
- 3. We reconcile our internal accounting system to USAS monthly. This reconciliation is prepared by the Chief Accountant and reviewed by the Director.*
- 4. Monthly financial statements (by division) are prepared by Accounting staff and are reviewed by the Banking Commissioner, Deputy Commissioners, and Division Directors.*
- 5. Each Division Director participates in the preparation of the budget for their area. Quarterly, divisional financial statements with budget to actual comparisons both for the quarter and year to date are provided to the Commissioner, Deputy Commissioners and Division Directors. Each Director must explain any budget deviation for their division that is in excess of \$1,000 and 5% of the budget.*

These reviews mitigate the possibility of an improper expenditure being made. We believe we are taking all necessary measures to ensure a viable internal control structure without adding staff or hindering our business and accounting operations.

Comptroller's Response

The Comptroller appreciates the Department's efforts to mitigate the possibility of an improper expenditure being made and understands the limitation posed by the agency's small size. However, the risks of non-segregated system access still exist and will remain regardless of the other mitigating controls in place to prevent fraudulent activities from occurring.

Appendices

APPENDICES

Appendix 1 — Summary of Sample Errors Detected

Audit Period: June 1, 2016 through May 31, 2017

GROUP 1 (USPS) — PAYROLL TRANSACTIONS — Limited Sampling

Low Range	High Range	Audited Transactions	Errors Detected (A)	Sample Base (B)	Error Rate (C)	Population Base
\$0.00	\$999,999,999.99	150	\$0.00	\$690,245.71	.000000	\$17,054,441.85

GROUP 2 (USPS) — NON-OVERNIGHT TRAVEL TRANSACTIONS — Limited Sampling

Low Range	High Range	Audited Transactions	Errors Detected (A)	Sample Base (B)	Error Rate (C)	Population Base
\$0.00	\$999,999,999.99	10	\$0.00	\$3,434.29	.000000	\$29,341.80

GROUP 1 (USAS) — PURCHASE TRANSACTIONS — Limited Sampling

Low Range	High Range	Audited Transactions	Errors Detected (A)	Sample Base (B)	Error Rate (C)	Population Base
\$0.00	\$999,999,999.99	50	\$10,867.75	\$771,199.11	.014092	\$1,419,994.35

GROUP 2 (USAS) — TRAVEL TRANSACTIONS — Limited Sampling

Low Range	High Range	Audited Transactions	Errors Detected (A)	Sample Base (B)	Error Rate (C)	Population Base
\$0.00	\$999,999,999.99	50	\$1,888.54	\$100,655.88	.018762	\$2,148,985.35

Legend

Sample Error Rate (C) = (A) ÷ (B)

Note: All dollar amounts rounded to the second decimal place. All error rates rounded to the sixth decimal place.

APPENDICES

Appendix 2 — Schedule of Errors — Purchase/Procurement — Type 1 Findings

Doc #	Sfx	Error Type 1	Vendor Name	Amount of Error
22161115	001	Missing CMBL	CONDOR MOVING SYSTEM	\$5,510.50
22170539	001	Missing CMBL	SUZYN SKAGGS & ASSOC	\$2,855.76
22170523	001	Missing CMBL	THERMAL MECHANICAL	\$2,501.49

Total Amount of Error \$10,867.75

APPENDICES

Appendix 3 — Schedule of Errors — Travel — Type 1 Findings

Doc #	Sfx	Error Type 1	Traveler Name	Amount of Error
11171138	003	Conservation of State Funds	LINDA D DENNIS	\$176.25
11171392	003	Conservation of State Funds	JOHN L JOHNSON	\$418.21
11171337	004	Conservation of State Funds	BONNIE FOWLER	\$176.25
11170381	001	Conservation of State Funds	DEANA DENICE BALL	\$952.85
11171797	003	Conservation of State Funds	WISIAN GREGORY	\$164.98

Total Amount of Error	\$1,888.54
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Appendix 4 — Audit Process Overview

Post-payment audits are conducted by the Expenditure Audit section of the Comptroller's Statewide Fiscal Services department within the Fiscal Management Division.

Audit objectives

The primary objectives of a post-payment audit are to:

- Ensure payments are documented so a proper audit can be conducted.
- Ensure payment vouchers are processed according to the requirements of the Uniform Statewide Accounting System (USAS) and either:
 - ◊ The Uniform Statewide Payroll/Personnel System (USPS),
 - ◊ The Standardized Payroll/Personnel Report System (SPRS) or
 - ◊ The Human Resource Information System (HRIS).
- Verify payments are made in accordance with certain applicable state laws.
- Verify assets are in their intended locations.
- Verify assets are properly recorded for agencies and institutions of higher education that use the State Property Accounting (SPA) System.
- Verify voucher signature cards and systems security during the audit period are consistent with applicable laws, rules and other requirements.

Comptroller's office responsibilities / Supporting statute

A state agency may request the Texas Comptroller of Public Accounts (Comptroller's office) to pay a claim against the agency only by submitting the appropriate payment voucher to the Comptroller's office.

- [Texas Government Code, Sections 404.046, 404.069, 2103.003, 2103.0035, 2103.004.](#)

State law prohibits the Comptroller's office from paying a claim against a state agency unless the Comptroller's office audits the corresponding voucher.

- [Texas Government Code, Sections 403.071\(a\), 403.078, 2103.004\(a\)\(3\).](#)

State law allows the Comptroller's office to audit a payment voucher before or after the Comptroller's office makes a payment in response to that voucher.

- [Texas Government Code, Section 403.071\(g\)-\(h\).](#)

In addition, state law authorizes the Comptroller's office to conduct pre-payment or post-payment audits on a sample basis.

- [Texas Government Code, Sections 403.011\(a\)\(13\), 403.079, 2155.324.](#)

Methodology

The Expenditure Audit section uses one or more of the following generally recognized auditing techniques to conduct a post-payment audit:

- Detailed audit (100 percent of a given population)
- Stratified random sampling
- Randomly generated sampling
- Non-probability sampling
- Limited sampling

Fieldwork

Each auditor in the Expenditure Audit section is required to approach the fieldwork phase of each audit with an appropriate level of professional skepticism based upon the results of the initial planning procedures.

If an auditor suspects during an audit that fraud, defalcations or intentional misstatement of the facts has occurred, the auditor will meet with his or her supervisor or the Statewide Fiscal Services manager, or both, to decide what course of action or additional procedures would be appropriate.

Reporting

Each auditor audits payment vouchers according to established policies and procedures. The audit findings are reported to the audited agency in the form of a report.

The audit report:

- Discloses the total dollar amount of any unsubstantiated payments or overpayments noted in the audit.
- Includes recommendations and requirements for the audited agency.

Each auditor:

- Discusses the management issues noted during the audit at the exit, and
- Includes details of these issues to the chief fiscal officer after the exit.

CIVIL RIGHTS DIVISION PERSONNEL POLICIES AND PROCEDURES REVIEW CHECKLIST

Texas Department of Banking No. 451

2601 N. Lamar
Austin, TX 78705

Date On-Site: 5/23/2018

Reviewer: Ellena E. Rodriguez

PERSONNEL SELECTION POLICIES/WORKFORCE DIVERSITY PROGRAM	Chapter/ Page	Yes/No Or N/A
1. <u>Workforce Diversity Program: Workforce Analysis & Recruitment Plan</u>		
a. Has the agency/institute of higher learning conducted an analysis of its current workforce and compared the number of African Americans, Hispanic Americans and females in each job category to the available statewide civilian workforce to determine the percentage of exclusion or underutilization by each category? (TLC § 21.452 and 21.501)	DOB Workforce Analysis , Pgs. 17-19, Appendix B.	Yes
b. Based on the workforce analysis, or court ordered remedies, or supervised conciliation agreement, has the agency/institute of higher learning developed and implemented a plan to recruit qualified African Americans, Hispanic Americans and females? (TLC § 21.452 and 21.502)	DOB Recruitment Plan , Rev. Sept. 2017	Yes
2. <u>Job Advertisements:</u> Do job advertisements refrain from indicating a preference, limitation, specification or discrimination based on race, color, national origin, religion, sex, age or disability? (TLC § 21.059(a)) (If no, the agency must demonstrate an exception such that a bona fide occupational qualification exists for a preference, limitation or specification based on disability, religion, sex, national origin or age to be in compliance. (TLC § 21.059(b))	DOB Policy Job Descriptions , Section 4-01.4	Yes
3. <u>Hiring Procedures:</u>		
a. Has the agency/institute of higher learning published written selection procedures? (TLC § 21.452)	DOB Policy Hiring Procedures , Section 4-01.1	Yes
b. Do written selection procedures incorporate a workforce diversity program and ensure that all selection decisions are made only on lawful, job related and non-discriminatory criteria? (TLC § 21.452)	DOB Policy Hiring Procedures , Sec. 4-01.3	Yes
c. Does the policy include clear guidance for an applicant screening device and	DOB	Yes

selection matrix to be used to objectively compare an applicant's qualifications to a job advertisement and to other applicants for the position? (Best Practice)	Policy Hiring Procedures , Sec. 4-01.3 & HR 22 Job Postings and Hiring Procedures	
d. Do procedures include guidance on developing interview questions that cover objective, job related criteria and provide information on the applicants' knowledge and competencies to perform the job? (Best Practice)	DOB Policy Hiring Procedures , Sec. 4-01.3	Yes
e. Do procedures require a review of hiring actions for EEO compliance? (Best Practice)	DOB Policy Hiring Procedures , Sec. 4-01.3	Yes
f. Does the review of samples of hiring actions indicate that the agency implemented the selection procedures? (TLC § 21.452).	Samples	*Yes

SECTION SUMMARY:

Findings and Recommendations:

None.

Observations and Best Practices:

*The Texas Department of Banking (DOB) hiring policy mandates a review of hiring actions for EEO compliance throughout various stages of the entire hiring process. However, samples do not provide verification specifically for EEO compliance review or responsible DOB staff member/designee conducted and or completed assigned task.

Management Comments:

The Department of Banking Human Resources Director will develop an EEO compliance review checklist based on Personnel Policy and Procedures Manual, Section 4-01 Hiring Procedures. This checklist will be completed when a hiring packet is closed. Hiring packets with a completed EEO compliance review will be stamped and initialed by the reviewer.

- X Certified as in compliance
- Certified as in compliance after implementing recommendations
- Factors preventing certification of compliance as agency/institute of higher learning has not implemented recommendations on statutory/regulatory requirements

PERFORMANCE EVALUATION POLICY	Chapter/ Page	Yes/No Or N/A
1. Has the agency developed and implemented a performance evaluation policy? (TLC § 21.452) (Required if in enabling legislation; Best Practice if not.)	DOB Policy Performance Management System, Sec. 6	Yes
2. Does the policy require development of a performance evaluation or similar document containing rating of an individual's work performance? (Best Practice) *For institutions of higher learning, it is a best practice to provide an evaluation of performance to all employees, however, short-term student workers will not factor into this requirement.	DOB Policy Performance Management System, Sec. 6-01.1, Sec. 6-04.1, Sec. 6-10.1	Yes
3. Does the policy require that the performance evaluation or similar document rate the individual's compliance with policies, procedures and work rules of the agency/institute of higher learning? (Best Practice)	DOB Policy Performance Management System, Sec. 6-10.1	Yes
4. Does the policy require that evaluations be based on objective, measurable and consistently applied criteria? (Best Practice)	DOB Policy Performance Management System, Sec. 6-02.1, Sec. 6-03.1, Sec. 6-04.1	Yes
5. Does the policy require a review of performance evaluations for EEO compliance? (Best Practice)	DOB Policy Performance Management System, Sec. 6-04.1	Yes
6. Does the review of samples of performance evaluations indicate that the agency has implemented the procedures? (TLC § 21.452)	Samples	Yes

SECTION SUMMARY:

Findings and Recommendations:

None.

Observations and Best Practices:

None.

Management Comments:

None.

- ☒ Certified as in compliance
- ☐ Certified as in compliance after implementing recommendations
- ☐ Factors preventing certification of compliance as agency/institute of higher learning has not implemented recommendations on statutory/regulatory requirements

DISCIPLINARY ACTIONS POLICY	Chapter/ Page	Yes/No Or N/A
1. Has the agency developed and implemented a disciplinary actions policy? (Best Practice)	DOB Policy Disciplinary Actions , Sec. 5	Yes
2. Does the policy require that disciplinary actions be based only on job performance and job-related conduct? (Best Practice)	DOB Policy Disciplinary Actions , Sec. 5-01.2, Sec. 5-01.3	Yes
3. Does the policy require documentation (i.e., performance evaluation, counseling, etc.) of the employee's performance and/or conduct that resulted in the disciplinary action? (Best Practice)	DOB Policy Disciplinary Actions , Sec. 5-02.1, Sec. 5-02.4	Yes
4. Does the policy prescribe progressive discipline and provide criteria for by-passing lesser disciplinary measures for severe misconduct? (Best Practice)	DOB Policy Disciplinary Actions , Sec. 5-02.1	Yes
5. Does the policy require a review of disciplinary actions for EEO compliance? (Best Practice)	DOB Policy Disciplinary Actions , Sec. 5-02.4	Yes
6. Does the review of samples of disciplinary actions indicate that the agency has implemented the procedures? (Best Practice)	Samples	*Yes

SECTION SUMMARY:

Findings and Recommendations:

None.

Observations and Best Practices:

*DOB's procedures for formal disciplinary action policy, 5-02.4, mandates "Recommendations for formal disciplinary action must be submitted in writing in advance of the action to Human Resources and the Department's designated attorney for personnel matters and will be reviewed for compliance with non-discrimination policies." However, the review of samples does not provide verification specifically for EEO compliance review or responsible DOB staff member/designee has conducted.

Management Comments:

All disciplinary actions are reviewed by Human Resources and Legal. We shall use a stamp to indicate that an EEO compliance review has been completed and the reviewers will initial the file copy of all future disciplinary actions.

- ☒ Certified as in compliance
- ☐ Certified as in compliance after implementing recommendations
- ☐ Factors preventing certification of compliance as agency/institute of higher learning has not implemented recommendations on statutory/regulatory requirements

WORKPLACE ACCOMMODATION POLICY	Chapter/ Page	Yes/No Or N/A
1. Has the agency/institute of higher education developed and implemented a work place accommodation policy? (TLC § 21.128)	DOB Policy Workplace Accommodation , Sec. 1-02.1	Yes
2. Does the policy include provisions for the requesting employee with a disability (unless obvious) to provide reasonable documentation from an appropriate health care provider that describes a disability and the need for the accommodation? (Best Practice)	DOB Policy Workplace Accommodation , Sec. 1-02.3	Yes
3. Does the policy include a definition of “Disability” that is consistent with Chapter 21, Texas Labor Code? (TLC § 21.002(6))	DOB Policy Workplace Accommodation , Sec. 1-02.2	Yes
4. Does the policy include specific provisions describing the process for making reasonable workplace accommodations for qualified individuals with disabilities? (Best practice)	DOB Policy Workplace Accommodation , Sec. 1-02.4	Yes
5. Does the policy ensure that reasonable workplace accommodations are made not only for individuals with disabilities, but also persons with sincerely-held religious beliefs and women affected by pregnancy? (Best Practices; <i>See EEOC v. Abercrombie and Fitch, U.S. S.Ct., No. 14-86 (6/1/15)</i> (religion); <i>Young v. UPS, No. 12-1226 (3/25/15)</i> (pregnancy))	DOB Policy Workplace Accommodation , Sec. 1-02.1	Yes
6. Does the review of samples of requests for accommodation indicate that the agency has implemented the procedures? (TLC § 21.452)	Samples	Yes

SECTION SUMMARY:

Findings and Recommendations:

None.

Observations and Best Practices:

None.

Management Comments:

None.

- ☒ Certified as in compliance
- ☐ Certified as in compliance after implementing recommendations
- ☐ Factors preventing certification of compliance as agency/institute of higher learning has not implemented recommendations on statutory/regulatory requirements

EEO POLICY INCLUDING SEXUAL HARASSMENT	Chapter/ Page	Yes/No Or N/A
1. EEO Policy: Has the agency developed and implemented an equal employment opportunity policy? (TLC § 21.452; See also agency's/institute of higher learning enabling legislation)	DOB Policy EEO/Sexual Harassment Procedures , Sec. 1-04.1	Yes
a. Does the policy prohibit discrimination based on race, color, national origin, religion, sex, age, or disability? (TLC § 21.051)	DOB Policy EEO/Sexual Harassment Procedures , Sec. 1-04.1	Yes
b. Does the EEO policy require a training program that provides employees information regarding the agency's policies and procedures relating to employment discrimination, including sexual harassment, and require that employees receive initial training within 30 days after their date of hire and supplemental training every two years? (TLC § 21.010, 40 Tex. Admin. Code §819.24) *For institutions of higher learning, it is a best practice to provide employment discrimination training to all employees, however, short-term student workers will not factor into this requirement.	DOB Policy Compliance Training , Sec. 1-04.2	Yes
c. Does the EEO policy prohibit retaliation against a person who opposes a discriminatory practice, files a charge, testifies, assists or participates in an investigative proceeding or hearing? (TLC § 21.055)	DOB Policy EEO/Sexual Harassment Procedures , Sec. 1-04.1	Yes
2. Sexual Harassment Policy: Has the agency/institute of higher learning developed and implemented a sexual harassment policy? (TLC § 21.452; Faragher v. City of Boca Raton, 118 S. Ct. 2275 (1989))	DOB Policy EEO/Sexual Harassment Procedures , Sec. 1-04.1	Yes
a. Does the policy clearly explain the prohibited conduct constituting "sexual harassment"? (Best Practice)	DOB Policy Definition of Sexual Harassment , Sec. 1-04.3	Yes
b. Does the policy include a provision for distribution or communication of the policy to all employees? (Best Practice)	DOB Policy Compliance Training , Sec. 1-04.2	Yes
c. Has the agency/institute of higher learning developed and implemented complaint procedures? (Faragher v. City of Boca Raton, 118 S. Ct. 2275 (1989))	DOB Policy Procedure Reporting	Yes

	Concerns , Sec. 1-04.4	
d. Do the complaint procedures allow employees to bypass harassing supervisors? (Best Practice)	DOB Policy Procedure Reporting Concerns , Sec. 1-04.4	Yes
e. Does the policy assure that employees who make complaints of harassment or provide information relating to such complaints will be protected from retaliation? (Best Practice)	DOB Policies EEO/Sexual Harassment Procedures , Sec. 1-04.1 & Procedure Reporting Concerns , Sec. 1-04.4	Yes
f. Does the policy assure that the employer will protect the confidentiality of individuals bringing harassment complaints to the extent possible? (Best Practice)	DOB Policy Investigation , Sec. 1-04.5	Yes
g. Does the complaint process provide for a prompt, thorough and impartial investigation? (Best Practice)	DOB Policy Investigation , Sec. 1-04.5	Yes
h. Does the policy include procedures for instituting immediate and corrective actions if prohibited conduct occurs? (Best Practice)	DOB Policy Investigation , Sec. 1-04.5	Yes
i. Does the policy include procedures for continued monitoring of the circumstances surrounding the complaint to ensure the situation has been remedied? (Best Practice)	DOB Policy Investigation , Sec. 1-04.5	Yes

EEO POLICY INCLUDING SEXUAL HARASSMENT - Continued	Chapter/ Page	Yes/No Or N/A
3. Does the review of samples of personnel actions indicate that the agency/institute of higher learning has implemented the EEO/Sexual Harassment policies? (TLC § 21.452)	Samples	Yes

SECTION SUMMARY:

Findings and Recommendations:

None.

Observations and Best Practices:

Prior to the EEO compliance review informational webinar (Feb 2018), DOB utilized an equal employment opportunity, non-discrimination and sexual harassment training curriculum not certified by CRD. ([Tex. Admin. Code §819.24](#)) By the date of the onsite, DOB corrected and implemented an approved equal employment opportunity, non-discrimination and sexual harassment training curriculum and all staff have completed required training, which was verified by the review of samples.

Management Comments:

The Department will continue to provide approved equal opportunity, non-discrimination, and sexual harassment training to new employees no later than the 30th day after the date the employee is hired by the agency, with supplemental training every-two years thereafter.

- ☒ Certified as in compliance
- ☐ Certified as in compliance after implementing recommendations
- ☐ Factors preventing certification of compliance as agency/institute of higher learning has not implemented recommendations on statutory/regulatory requirements

COMPENSATION POLICY	Chapter/ Page	Yes/No Or N/A
1. Does the agency/institution of higher learning have a written compensation policy? (Best Practice)	DOB Policy Salary Administration , Sec. 4-10.1	Yes
2. Does the review of samples of merit increases (“raises”)/promotions/one-time merit payments (“bonuses”) indicate that the agency has implemented the policy? (Best Practice)	Samples	Yes

SECTION SUMMARY:

(There is no compliance certification for the compensation policy since both items are best practices.)



Signature of Policy Reviewer

June 15, 2018

Date

Approved:



Division Director

June 15, 2018

Date

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Department of Savings and Mortgage Lending

Recovery Fund

Investment Officer Report as of May 31, 2018

Current Investments/Securities as of May 31, 2018

Purchase Date	Beginning Market Value	Ending Market Value	Accrued Interest - Estimated	Interest Rate	Maturity Date	Description	Fin. Institution
6/15/2016	250,000.00	250,000.00	1,195.42	1.14%	6/15/2018	CD - 24 months	TrustTexas Bank SSB
8/4/2016	240,000.00	241,802.45	81.61	0.45%	8/4/2018	CD - 24 months	First Bank SSB
10/18/2016	250,000.00	250,000.00	668.40	1.75%	10/18/2018	CD - 24 months	Dalhart Federal Savings
1/31/2017	250,000.00	250,000.00	322.92	1.50%	1/31/2019	CD - 24 months	Horizon Bank SSB
4/7/2017	240,000.00	243,751.98	580.94	1.56%	4/7/2019	CD - 24 months	TBK Bank
5/5/2017	240,000.00	240,000.00	1,173.00	0.45%	5/5/2019	CD - 24 months	Angelina Savings Bank
6/14/2017	250,000.00	250,000.00	2,428.48	1.00%	6/14/2019	CD - 24 months	Pioneer Bank SSB
9/8/2017	247,537.83	247,537.83	2,186.58	1.20%	9/8/2019	CD - 24 months	Austin Capital SSB
10/2/2017	250,000.00	250,000.00	1,840.97	1.10%	10/2/2019	CD - 24 months	Cypress Bank SSB
12/13/2017	248,446.16	248,446.16	989.99	0.95%	12/13/2019	CD - 24 months	First Fed Community Bank, SSB
12/15/2017	250,000.00	250,000.00	1,565.63	1.35%	12/15/2019	CD - 24 months	Spirit of Texas, SSB
2/4/2018	250,000.00	250,000.00	563.89	0.70%	2/4/2020	CD - 24 months	Third Coast Bank SSB
4/17/2018	250,000.00	250,000.00	320.83	1.05%	4/17/2018	CD - 24 months	South Star Bank SSB
Totals	3,215,983.99	3,221,538.42	13,918.66				

Department of Savings and Mortgage Lending

Recovery Fund

Investment Officer Report as of May 31, 2018 (continued)

Fund Position for the Quarter Ended May 31, 2018		
Beginning Cash Balance as of March 1, 2018	\$	574,761.28
Receipts		
Licensees' Remittances	11,500.00	
Interest from CDs	8,242.37	
Interest from overnight repos	2,762.07	
CD - Maturity	495,000.00	
Total Received	\$	517,504.44
Disbursements		
CD - Purchase	(250,000.00)	
Recovery Fund Claims	-	
Bank Fees and Charges	(90.72)	
Total Disbursed	\$	(250,090.72)
Total Cash Balance in Trust and Treasury		842,175.00
Reserve		
Reserved for Potential Payment of Claims w/in 90 days	\$	(20,052.16)
Available Cash Balance as of May 31, 2018		822,122.84
 Total Amount of Investments		3,221,538.42
Accrued Receivables		21,568.66
Accrued Payables		(38.64)
Fund Balance as of May 31, 2018	\$	4,085,243.44


Claim Payment History		
Fiscal Year	Total Amount \$	# of Payments
2000-2008	234,555.90	12
2009	100,000.00	10
2010	147,033.52	16
2011	22,225.00	5
2012	1,300.00	1
2013	1,465.13	1
2014	-	0
2015	1,039.50	1
2016	-	0
2017	8,566.00	2
2018 YTD	7,175.00	2
Totals	523,360.05	50

Investment Position:

The Fund is capable of meeting all known obligations.

Investment Compliance:

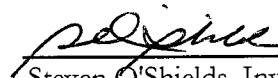
The Department's Investment Policy has been followed.



Antonia Antov, Investment Officer

7/3/2018

Date



Steven O'Shields, Investment Officer

7/3/2018

Date

**Office of Consumer Credit Commissioner
Fiscal Year 2018 - 3rd Quarter**

Residential Mortgage Loan Originator Recovery Trust Fund #3008

<u>Beginning Balance at 03/01/18</u>	<u>Additions / *(Deductions)</u>	<u>Interest Paid</u>	<u>Paid Bank Fees</u>	<u>Ending Balance at 05/31/18</u>	<u>Current Interest Rate</u>
\$ 145,539.97	\$ 1,200.00	\$ 574.10	\$ (44.17)	\$ 147,269.90	1.69 %

Investment Officer: /s/ Christina Cuellar

Date: 07/05/18

Reviewed By: /s/ Leslie Pettijohn

Date: 07/06/18

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

**Office of Consumer Credit Commissioner
Fiscal Year 2018 - 3rd Quarter**

	Texas Financial Education Endowment Fund #3071						
	Beginning Balance at 03/01/18	Additions	Interest Paid	Grant Disbursements	**Paid Bank Fees	Ending Balance at 05/31/18	Current Interest Rate
Cash	\$ 2,042,619.95	\$ 7,892.25	\$ 7,831.97	\$ (68,447.44)	\$ (6,285.53)	\$ 1,983,611.20	1.69%
Invested Portfolio	Beginning Balance at 03/01/18	Additions	*Change in Value	Transfer Out	Paid Fees	Ending Balance at 05/31/18	
Investments - STIF	\$ 361,675.01	\$ 10,384.76	\$ (58,059.05)		\$ (1,913.27)	\$ 312,087.45	
Interest & Dividends Receivable	444.88		36.85			481.73	
Trade Receivables	-		-			-	
Investments - Equities	48,388.41		(4,647.83)			43,740.58	
Investments - Alternatives	3,055,101.12		82,744.52			3,137,845.64	
Investments - Fixed Income	345,445.53		(21,050.66)			324,394.87	
Investments - Futures	2,607.14		(27.91)			2,579.23	
Invested Portfolio	\$ 3,813,662.09	\$ 10,384.76	\$ (1,004.08)	\$ -	\$ (1,913.27)	\$ 3,821,129.50	
Liabilities							
Accounts Payable	\$ (1,855.79)	\$ 907.69	\$ -	\$ -	\$ -	\$ (948.10)	
Trade Payables	(13,564.62)	13,342.15				\$ (222.47)	
Total Liabilities	\$ (15,420.41)	\$ 14,249.84	\$ -	\$ -	\$ -	\$ (1,170.57)	
Total Net Fiduciary Assets	\$ 3,798,241.68					\$ 3,819,958.93	
Total Endowment Funds	\$ 5,840,861.63					\$ 5,803,570.13	

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

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

** The amount of \$3,271.29 was received and then withdrawn. The funds flowed in and out of the account as "Additions" and "Paid Bank Fees".

Investment Officer: /s/ Christina Cuellar

Date: 07/05/18

Reviewed By: /s/ Leslie Pettijohn

Date: 07/06/18

Trust Funded Prepaid Funeral Guaranty Fund Quarterly Investment Report
March 1, 2018 to May 31, 2018

<u>Book</u> <u>Book Value at February 28, 2018</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, 2018</u>	<u>Maturity</u> <u>Date</u>	<u>Interest</u> <u>Rate</u>	<u>Accrued Interest</u> <u>on CDs</u>
\$1,304,086.28	\$4,593.26	\$82.86	\$23,717.24	\$39,317.24	\$1,324,196.68	--	--	\$1,281.07

Trust Account Balances at Trustee/Depositories

Texas Treasury Safekeeping Trust Company *	\$356,891.54	6/1/2018	1.69%	
Veritex Community Bank, Dallas, Texas (CD)	\$240,000.00	12/14/2018	1.55%	\$706.80
State Bank of Texas, Dallas, Texas (CD)	\$240,000.00	12/16/2018	1.55%	\$148.80
Frontier Bank of Texas, Elgin, Texas (CD)	\$244,525.69	1/18/2019	1.45%	\$425.47
Pilgrim Bank (money market)	<u>\$242,779.45</u>	n/a	0.91%	
Subtotal	\$1,324,196.68			

(1) Other deductions include: (a) funds totaling \$945.00 related to El Paso Mission Funeral Home were escheated to the Texas Comptroller of Public Accounts (Comptroller's Office); (b) funds totaling \$1,787.24 related to M. Gonzalez and Gonzalez Funeral Home were escheated to the Comptroller's Office; and (c) transfer of \$20,985.00 related to insurance-funded assessments to Texas Treasury Safekeeping Trust Company Account Number 2996.

(2) Other additions include: (a) \$100.00 restitution received from Mr. Dan L. Brothers; (b) \$4,100.00 restitution received from Mr. Kevin Keeney; (c) \$300.00 restitution received from Mr. Marc Gonzalez; (d) \$600.00 restitution received from Lonnie Wright / Angel Hills Funeral Directors; (e) stop payment of restitution checks totaling \$945.00 issued to consumers related to El Paso Mission Funeral Home; (f) stop payment of restitution checks totaling \$1,787.24 related to M. Gonzalez and Gonzalez Funeral Home; (g) assessments totaling \$20,985.00 received from insurance-funded permit holders; (h) \$7,500.00 restitution received from Timothy Gaffney; (i) and \$3,000.00 from R. Ritter / Heartfield-Ritter Funeral Home.

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: 7/3/2018

Reviewed By: /s/ Stephanie Newberg

Date: 7/3/2018

Insurance-Funded Prepaid Funeral Guaranty Fund Quarterly Investment Report
March 1, 2018 to May 31, 2018

<u>Book Value at February 28, 2018</u>	<u>Interest Income Received</u>	<u>Trustee Fees Paid</u>	<u>Other Deductions</u>	(1) <u>Other Additions</u>	<u>Book/Market Value at May 31, 2018</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Accrued Interest on CDs</u>
\$503,641.92	\$1,872.68	\$72.05	\$0.00	\$45,695.00	\$551,137.55			\$146.15
<u>Account Balances at Trustee/Depositories</u>								
					\$305,506.00	6/1/2018	1.69%	
					<u>\$245,631.55</u>	7/14/2018	1.19%	\$146.15
				Subtotal	<u>\$551,137.55</u>			

(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: 7/3/2018

Reviewed By: /s/ Stephanie Newberg Date: 7/3/2018

Department of Banking Quarterly Investment Report
 March 1, 2018 to May 31, 2018

Seized Prepaid Funeral Funds	Book Value at February 28, 2018	Interest Income Received	Trustee Fees Paid	Other Deductions	Other Additions	Book Value at May 31, 2018	Trustee	Investment Type	Maturity Date	Interest Rate
None										
Total Seized Funds	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00				

Notes:

Prepared By: /s/ Jesus Saucillo
 Date:7/3/2018

Reviewed By: /s/ Stephanie Newberg
 Date: 7/3/2018

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DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

OPERATING STATEMENT AND BUDGET ANALYSIS

For the Period Ended May 31, 2018

	FY 2017 EXPENDED	FY 2018 BUDGET	FY 2018 PERFORMANCE			
			YTD BUDGET	YTD EXPENDED*	(OVER)/UNDER BUDGET	PERCENT BUDGET
REVENUE:						
Annual Assessment	1,656,500	1,783,534	1,783,534	1,884,681	(101,147)	105.7%
Thrift Application Fees	17,600	15,000	10,000	25,800	(15,800)	258.0%
Licensing Fees	4,012,638	3,715,105	3,296,905	3,424,350	(127,445)	103.9%
Fines and Penalties	778,830	0	0	388,411	(388,411)	0.0%
Recovery Fund Offset	6,281	10,000	0	0	0	0.0%
Depository Interest	68,152	45,000	33,750	113,436	(79,686)	336.1%
Miscellaneous	4,761	3,000	300	109	191	0.0%
Judgements and Settlements	0	0	0	84,484	(84,484)	0.0%
TOTAL REVENUE	6,544,762	5,571,639	5,124,489	5,921,271	(796,782)	115.5%
EXPENDITURES:						
Salaries and Wages-						
Exempt	194,750	194,750	146,062	146,062	0	100.0%
Classified	3,601,610	4,017,586	2,982,565	2,864,076	118,489	96.0%
Other Personnel Costs	90,552	89,203	66,568	62,684	3,884	94.2%
	3,886,912	4,301,539	3,195,195	3,072,822	122,373	96.2%
Travel-						
Transportation & Mileage	262,365	327,500	238,275	192,063	46,212	80.6%
	262,365	327,500	238,275	192,063	46,212	80.6%
Other Expenditures-						
Professional Services/Fees	108,327	125,090	103,600	101,540	2,060	98.0%
Consumable Supplies	11,353	14,000	10,500	6,947	3,553	66.2%
Utilities	30,865	36,088	26,840	23,045	3,795	85.9%
Rent-Space & Equipment	6,086	6,000	4,900	5,307	(407)	108.3%
Other Operating Expenses	279,968	368,080	268,623	243,289	25,334	90.6%
Elevator/Boiler Replacement			0	207,703	(207,703)	0.0%
	436,599	549,258	414,463	587,831	(173,368)	141.8%
Other Agency Costs						
Employee Benefits	1,216,266	1,336,996	991,347	949,681	41,666	95.8%
SWCAP Indirect Costs	21,708	22,000	16,500	15,224	1,276	92.3%
	1,237,974	1,358,996	1,007,847	964,905	42,942	95.7%
TOTAL EXPENDITURES	5,823,850	6,537,293	4,855,780	4,817,621	38,159	99.2%
EXPENDITURES (OVER)/ UNDER REVENUE	720,912	(965,654)	268,709	1,103,650	(834,941)	N/A

* Amounts include accruals and encumbrances.

Department of Savings and Mortgage Lending

Budget Variance Analysis as of May 31, 2018

Revenues:

Overall revenues are at 15.5% over budget.

Thrift Assessments – Revenues are 5.7% over budget, mostly due to higher than budgeted level of assets.

Thrift Application Fees – Revenues are 158% over budget due to higher than budgeted application activity.

Depository Interest – Revenues are over budget due to higher interest rates and increased account balances.

Fines and Penalties – No amount was budgeted.

Expenditures:

Overall expenditures are at 99% of budget.

Employees' Salaries and Related Benefits – These categories are at 4% under budget due to several vacancies.

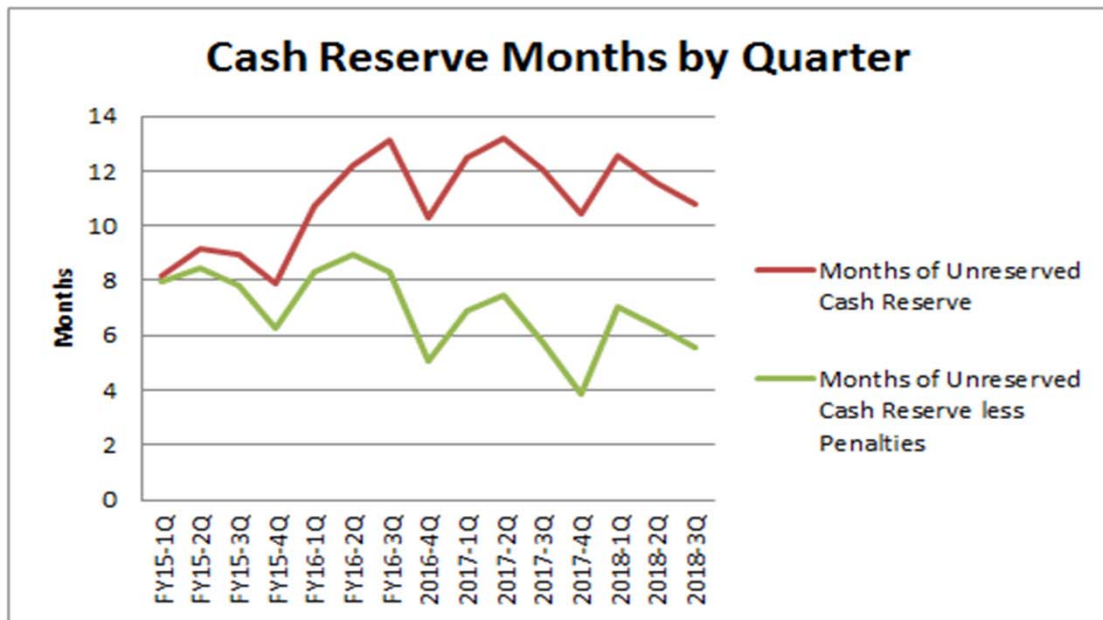
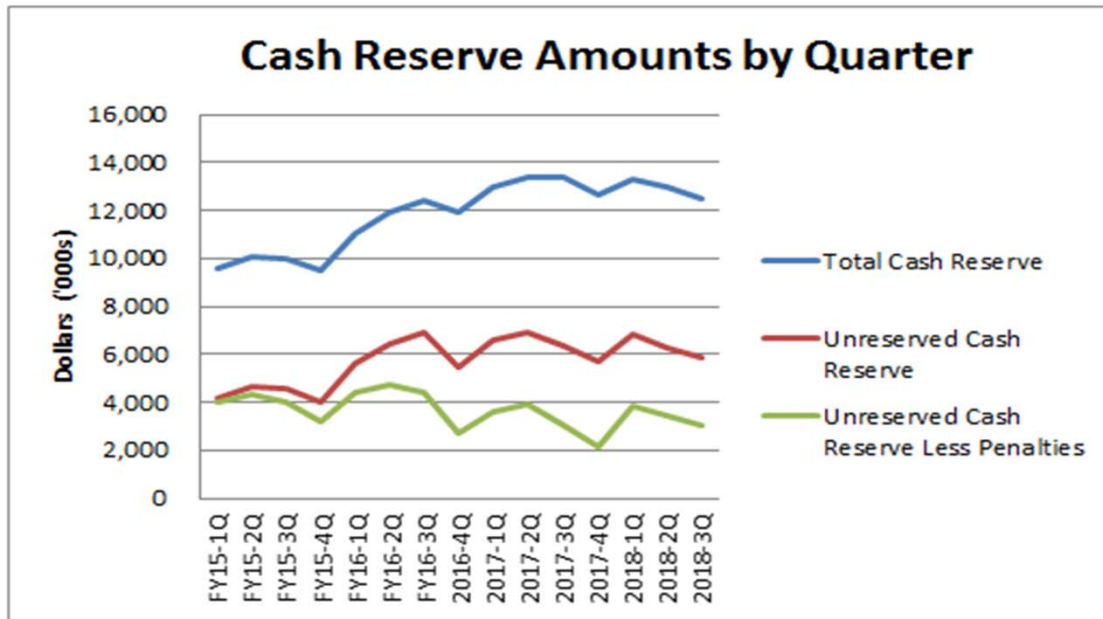
Travel – This category is 19% under budget due to less travel expenses incurred.

Other Operating Expenses – The category is 9% under budget mostly due to timing of equipment purchases.

Elevator/Boiler Replacement – No amount was budgeted.

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING LIQUIDITY REPORT <i>For the Quarter Ending May 31, 2018</i>	
	Actual
Cash at Beginning of Period	\$ 12,978,861
Revenues Over (Under) Expenditures CY	\$ (210,240)
Revenues Over (Under) Expenditures PY	\$ (39)
Increase (Decrease) in Payables/Encumbrances	\$ (50,574)
(Increase) Decrease in Receivables	\$ 4,704
Deferred Building Maintenance	(207,703.00)
Cash at End of Period	\$ 12,515,009
Reserved Cash Balance:	
Bldg. maintenance/IT	\$ -
Long-term facilities planning	\$ 6,056,506
Payables (net of receivables)	\$ 508,719
Lump Sums for Retirements	\$ 100,000
Program Funds	\$ -
Other	\$ -
Total Reserved Cash Balance	\$ 6,665,225
Unreserved Cash Balance:	
Future Operations	\$ 5,849,784
Total Unreserved Cash Balance	\$ 5,849,784
Total Cash Balance	\$ 12,515,009
Unreserved Cash/FY2018 Monthly Budget	10.7 months

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING



OFFICE OF CONSUMER CREDIT COMMISSIONER
OPERATING STATEMENT & BUDGET ANALYSIS
For the Period Ended May 31, 2018

75.00%

	FY 2017 ACTUAL	FY 2018 BUDGET	FY 2018 PERFORMANCE			
			YTD BUDGET	YTD ACTUAL	(OVER)/UND BUDGET	PERCENT BUDGET
REVENUES:						
Regulated Lenders	\$ 2,152,309	\$ 2,251,268	\$ 2,195,213	\$ 2,149,081	\$ 46,132	97.9%
Pawn Industry	1,065,539	1,035,415	760,647	438,873	321,774	57.7% (1)
MV Industry	4,037,505	4,020,994	655,635	628,399	27,236	95.8%
Credit Access Industry	1,258,815	1,152,740	1,145,087	1,184,400	(39,313)	103.4%
Penalties / Late Fees	600,337	-	-	339,760	(339,760)	-
Debt Management Services	39,640	40,856	38,540	45,080	(6,540)	117.0% (2)
Debt Cancellation	42,000	-	-	29,250	(29,250)	-
RAL Assessment	132,050	118,530	117,601	133,725	(16,124)	113.7% (3)
Precious Metals	47,475	38,750	30,887	33,800	(2,913)	109.4%
Tax Liens	65,424	58,856	57,589	69,753	(12,164)	121.1% (4)
Sale of Publications	137	-	-	1,050	(1,050)	-
Creditor Registration	82,955	93,515	88,214	80,775	7,439	91.6%
Mortgage Loan Originators	75,500	66,840	61,222	81,225	(20,003)	132.7% (5)
Other Revenue	4,063	-	-	85,798	(85,798)	-
Investment / Interest Income	61,019	-	-	108,735	(108,735)	-
TOTAL REVENUES	\$ 9,664,769	\$ 8,877,764	\$ 5,150,634	\$ 5,409,704	\$ (259,070)	105.0%
EXPENDITURES:						
Salaries and Wages-						
Base Pay	\$ 5,052,138	\$ 5,398,145	\$ 4,048,609	\$ 3,822,727	225,882	94.4%
Benefit Replacement Pay	7,188	6,761	5,071	5,477	(406)	108.0%
Longevity	70,280	82,600	61,950	56,840	5,110	91.8%
	\$ 5,129,606	\$ 5,487,506	\$ 4,115,630	\$ 3,885,044	\$ 230,586	94.4% (6)
Travel-						
Public Transportation, Lodging, Meals & Mileage	758,716	797,200	597,900	539,661	58,239	90.3%
	\$ 758,716	\$ 797,200	\$ 597,900	\$ 539,661	\$ 58,239	90.3% (7)
Other Expenditures-						
Professional Services & Fees	176,634	384,000	269,000	191,820	77,180	71.3% (8)
Consumable Supplies	17,121	27,000	20,250	10,043	10,207	49.6%
Postage & Freight	22,345	31,000	23,250	11,613	11,637	49.9%
Telephone & Communications	68,505	85,550	64,163	53,826	10,337	83.9%
Bldg. & Utilities	54,320	68,900	51,675	45,567	6,108	88.2%
Elevator/Boiler Replacement	-	-	-	237,634	(237,634)	0.0%
Publication / Printing & Reproduction	476	2,500	1,875	1,768	107	94.3%
Other Operating	222,274	325,783	263,337	277,663	(14,326)	105.4% (9)
	\$ 561,675	\$ 924,733	\$ 693,550	\$ 829,934	\$ (136,384)	119.7%
Acquisition of Info Technology	\$ 56,699	\$ 94,600	\$ 70,950	\$ 110,648	\$ (39,698)	156.0% (10)
Development in Progress	589,389	-	-	-	-	0.0%
Employee Benefits	1,853,669	2,047,768	1,535,826	1,414,892	120,934	92.1%
SWCAP Reimb to Unapp Gr 0001	28,706	35,000	26,250	24,677	1,573	94.0%
SORM Assessment	6,059	6,500	4,875	6,230	(1,355)	127.8%
Unemployment Benefits	13,046	15,000	11,250	6,925	4,325	61.6%
	\$ 2,547,568	\$ 2,198,868	\$ 1,649,151	\$ 1,563,372	\$ 85,779	94.8%
TOTAL EXPENDITURES:	\$ 8,997,565	\$ 9,408,307	\$ 7,056,230	\$ 6,818,011	\$ 238,219	96.6%
EXPENDITURES (OVER) / UNDER REVENUE	\$ 667,204	\$ (530,543)	\$ (1,905,596)	\$ (1,408,307)	\$ (497,289)	

Office of Consumer Credit Commissioner

Overview of Budget Variances for 3rd Quarter FY 2018

Revenues- 105% of budget

- 1.) Pawn revenue is under budget. This is primarily due to a timing issue because the renewal period occurs May thru June.
- 2.) Debt Management Services has exceeded budget due to the increase in the number of applications received at the end of February. The revenue has exceeded the annual projection.
- 3.) RAL Assessment is above budget for the year due to the increase in number of registrations in the fiscal year. The activity in this market segment has increased considerably over prior years.
- 4.) Tax Lien is over budget due to unexpected growth in license applications and renewals. The revenue has exceeded the annual projection.
- 5.) Mortgage Loan Originator revenue is above budget due to the receipt of a greater number of renewals than anticipated. The projection was for a greater rate of attrition than was realized.

Expenditures- 96.4% of budget

- 6.) Salaries and Wages expenditures are 94.4 % of the projected budget. The variance is primarily due to vacant positions caused by turnover. The agency is actively recruiting and plans to fill most of the positions by fiscal year end.
- 7.) Travel expenditures are at 90.3% of the projected budget. Employee turnover within the Exam department has contributed to this variance, however as positions are filled the amount of variance will decrease.
- 8.) Professional Fee expenditures are below budget due to a licensing project that was budgeted this year for the licensing department that may be deferred. Additional activity consisted of a transition of crafted precious metal registrations into ALECS and security improvements which will be paid in the 4th qtr.
- 9.) Other Operating is over budget due to the purchase of a license for security software that was not fully anticipated during the budget process. The agency also incurred more court costs than anticipated.
- 10.) Acquisition of Information Technology is over budget due to the purchase of maintenance for security software that was not fully anticipated during the budget process.

OFFICE OF CONSUMER CREDIT COMMISSIONER

LIQUIDITY REPORT

For the Quarter Ending May 31, 2018

	Actual
Cash at Beginning of Period	\$ 12,752,390
Revenues Over (Under) Expenditures	(1,656,728.00)
Increase (Decrease) in Payables/Encumbrances	(11,434.43)
(Increase) Decrease in Receivables	3,155.00
Cash at End of Period	\$ 11,087,382

Reserved Cash Balance:	
Bldg. maintenance/IT	\$ -
Long-term facilities planning	6,055,611.70
Payables (net of receivables)	707,805.10
Lump Sums for Retirements	133,893.85
Other	-
Total Reserved Cash Balance	\$ 6,897,311
Unreserved Cash Balance:	
Future Operations	\$ 4,190,072
Total Unreserved Cash Balance	\$ 4,190,072
Total Cash Balance	\$ 11,087,382
Unreserved Cash/FY2018 Monthly Budget	5.34

**Texas Department of Banking
Operating Statement and Budget Analysis
For Period Ending May 2018**

	FY 2017 ACTUAL	FY 2018 BUDGET	QUARTER PERFORMANCE				FY 2018 PERFORMANCE			
			3rd Quarter BUDGET	3rd Quarter ACTUAL	(OVER)/UNDER BUDGET	PERCENT BUDGET	YTD BUDGET	YTD ACTUAL	(OVER)/UNDER BUDGET	PERCENT BUDGET
REVENUE:										
Bank & Trust Regulation	\$23,019,360.93	\$25,451,783.00	\$6,715,703.00	\$6,673,227.50	\$42,475.50	99.4%	\$20,192,745.00	\$20,242,966.87	(\$50,221.87)	100.2%
Nonbank Regulation	3,169,412.72	3,223,561.31	459,753.00	445,487.39	14,265.61	96.9%	2,535,616.30	2,842,881.30	(307,265.00)	112.1%
Miscellaneous Revenues	78,639.40	62,400.00	15,600.00	63,783.26	(48,183.26)	408.9%	46,800.00	144,163.49	(97,363.49)	308.0%
TOTAL REVENUES:	\$26,267,413.05	\$28,737,744.31	\$7,191,056.00	\$7,182,498.15	\$8,557.85	99.9%	\$22,775,161.30	\$23,230,011.66	(\$454,850.36)	102.0%
EXPENDITURES:										
Salaries and Wages										
Exempt Salaries	\$234,725.00	\$234,725.00	\$58,681.25	\$58,681.25	\$0.00	100.0%	\$176,043.75	\$176,043.75	\$0.00	100.0%
Classified Salaries	16,479,871.06	17,743,138.31	4,440,958.45	3,955,766.80	485,191.65	89.1%	12,938,880.26	12,095,436.46	843,443.80	93.5%
Other Personnel Costs	368,971.41	548,847.04	112,763.04	116,665.85	(3,902.81)	103.5%	267,008.91	328,263.62	(61,254.71)	122.9%
	\$17,083,567.47	\$18,526,710.35	\$4,612,402.74	\$4,131,113.90	\$481,288.84	89.6%	\$13,381,932.92	\$12,599,743.83	\$782,189.09	94.2%
Travel										
In-State	\$1,419,601.57	\$1,566,470.30	\$362,576.94	\$298,862.11	\$63,714.83	82.4%	\$1,144,479.86	\$948,550.73	\$195,929.13	82.9%
Out-of-State	654,309.12	737,909.00	189,068.00	165,868.43	23,199.57	87.7%	525,428.00	456,671.37	68,756.63	86.9%
	\$2,073,910.69	\$2,304,379.30	\$551,644.94	\$464,730.54	\$86,914.40	84.2%	\$1,669,907.86	\$1,405,222.10	\$264,685.76	84.1%
Other Expenditures										
Professional Fees & Services	\$252,417.61	\$384,390.00	\$64,866.36	\$60,820.67	\$4,045.69	93.8%	\$246,363.93	\$234,033.72	\$12,330.21	95.0%
Postage	11,912.37	10,049.00	1,030.00	584.80	445.20	56.8%	2,946.00	\$1,445.95	1,500.05	49.1%
Consumable Supplies	193,618.31	297,030.00	166,280.22	166,133.35	146.87	99.9%	234,286.16	\$214,500.64	19,785.52	91.6%
Telephone	247,735.71	270,784.52	57,924.54	59,310.55	(1,386.01)	102.4%	209,070.74	\$207,497.24	1,573.50	99.2%
Utilities	39,674.43	46,263.00	10,966.00	10,810.94	155.06	98.6%	38,462.09	\$38,097.36	364.73	99.1%
Rent - Buildings	383,095.41	407,919.04	100,193.26	99,491.71	701.55	99.3%	327,527.20	\$327,115.62	411.58	99.9%
Rent - Machinery & Other	31,126.06	38,834.00	8,271.00	8,147.86	123.14	98.5%	27,188.00	\$26,588.55	599.45	97.8%
Other Operating	346,413.76	415,088.64	101,005.29	85,639.63	15,365.66	84.8%	218,008.60	\$223,105.97	(5,097.37)	102.3%
Subscriptions	16,870.64	18,558.00	4,048.00	1,749.85	2,298.15	43.2%	10,463.00	\$8,732.07	1,730.93	83.5%
Employee Training / Reg. Fees	237,659.82	264,803.30	59,011.40	49,753.76	9,257.64	84.3%	158,267.80	\$152,118.26	6,149.54	96.1%
Claims/SORM Assessment	25,387.76	34,911.00	5,523.00	5,268.47	254.53	95.4%	31,707.00	\$29,628.29	2,078.71	93.4%
Capital / Other IT Expenditures	69,013.30	37,500.00	0.00	0.00	0.00	0.0%	0.00	0.00	0.00	0.0%
	\$1,854,925.18	\$2,226,130.50	\$579,119.07	\$547,711.59	\$31,407.48	94.6%	\$1,504,290.52	\$1,462,863.67	\$41,426.85	97.2%
Total Expenditures before Benefits	\$21,012,403.34	\$23,057,220.15	\$5,743,166.75	\$5,143,556.03	\$599,610.72	89.6%	\$16,556,131.30	\$15,467,829.60	\$1,088,301.70	93.4%
Employee Benefits (Less BRP)	\$4,834,156.07	\$5,287,762.45	\$1,314,534.79	\$1,195,710.39	\$118,824.40	91.0%	\$3,813,850.89	\$3,600,477.73	\$213,373.16	94.4%
Payroll Hlth. Care/Retirement Cont.	241,200.25	266,859.20	\$67,494.60	\$58,513.05	\$8,981.55	86.7%	\$196,723.85	\$179,528.73	\$17,195.12	91.3%
SWCAP	\$46,228.00	\$50,000.00	\$0.00	\$0.00	\$0.00	0.0%	\$0.00	\$0.00	\$0.00	0.0%
Elevator/Boiler Replacement Project	\$0.00	\$0.00	\$0.00	\$461,663.00	(\$461,663.00)	0.0%	\$0.00	\$461,663.00	(\$461,663.00)	0.0%
TOTAL EXPENDITURES:	\$26,133,987.66	\$28,661,841.80	\$7,125,196.14	\$6,859,442.47	\$265,753.67	96.3%	\$20,566,706.04	\$19,709,499.06	\$857,206.98	95.8%
EXPENDITURES (OVER) / UNDER REVENUE:	\$133,425.39	\$75,902.51	\$65,859.86	\$323,055.68	(\$257,195.82)		\$2,208,455.26	\$3,520,512.60	(\$1,312,057.34)	

Texas Department of Banking

Overview of Budget Variances for the Third Quarter of Fiscal Year 2018 - (Variances in excess of \$1,000 and 5% from budget are reported).

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

Classified Salaries and Employee Benefits – The positive variance relates to vacant staff positions. Vacancies in terms of FTEs as of May 31, 2018 are listed below:

Administrative	3
Examiners	15

In-State Travel – The positive variance is due to: (1) vacant examiner positions; (2) Bank and Trust procedures performed off-site; (3) Special Audits examinations that were performed off-site; and (4) training and meetings that were not attended.

Out-of-State Travel – The positive variance is due to: (1) examiner vacancies; (2) Bank and Trust procedures performed off-site; and (3) training that was not attended.

Professional Fees and Services – The positive variance is due to budgeted architect expenditures that did not occur.

Other Operating – The positive variance is due an asset quality review which was to be performed by Michigan examiners was completed by Department staff.

Subscriptions – The positive variance is due to a cancelled subscription and reduced renewal fees.

Employee Training – The positive variance is due to: (1) examiner vacancies; (2) an unbudgeted Federal Reserve Bank training reimbursement; and (3) training that was not attended.

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

TEXAS DEPARTMENT OF BANKING
Liquidity Report
For the Quarter Ending May 31, 2018

	Actual
Cash at Beginning of Period	\$ 17,593,434
Revenues Over (Under) Expenditures	\$ 784,689
Boiler/Elevator Expenditure	\$ (461,633)
Increase (Decrease) in Payables/Encumbrances	\$ (72,862)
(Increase) Decrease in Receivables	\$ (52,877)
Cash at End of Period	<u>\$ 17,790,751</u>

Reserved Cash Balance:	
Bldg. maintenance/IT	\$ -
Long-term facilities planning	\$ 6,056,586
Payables (net of receivables)	\$ 1,738,823
Lump Sums for Retirements	\$ 705,188
Program Funds	\$ -
Other	\$ -
Total Reserved Cash Balance	<u>\$ 8,500,597</u>
Unreserved Cash Balance:	
Future Operations	\$ 9,290,154
Total Unreserved Cash Balance	<u>\$ 9,290,154</u>
Total Cash Balance	<u>\$ 17,790,751</u>
Unreserved Cash/FY2018 Monthly Budget	3.89 months



TEXAS FINANCIAL EDUCATION ENDOWMENT

TFEE Report – August 17, 2018

Juan V. Garcia, Program Director

The 2016-17 TFEE Grant Cycle has come to a close. During this two-year cycle, the eight 2016-17 TFEE Grantees provided more than 60,000 participants with financial education. The final grant report includes information from the grantees' longitudinal reports and the TFEE Exit Survey. This survey allows recipients to share opinions about their experience with the grant and grant administration, and is critical to improving the grant program. All grantees responses must be submitted by Friday, August 3, 2018. The Grant Coordinator will provide the final grant summary report for the Finance Commission meeting in October.

The first reporting cycle for the 2018-19 TFEE Grant Cycle ended on June 30, 2018 and reports were due on July 30, 2018. The Grant Coordinator will review the reports for accuracy and provide a summary of these reports for the Finance Commission meeting in October.

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DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

BUDGET INFORMATION FY2018-19

Revenue/Expenditure Category	Budget FY2018	Estimated FY2018	% of 2018 Budget	Budget FY2019	\$ Change Budget FY18 to Budget FY19	% Change Budget FY18 to Budget FY19
REVENUES:						
Annual Thrift Assessment	1,783,534	1,884,681	106%	2,540,764	757,230	42.5%
Thrift Application and Exam Fees	15,000	26,400	176%	20,000	5,000	33.3%
Licensing Fees	3,715,105	3,906,560	105%	3,372,025	(343,080)	-9.2%
Fines and Penalties	0	517,881	0%	0	0	0.0%
Recovery Fund Offset	10,000	3,500	35%	8,000	(2,000)	-20.0%
Depository Interest	45,000	151,248	336%	90,000	45,000	100.0%
Miscellaneous	3,000	2,594	86%	3,000	0	0.0%
TOTAL REVENUES:	5,571,639	6,492,864	117%	6,033,789	462,150	8.3%
EXPENDITURES:						
Salaries and Wages						
Exempt Salaries	194,750	194,750	100%	194,750	0	0.0%
Employees' Salaries	4,017,586	3,927,078	98%	3,868,872	(148,714)	-3.7%
Other Personnel Costs	89,203	148,031	166%	250,352	161,149	180.7%
Subtotal Salaries and Wages	4,301,539	4,269,859	99%	4,313,974	12,435	0.3%
Travel						
In-State	252,175	195,973	78%	220,000	(32,175)	-12.8%
Out-of-State	75,325	58,153	77%	69,000	(6,325)	-8.4%
Subtotal Travel	327,500	254,126	78%	289,000	(38,500)	-11.8%
Other Expenditures						
Professional Fees & Services	125,090	124,378	99%	89,345	(35,745)	-28.6%
Consumable Supplies	14,000	11,263	80%	12,000	(2,000)	-14.3%
Utilities	36,088	31,380	87%	34,910	(1,178)	-3.3%
Rent - Space & Equipment	6,000	5,612	94%	6,000	0	0.0%
Other Operating Expenditures	368,080	351,243	95%	338,138	(29,942)	-8.1%
Elevator/Boiler Replacement	0	207,703	0%	0	0	0.0%
Subtotal Other Expenditures	549,258	731,580	133%	480,393	(68,865)	-12.5%
Subtotal Operating Expenditures	5,178,297	5,255,565	101%	5,083,367	(94,930)	-1.8%
Employee Benefits (Less BRP)	1,336,996	1,321,796	99%	1,321,883	(15,113)	-1.1%
SWCAP	22,000	20,299	92%	21,000	(1,000)	-4.5%
Subtotal Other Direct and Indirect	1,358,996	1,342,095	99%	1,342,883	(16,113)	-1.2%
TOTAL EXPENDITURES:	6,537,293	6,597,660	101%	6,426,250	(111,043)	-1.7%
EXPENDITURES (OVER)/ UNDER REVENUES	(965,654)	(104,795)		(392,462)	573,192	
Budgeted FTE Count	61			60		

**Office of Consumer Credit Commissioner
Budget Fiscal Year 2019**

	Budget 2018	Estimated FY 2018	% of 2018 Budget	Budget 2019	\$ Change Budget 2018 to Budget 2019	% Change Budget 2018 to Budget 2019
REVENUE:						
Regulated Lenders	\$ 2,376,964	\$ 2,390,942	100.59%	\$ 2,167,636	\$ (209,328)	-8.81%
Credit Access Industry	1,152,740	1,191,935	103.40%	1,213,200	60,460	5.24%
MV Industry	4,019,794	3,733,951	92.89%	4,156,997	137,203	3.41%
Pawn Industry	1,036,615	991,599	95.66%	990,596	(46,019)	-4.44%
Registered Industry	291,651	351,005	120.35%	301,660	10,009	3.43%
Miscellaneous Revenues	-	237,892	0.00%	162,392	162,392	0.00%
TOTAL REVENUES:	\$ 8,877,763	\$8,897,324	100.22%	\$ 8,992,481	\$ 114,718	1.29%
EXPENDITURES:						
Salaries and Wages						
Exempt Salaries	\$ 196,000	\$ 196,000	100.00%	\$ 196,000	-	0.00%
Classified Salaries	5,202,145	4,912,807	94.44%	5,406,012	203,867	3.92%
Other Personnel Costs	89,361	82,138	91.92%	90,842	1,481	1.66%
	5,487,506	\$5,190,945	94.60%	5,692,854	205,348	3.74%
Travel						
In-State	797,200	705,831	88.54%	862,625	65,425	8.21%
Out-of-State	21,000	23,890	113.76%	38,600	17,600	83.81%
Out-of-State Reimbursements	(21,000)	(23,890)	113.76%	(24,000)	(3,000)	14.29%
	797,200	705,831	88.54%	877,225	80,025	10.04%
Other Expenditures						
Professional Fees & Services	403,000	343,821	85.32%	243,020	(159,980)	-39.70%
Consumable Supplies	27,000	17,252	63.90%	22,000	(5,000)	-18.52%
Utilities	20,150	21,064	104.54%	21,900	1,750	8.68%
Rent - Buildings	26,500	22,956	86.63%	25,100	(1,400)	-5.28%
Other Operating	472,083	509,741	107.98%	537,920	65,837	13.95%
Elevator/Boiler Replacement Project	-	237,634	0.00%	-	-	0.00%
Capital Expenditures	92,100	133,959	145.45%	75,130	(16,970)	-18.43%
	1,040,833	1,286,427	123.60%	925,070	(115,763)	-11.12%
Total Expenditures before Benefits	7,325,539	7,183,203	98.06%	7,495,149	169,610	2.32%
Employee Benefits	1,966,796	1,752,799	89.12%	2,024,279	57,483	2.92%
Payroll Hlth Care/Retirement Cont.	80,972	74,824	92.41%	84,030	3,058	3.78%
SWCAP	35,000	32,902	94.01%	35,000	-	0.00%
	2,082,768	1,860,525	89.33%	2,143,309	60,541	2.91%
TOTAL EXPENDITURES:	\$ 9,408,307	\$ 9,043,728	96.12%	\$ 9,638,458	\$ 230,151	2.45%
EXPENDITURES (OVER)/UNDER REVENUE:	\$ (530,543)	\$ (146,404)		\$ (645,977)	\$ (115,434)	

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* Revenue does not include any budget for penalties

*FY19 Expenditures in excess of revenue are planned to be absorbed through operating reserve funds

**Texas Department of Banking
Budget FY 2019**

	Budget 2018	Estimated FY 2018*	% of 2018 Budget		Budget 2019**	\$ Change Budget 2018 to Budget 2019	% Change Budget 2018 to Budget 2019
REVENUE:							
Bank & Trust Regulation	\$25,451,783	\$23,211,548	91.20%		\$25,299,547	(152,236)	-0.60%
Nonbank Regulation	\$3,223,561	\$3,259,097	101.10%		\$3,384,232	160,671	4.98%
Miscellaneous Revenues	\$62,400	\$195,733	313.67%		\$184,400	122,000	195.51%
TOTAL REVENUES:	\$28,737,744	\$26,666,378	92.79%		\$28,868,179	130,435	0.45%
EXPENDITURES:							
Salaries and Wages							
Exempt Salaries	\$234,725	\$234,725	100.00%		\$234,725	0	0.00%
Classified Salaries	\$17,743,138	\$16,298,533	91.86%		\$17,955,801	212,663	1.20%
Other Personnel Costs	\$548,847	\$560,779	102.17%		\$580,051	31,204	5.69%
	\$18,526,710	\$17,094,037	92.27%		\$18,770,577	243,867	1.32%
Travel							
In-State	\$1,566,470	\$1,271,498	81.17%		\$1,511,052	(55,418)	-3.54%
Out-of-State	\$737,909	\$611,284	82.84%		\$695,637	(42,272)	-5.73%
	\$2,304,379	\$1,882,782	81.70%		\$2,206,689	(97,690)	-4.24%
Other Expenditures							
Professional Fees & Services	\$384,390	\$362,556	94.32%		\$462,440	78,050	20.30%
Postage	\$10,049	\$8,739	86.96%		\$9,799	(250)	-2.49%
Consumable Supplies	\$297,030	\$246,156	82.87%		\$115,180	(181,850)	-61.22%
Telephone	\$270,785	\$269,759	99.62%		\$334,514	63,729	23.53%
Utilities	\$46,263	\$48,267	104.33%		\$45,481	(782)	-1.69%
Rent - Buildings	\$407,919	\$403,508	98.92%		\$415,455	7,536	1.85%
Rent - Machinery & Other	\$38,834	\$38,835	100.00%		\$35,728	(3,106)	-8.00%
Other Operating	\$415,089	\$344,914	83.09%		\$372,940	(42,149)	-10.15%
Elevator/Boiler Replacement Project ^	\$0	\$461,663	0.00%		\$0	0	0.00%
Subscriptions	\$18,558	\$13,887	74.83%		\$20,690	2,132	11.49%
Employee Training / Reg. Fees	\$264,803	\$229,863	86.81%		\$275,964	11,161	4.21%
Claims/SORM Assessment	\$34,911	\$32,832	94.04%		\$22,630	(12,281)	-35.18%
Capital Expenditures	\$37,500	\$37,500	100.00%		\$59,000	21,500	57.33%
	\$2,226,131	\$2,498,479	112.23%		\$2,169,821	(56,310)	-2.53%
Total Expenditures before Benefits	\$23,057,220	\$21,475,298	93.14%		\$23,147,087	89,867	0.39%
Employee Benefits (Less BRP)	\$5,287,762	\$4,879,450	92.28%		\$5,395,953	108,191	2.05%
Payroll Hlth Care/Retirement Cont.	\$266,859	\$245,746	92.09%		\$270,139	3,280	1.23%
SWCAP	\$50,000	\$50,458	100.92%		\$55,000	5,000	10.00%
TOTAL EXPENDITURES:	\$28,661,841	\$26,650,952	92.98%		\$28,868,179	206,338	0.72%
EXPENDITURES (OVER) / UNDER REVENUE:	\$75,903	\$15,426			\$0		

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* FY 2018 forecasted using a combination of estimated projections and annualized June 30, 2018 actuals. To only collect funds needed to operate the Department, fourth quarter Bank and Trust and Special Audits assessments were reduced approximately \$4.2 million.

**FY 2019 budgeted assessments are net \$2.57 million in Bank and Trust and \$132,000 in Special Audits that are not expected to be assessed to operate the Department.

^ Included in the above estimated FY 18 figures is a payment of \$461,663 to the Texas Facilities Commission for the Austin HQ elevator and boiler replacement project.