FINANCE COMMISSION OF TEXAS
AUDIT COMMITTEE MEETING

Thursday, August 15, 2019
9:30 a.m.
Finance Commission Building
William F. Aldridge Hearing Room
2601 N. Lamar Blvd.
Austin, Texas 78705

Public comment on any agenda item or issue under the jurisdiction of the Finance Commission agencies is allowed. Finance Commission members who are not members of the Audit Committee may be present at this committee meeting creating a quorum of the Finance Commission.

A. Review and Approval of the Minutes of the June 21, 2019, Audit Committee Meeting

B. General Public Comment

C. Review of Agencies' Activities

1. Department of Savings and Mortgage Lending
2. Office of Consumer Credit Commissioner
3. Texas Department of Banking

D. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Agencies' 2019 Third Quarter Investment Officer Reports

1. Department of Savings and Mortgage Lending
2. Office of Consumer Credit Commissioner
3. Texas Department of Banking

E. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Re-adoption of the Investment Polices for:

1. Department of Savings and Mortgage Lending
2. Office of Consumer Credit Commissioner
3. Texas Department of Banking

F. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Department of Savings and Mortgage Lending's Information Technology Change Management Program Audit Report as Prepared and Presented by McConnell & Jones LLP

G. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Department of Savings and Mortgage Lending's 2019 Annual Internal Audit Report as Prepared and Presented by McConnell & Jones LLP

H. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Office of Consumer Credit Commissioner's Information Technology Change Management Program Audit Report as Prepared and Presented by McConnell & Jones LLP

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 Office of Consumer Credit Commissioner's 2019 Annual Internal Audit Report as Prepared and Presented by McConnell & Jones LLP

J. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Texas Department of Banking's Information Technology Change Management Program Audit Report as Prepared and Presented by McConnell & Jones LLP

K. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Texas Department of Banking's Fines, Penalties and Restitution Audit Report as Prepared and Presented by McConnell & Jones LLP

L. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Texas Department of Banking's 2019 Annual Internal Audit Report as Prepared and Presented by McConnell & Jones LLP

M. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Agencies' 2019 Third Quarter Financial Statements

1. Department of Savings and Mortgage Lending
2. Office of Consumer Credit Commissioner
3. Texas Department of Banking

N. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Agencies' Fiscal Year 2020 Operating Budgets

1. Department of Savings and Mortgage Lending
2. Office of Consumer Credit Commissioner
3. Texas Department of Banking

O. Report on Activities Relating to the Texas Financial Education Endowment Fund

P. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Department of Savings and Mortgage Lending's contribution of $750,000 to the Texas Financial Education Endowment Fund

Q. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Internal Auditor Function for the Finance Commission Agencies for Fiscal Year 2020

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MINUTES OF THE
AUDIT COMMITTEE MEETING
Friday, June 21, 2019

The Audit Committee of the Finance Commission of Texas convened at 7:30 a.m. on June 21, 2019 with the following members present:

Audit Committee Members in Attendance:
Molly Curl, Chair
Hector Cerna
Lori McCool

Molly Curl announced there was a quorum of the Audit Committee of the Finance Commission of Texas with three members present. *(:08 on audio file)*

AGENDA ITEM	ACTION	LOCATION ON AUDIO FILE
A. Review and Approval of the Minutes of the April 11, 2019 Audit Committee Meeting	Hector Cerna made a motion to Approve the Minutes of the April 11, 2019 Audit Committee Meeting. Lori McCool seconded, and the motion passed.	:15 start of discussion :28 vote
B. Review of Agencies' Activities	No Action Required.	:40 start of discussion
C. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Agencies 2019 Second Quarter Financial Statements 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 Agencies' 2019 Second Quarter Financial Statements. Hector Cerna seconded, and the motion passed.	4:23 start of discussion 12:55 vote
D. Discussion of Fiscal Year 2020 Budget Process	No Action Required.	13:11 start of discussion
E. Report on Activities Relating to the Texas Financial Education Endowment Fund	No Action Required.	14:21 start of discussion

AGENDA ITEM	ACTION	LOCATION ON AUDIO FILE
F. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Texas Financial Education Endowment (TFEE) 2020-2021 Funding Priorities	Lori McCool made a motion to Recommend that the Finance Commission Approve the Texas Financial Education Endowment (TFEE) 2020-2021 Funding Priorities. Hector Cerna seconded, and the motion passed.	15:58 start of discussion 20:15 vote
G. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Appointment of a New Grant Advisory Committee Member	Molly Curl made a motion to Recommend that the Finance Commission Approve the Appointment of Roy Lopez as a Grant Advisory Committee Member. Hector Cerna seconded, and the motion passed.	20:35 start of discussion 21:32 vote
H. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action to Approve an Amount for the Upcoming 2020-21 Grant Cycle for the Texas Financial Education Endowment (TFEE)	Lori McCool made a motion to Recommend that the Finance Commission Approve $300,000 for the Upcoming 2020-21 Grant Cycle for the Texas Financial Education Endowment (TFEE). Hector Cerna seconded, and the motion passed.	21:55 start of discussion 28:30 vote

There being no further business of the Audit Committee of the Finance Commission of Texas, Molly Curl adjourned the meeting at 8:00 a.m. *(29:20 on the audio file).*

Molly Curl, Audit Committee Chair
Finance Commission of Texas

Charles G. Cooper, Executive Director
Finance Commission of Texas

Brenda Medina, Executive Assistant
Finance Commission of Texas

Department of Savings and Mortgage Lending
Audit Activity Report as of August 4, 2019

Auditor	Sunset Commission	Audit Report Date
Audit Area	Sunset Review	4/29/2018
Recommendation	Status Update	
Develop updated complaint process in rule.	***In progress*** . To be completed by September 1, 2019.	

Auditor	Texas Workforce Commission	Audit Report Date
Audit Area	HR Policies and Procedures	7/23/2019
Recommendation	Status Update	
None	***Completed.*** Department certififed in compliance.	

Auditor	McConnell & Jones, LLP	Audit Report Date
Audit Area	IT Change Management	8/4/2019
Recommendation	Status Update	
None	***Completed.***	

CIVIL RIGHTS DIVISION
PERSONNEL POLICIES AND PROCEDURES
REVIEW CHECKLIST

Texas Department of Savings and Mortgage Lending - 450
2601 North Lamar Blvd.
Austin, TX 78705

Date of Conference: April 23, 2019

Reviewer: Ellena E. Rodriguez, EEO Compliance Monitor

PERSONNEL SELECTION POLICIES/WORKFORCE DIVERSITY PROGRAM	Chapter/ Page	Yes/No Or N/A
1. **Workforce Diversity Program:** Workforce Analysis & Recruitment Plan 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)	DSML Strategic Plan FY2019-2023 Excerpt & Workforce Analysis March 31, 2018	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)		N/A
2. **Job Advertisements:** 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))	Manager's Policy Manual, Hiring Practices and Policies, Pages 3-6 & Job Posting and Closing Procedures	Yes

PERSONNEL SELECTION POLICIES/WORKFORCE DIVERSITY PROGRAM - Continued	Chapter/ Page	Yes/No Or N/A
3. **Hiring Procedures:** a. Has the agency/institute of higher learning published written selection procedures? (TLC § 21.452)	DSML Employee Handbook, Sec. 3 Employee Recruitment and Selection, Pgs. 29-31 & Manager's Policy Manual, Hiring Practices and Policies, Pages 3-6 & Job Posting and Closing Procedures	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)	Employee Handbook, Sec. 3 Employee Recruitment and Selection, Pgs. 29-31 & Manager's Policy Manual, Hiring Practices and Policies, Pages 3-6 & Job Posting and Closing Procedures	Yes
c. Does the policy include clear guidance for an applicant screening device and 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)	Employee Handbook, Sec. 3 Employee Recruitment and Selection, Pgs. 29-31 & Manager's Policy Manual, Hiring Practices and Policies, Pages 3-6 & Job Posting and Closing Procedures	Yes

PERSONNEL SELECTION POLICIES/WORKFORCE DIVERSITY PROGRAM - Continued	Chapter/ Page	Yes/No Or N/A
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)	DSML Manager's Policy Manual, Interviews, Pages 5, 11	Yes
e. Do procedures require a review of hiring actions for EEO compliance? (Best Practice)	Employee Handbook, Hiring Policy, Pgs. 29-31	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:

Monitor observed that the Department of Savings and Mortgage Lending (DSML) comprises of 54 total employees and is comprised of 30 females (55.6%) and 24 males (44.4%). The Workforce Analysis Tool works for all agencies regardless of size; if an agency has less than 30 employees in each category (not the total for the agency), the tool will return a result of "Inconclusive; sample size too small."

_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.)	DSML Employee Handbook, Performance Evaluations, Pgs. 32-33	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.	Employee Handbook, Performance Evaluations, Pg.32	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)	Manager's Manual, Performance, Training and Results, Page 7	Yes
4. Does the policy require that evaluations be based on objective, measurable and consistently applied criteria? (Best Practice)	Manager's Manual, Performance, Training and Results, Pages 7-10 & Evaluation Templates (Performance Evaluation Exam and Performance Evaluations Non-Exam)	Yes
5. Does the policy require a review of performance evaluations for EEO compliance? (Best Practice)	Employee Handbook, Performance Evaluations, Pg. 32	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:

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_X_ Certified as in compliance

____ Certified as in compliance after implementing recommendations

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DISCIPLINARY ACTIONS POLICY	Chapter/ Page	Yes/No Or N/A
1. Has the agency developed and implemented a disciplinary actions policy? (Best Practice)	DSML Employee Handbook, Disciplinary Actions, Pgs. 20-23	Yes
2. Does the policy require that disciplinary actions be based only on job performance and job-related conduct? (Best Practice)	Employee Handbook, Disciplinary Actions, Pg. 20	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)	Employee Handbook, Disciplinary Actions, Pg.22	Yes
4. Does the policy prescribe progressive discipline and provide criteria for by-passing lesser disciplinary measures for severe misconduct? (Best Practice)	Employee Handbook, Disciplinary Actions, Pg.21	Yes
5. Does the policy require a review of disciplinary actions for EEO compliance? (Best Practice)	Employee Handbook, Disciplinary Actions, Pg.22	Yes
6. Does the review of samples of disciplinary actions indicate that the agency has implemented the procedures? (Best Practice)	Samples	Yes

SECTION SUMMARY:

_X_ Certified as in compliance

____ Certified as in compliance after implementing recommendations

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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 to include a definition of "Disability" that is consistent with Chapter 21, Texas Labor Code? (TLC § 21.128 and § 21.002(6))	DSML Employee Handbook, Workplace Accommodations	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)	DSML Employee Handbook, Workplace Accommodations, Pg.26	Yes
3. Does the policy include specific provisions describing the process for making reasonable workplace accommodations for qualified individuals with disabilities? (Best practice)	DSML Employee Handbook, Workplace Accommodations, Pg.26	Yes
4. 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; *See* EEOC v. Abercrombie and Fitch, U.S. S.Ct., No. 14-86 (6/1/15)) (religion); Young v. UPS, No. 12-1226 (3/25/15)) (pregnancy)	DSML Employee Handbook, Workplace Accommodations, Pg.26	Yes
5. Does the review of samples of requests for accommodation indicate that the agency has implemented the procedures? (TLC § 21.452)	Samples	Yes

SECTION SUMMARY:

__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

__X__ Certified as in compliance

____ Certified as in compliance after implementing recommendations

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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)	DSML Employee Handbook, Sec. 2, Employment Discrimination and Anti-Retaliation, Pages 23-25	Yes
a. Does the policy prohibit discrimination based on race, color, national origin, religion, sex, age, or disability? (TLC § 21.051)	Employee Handbook, Sec. 2, Equal Employment Opportunity Policy, Pg. 24	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.	Employee Handbook, Sec. 2, Equal Employment Opportunity Policy, Pg.23	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)	Employee Handbook, Sec. 2, Equal Employment Opportunity Policy, Pg.23	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))	Employee Handbook, Sec. 2, Harassment Policy, Pages 24-25	Yes
a. Does the policy clearly explain the prohibited conduct constituting "sexual harassment"? (Best Practice)	Employee Handbook, Sec. 2, Harassment Policy, Pages 24	Yes
b. Does the policy include a provision for distribution or communication of the policy to all employees? (Best Practice)	Employee Handbook, Appendix D, Page 82	Yes

EEO POLICY INCLUDING SEXUAL HARASSMENT - Continued	Chapter/ Page	Yes/No Or N/A
c. Has the agency/institute of higher learning developed and implemented complaint procedures? (Faragher v. City of Boca Raton, 118 S. Ct. 2275 (1989))	Employee Handbook, Sec. 2, Harassment Policy, Pages 24 & Grievances, Page 28	Yes
d. Do the complaint procedures allow employees to bypass harassing supervisors? (Best Practice)	Employee Handbook, Sec. 2, Harassment Policy, Pages 24	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)	Employee Handbook, Sec. 2, Harassment Policy, Pages 24	Yes
f. Does the policy assure that the employer will protect the confidentiality of individuals bringing harassment complaints to the extent possible? (Best Practice)	Employee Handbook, Sec. 2, Harassment Policy, Pages 24	Yes
g. Does the complaint process provide for a prompt, thorough and impartial investigation? (Best Practice)	Employee Handbook Pg.24, 25	Yes
h. Does the policy include procedures for instituting immediate and corrective actions if prohibited conduct occurs? (Best Practice)	Employee Handbook Sec. 2, Harassment Policy, Pages 24-25	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)	Employee Handbook Sec. 2, Harassment Policy, Pages 24-25	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:

Monitor observed that DSML utilizes CRD's EEO 1.0 computer-based training (CBT) to fulfill and meet Chapter 21, Texas Labor Code.

_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

COMPENSATION POLICY	Chapter/ Page	Yes/No Or N/A
1. Does the agency/institution of higher learning have a written compensation policy? (Best Practice)	DSML Employee Handbook, Sec. 5, Classification, Compensation, and Payroll Pages 36-38	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.)

Elva E. Rodriguez

EEO Compliance Monitor

July 23, 2019

Date

Approved:

F. P. Bopf

Civil Rights Assistant Division Director

July 23, 2019

Date

DEPARTMENT of SAVINGS & MORTGAGE LENDING

Caroline C. Jones, Commissioner

August 1, 2019

The Honorable Greg Abbott
Governor of Texas
State Capital
P. O. Box 12428
Austin, Texas 78711-2428

The Honorable Dan Patrick
Lieutenant Governor of Texas
P. O. Box 12068
Austin, Texas 78711-2068

The Honorable Dennis Bonnen
Speaker of the House
Texas House of Representatives
P. O. Box 2910
Austin, Texas 78768-2910

Mr. John McGeady and Ms. Sarah Keyton
Assistant Directors
Legislative Budget Board
P. O. Box 12666
Austin, Texas 78711-2666

Re: Certification Letter - Texas Workforce Commission Civil Rights Division Review of Personnel Policies and Procedures System

Dear Governor Abbott, Lt. Governor Patrick, Speaker Bonnen, Mr. McGeady, and Ms. Keyton:

Pursuant to the requirements contained in Texas Labor Code, Section 21.454, I am pleased to report that the Department of Savings and Mortgage Lending has undergone a review of our personnel policies and procedures system by the Texas Workforce Commission Civil Rights Division. The Division has certified that our agency's personnel policies and procedures system complies with Texas Labor Code Chapter 21.

Respectfully,

Caroline C. Jones

Caroline C. Jones
Commissioner

cc: Mr. Lowell A. Keig
Division Director, Civil Rights Division
Texas Workforce Commission
101 East 15th Street, CRD Guadalupe
Austin, Texas 78778-0001

Office of Consumer Credit Commissioner
Status of Agency Activities and Outstanding Audit Findings as of June, 2019

Auditor	**Garza/Gonzales**		**Audit Report Date**
Audit Area	**Property Tax Lender Examinations**		**August 2018**
Recommendation	*Response*	*Status Update*	*Implementation Date*
Revise Annual Report template to enhance data quality and improve efficiency	Data Validation. The OCCC has a project for new functionality associated with annual reporting by licensees that will improve and enhance data validation.	In progress	09/27/2019

Auditor	**Sunset Review**		**Audit Report Date**
Audit Area	**Management Action for OCCC**		**September 2018**
Recommendation	*Response*	*Status Update*	*Implementation Date*
Evaluate and update agency key performance measures (2.2)	The OCCC is evaluating its key performance measures and working towards updated measures. These measures will be scheduled for implementation by September 1, 2019.	In progress	9/1/2019
Develop an updated complaint process in rule (5.11)	The OCCC's legal team is working with the consumer assistance department to develop rules that accurately reflect its processes and implement the statutory requirements for complaint processing. Rules will be presented in time for adoption by September 1, 2019.	In progress	9/1/2019

Future Items			
Entity	**Activity**	**Status**	**Date**

Texas Workforce Commission

A Member of Texas Workforce Solutions

Ruth R. Hughs, Chair
Commissioner Representing Employers

Julian Alvarez
Commissioner Representing Labor

Vacant
Commissioner Representing the Public

Edward Serna
Interim Executive Director

June 17, 2019

VIA EMAIL ATTACHMENT

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

Re: CERTIFICATION LETTER - Texas Workforce Commission Civil Rights Division Review of Personnel Policies and Procedures System

Dear Ms. Pettijohn:

The Texas Workforce Commission Civil Rights Division (the "Division") has completed the review of the personnel policies and procedures system of your agency/institution of higher learning ("agency") under Texas Labor Code §§ 21.451 – 21.456. Based on that review I hereby certify that your agency's personnel policies and procedures comply with Texas Labor Code Chapter 21.

As specified in the Texas Labor Code, § 21.454, your agency must submit a report to the Governor, the Legislature, the Legislative Budget Board, and the Civil Rights Division within 60 days. A sample report format is attached.

Although this review is now concluded, your agency is scheduled for its next review in six (6) years. The Division may advance or delay this schedule up to one year to take into account agencies being abolished or combined, or new agencies being created. In addition, if a risk assessment indicates a need for a more frequent review, such review may be conducted pursuant to Texas Labor Code §21.453(a-1). Until your next review, we are available for technical assistance under Texas Labor Code § 21.003(a)(5).

Thank you for the opportunity to work with your staff. If you have questions, please contact Ellena E. Rodriguez, EEO Compliance Monitor, at (512) 463-4618 or Ellena.Rodriguez@twc.state.tx.us.

Sincerely,

F. D. Ansley for Lowell Keig

Lowell A. Keig
Civil Rights Division Director

cc: Juan V. Garcia, Director of Strategic Communications, Administration and Planning
Candace Vargas, Human Resources Specialist

Attachment: Sample Report Format
Review Checklist

Texas Department of Banking
Outstanding Audit Findings/Recommendations Report as of August 5, 2019

Auditor: *Texas Sunset Advisory Commission*	Audit Report Date: *September 2018*
Audit Area: *Agency Review*	
Findings	Status Update
Update complaint process in rule	***Completed** – The rule was proposed at the June Finance Commission meeting and is on the agenda for final approve at this meeting.*

Auditor: *McConnell & Jones LLP*	Audit Report Date: *August 2019*
Audit Area: *IT Change Management Program*	
Findings	Status Update
Implement change management framework	***On-going** – A new software program, Jira, has been implemented that will provide the framework for the agency's change management system. The change management policy will be updated by September 2019.*
Develop formal risk assessment process	***On-going** – A risk rating system has been developed. The policy will be updated by September 2019.*
Update the written change management process policy and procedures	***On-going** – The policy and procedures will be updated by September 2019.*
Develop process to review software application updates and changes	***On-going** – The agency will implement a new versioning system and update all applications by September 2019.*
Develop formal segregation of duties process	***On-going** – The agency has implemented a process to review code changes prior to implementation based on risk. The policy to reflect this process will be updated by September 2019.*

Department of Savings and Mortgage Lending

Investment Officer Report as of May 31, 2019

Recovery Fund

	Beginning Balance 3/1/2019	Additions/ Reductions	Interest Received	Bank Fees	Ending Balance 5/31/2019
Cash & Cash Equivalents	$4,160,822.68	$15,790.00	$12,579.51	($145.06)	$4,189,047.13

Bank Name	Type	Maturity Date	Interest Rate	Book/Market Value	Accrued Interest
Tx Treasury Safekeeping Trust Co	Overnight Repurchase Agreements	6/1/2019	2.40%	$1,450,600.97	$95.36
Pioneer Bank SSB	CD - 24 months	6/14/2019	1.00%	$250,000.00	$2,428.48
TrustTexas Bank SSB	CD - 12 months	6/15/2019	1.77%	$250,000.00	$1,856.04
Austin Capital SSB	CD - 24 months	9/8/2019	1.20%	$250,000.00	$2,208.33
Cypress Bank SSB	CD - 24 months	10/2/2019	1.10%	$250,000.00	$4,629.17
First Fed Community Bank, SSB	CD - 24 months	12/13/2019	0.95%	$248,446.16	$3,383.01
Spirit of Texas, SSB	CD - 24 months	12/15/2019	1.35%	$250,000.00	$4,987.50
Third Coast Bank SSB	CD - 24 months	2/4/2020	0.70%	$250,000.00	$559.03
South Star Bank SSB	CD - 24 months	4/17/2020	1.05%	$250,000.00	$320.83
Dalhart Federal Savings	CD - 24 months	10/18/2020	2.50%	$250,000.00	$3,906.25
Horizon Bank SSB	CD - 24 months	1/31/2021	2.27%	$250,000.00	$488.68
TBK Bank	CD - 24 months	4/7/2021	3.00%	$240,000.00	$1,080.00
				$4,189,047.13	$25,942.68

Investment Position:
The Fund is capable of meeting all known obligations.

Investment Compliance:
The Department's Investment Policy has been followed.

Investment Officer: /s/Antonia Antov — Date: 7/1/2019

Investment Officer: /s/Steven O'Shields — Date: 7/1/2019

Office of Consumer Credit Commissioner
Fiscal Year 2019 - 3rd Quarter

Residential Mortgage Loan Originator Recovery Trust Fund #3008

Beginning Balance at 03/01/19	Additions / *(Deductions)	Interest Paid	Paid Bank Fees	Ending Balance at 05/31/19	Current Interest Rate
$ 151,881.71	$ 1,050.00	$ 903.41	$ (44.80)	$ 153,790.32	2.367%

Investment Officer: /s/ Christina Cuellar

Date: 7/15/19

Reviewed By: /s/ Leslie Pettijohn

Date: 7/17/19

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 2019 - 3rd Quarter

Texas Financial Education Endowment Fund #3071

	Beginning Balance at 3/01/19	Additions	Interest Paid	Transfers	Grant Disbursements	Paid Bank Fees	Ending Balance at 05/31/19	Current Interest Rate
Cash	$ 1,303,812.24	$ 8,330.51	$ 7,530.75	$ -	$ (52,596.90)	$ (4,113.32)	$ 1,262,963.28	2.367%

Invested Portfolio	Beginning Balance at 03/01/19	Additions	*Change in Value	Transfers	Transfer Out	Paid Fees	Ending Balance at 05/31/19
Investments - STIF	$ 1,869,995.02	$ 14,241.24	$ (7,290.18)	$ -		$ (2,618.91)	$ 1,874,327.17
Interest & Dividends Receivable	3,407.50		725.75				4,133.25
Trade Receivables	-		-				-
Investments - Equities	10,749.93		(569.89)				10,180.04
Investments - Alternatives	3,419,939.14		72,964.71				3,492,903.85
Investments - Fixed Income	404,874.11		(382.40)				404,491.71
Investments - Futures	-		-				-
Investments - SWAPS, at Fair Value	24,327.93		(19,109.04)				5,218.89
Total Assets-Invested Portfolio	$ 5,733,293.63	$ 14,241.24	$ 46,338.95	$ -	$ -	$ (2,618.91)	$ 5,791,254.91
Liabilities							
Accounts Payable	$ (2,457.15)	$ 1,311.60	$ -		$ -	$ -	$ (1,145.55)
Interest Payable	(1,596.81)	(162.01)					(1,758.82)
Trade Payables	-	-					-
Futures Contracts, at Fair Value	-	-					-
Swaps, at Fair Value	(929.38)	(10,139.59)					(11,068.97)
Total Liabilities	$ (4,983.34)	$ (8,990.00)	$ -	$ -	$ -	$ -	$ (13,973.34)
Total Net Fiduciary Assets-Invested Portfolio	$ 5,728,310.29						$ 5,777,281.57
Total Endowment Funds	$ 7,032,122.53						$ 7,040,244.85

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

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

Investment Officer: /s/ Christina Cuellar — Date: 7/15/19

Reviewed By: /s/ Leslie Pettijohn — Date: 7/17/19

Trust Funded Prepaid Funeral Guaranty Fund Quarterly Investment Report
March 1, 2019 to May 31, 2019

Book Book Value at February 28, 2019	Interest Income Received	Trustee Fees Paid	(1) Other Deductions	(2) Other Additions	Book/Market Value at May 31, 2019	Maturity Date	Interest Rate	Accrued Interest on CDs
$1,861,565.49	$9,586.31	$154.26	$537,329.36	$21,108.15	$1,354,776.33	--	--	$2,284.98

Trust Account Balances at Trustee/Depositories

Trust Account Balances at Trustee/Depositories	Book/Market Value at May 31, 2019	Maturity Date	Interest Rate	Accrued Interest on CDs
Texas Treasury Safekeeping Trust Company *	$627,855.84	6/1/2019	2.37%	
Veritex Community Bank, Dallas, Texas (CD)	$242,394.80	12/14/2019	2.47%	$1,312.25
State Bank of Texas, Dallas,Texas (CD)	$240,000.00	12/16/2019	2.60%	$256.44
Frontier Bank of Texas, Elgin, Texas (CD)	$244,525.69	4/18/2020	2.43%	$716.29
Subtotal	$1,354,776.33			

(1) Other deductions include: (a) $262.50 escheated to the Texas Comptroller of Public Accounts as abandoned property related funds paid by G. Boyles related to Timothy Gaffney and Lake Road Cemetery, Inc. who previously held PFC Permit Number 804; (b) $2,419.48 paid to Austin Peel & Son Funeral Home for services performed for A. Howard; (c) $292,451.13 restitution refunded to purchasers related to Austin Peel & Son Funeral Home; (d) $11,890.00 final restitution due to four consumers related to Ronal Ritter owner of Heartfield-Ritter Funeral Home; (e) $228,006.25 escheated to the Comptroller's Office as abandoned property related to Austin Peel & Son Funeral Home; and (f) $2,300.00 transferred to the agency for fines and penalties owed by Austin Peel & Son Funeral Home.

(2) Other additions include: (a) $14,018.15 restitution received from Mr. Kevin Keeney; (b) $300.00 restitution received from Mr. Marc Gonzalez; (c) $4,390.00 restitution received from R. Ritter / Heartfield-Ritter Funeral Home; (d) $2,300.00 in fines and penalties received from Austin Peel & Son Funeral Home; and (e) $100.00 restitution received from Roy and Kay Bryant dba Amarillo Family Funeral Home and Best Priced Caskets and Monuments.

* 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/ Date: 6/19/2019

Reviewed By: /s/ Date: 6/19/2019

Insurance-Funded Prepaid Funeral Guaranty Fund Quarterly Investment Report
March 1, 2019 to May 31, 2019

Book Book Value at February 28, 2019	Interest Income Received	Trustee Fees Paid	Other Deductions	(1) Other Additions	Book/Market Value at May 31, 2019	Maturity Date	Interest Rate	Accrued Interest on CDs
$607,866.79	$3,453.64	$85.38	$0.00	$23,090.00	$634,325.05			$239.84

Account Balances at Trustee/Depositories	Book/Market Value at May 31, 2019	Maturity Date	Interest Rate	Accrued Interest on CDs
Texas Treasury Safekeeping Trust Company *	$388,693.50	6/1/2019	2.37%	
AccessBank Texas (CD)	$245,631.55	7/14/2019	1.98%	$239.84
Subtotal	$634,325.05			

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

* 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/ Date: 6/19/2019

Prepared By: /s/ Date: 6/19/2019

Department of Banking Quarterly Investment Report
March 1, 2019 to May 31, 2019

Seized Prepaid Funeral Funds	Book Value at February 28, 2019	Interest Income Received	Trustee Fees Paid	Other Deductions	Other Additions	Book Value at May 31, 2019	Financial Institution	Investment Type	Maturity Date	Interest Rate
Hernandez Funeral Home, Inc.			$0.00	$0.00	$97,000.06	$97,000.06	Capital One Bank, N.A.	money market account	N/A	N/A
Total Seized Funds	$0.00	$0.00	$0.00	$0.00	$97,000.06	$97,000.06				

Notes:

On April 30, 2019, the Department issued Emergency Order to Cease and Desist Activity, and to Seize Prepaid Funeral Accounts and Records No. 2019-015 to Hernandez Funeral Home, Inc. and Maria De La Luz Hernandez as a result of the permit holder misappropriating, converting, or illegaly withholding or failing to pay prepaid funeral funds.

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

Prepared By: /s/ Date: 6/19/2019

Reviewed By: /s/ Date: 6/19/2019

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. While this agency is not subject to the requirements in the Public Funds Investment Act (Government Code, Chapter 2256), 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 reapproved this policy on ~~August 17, 2018~~ August 16, 2019. The policy includes changes stemming from legislation enacted ~~in~~ by the 8~~5~~6th Legislative Session and clarifying content. ~~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~~August 17, 2018.

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 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~~ 36 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~~ 36 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 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, Iran, or engaging in business with a foreign terrorist organization.[1]
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:

- 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 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.

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

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. While this agency is not subject to the requirements in the Public Funds Investment Act (Government Code, Chapter 2256), 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 reapproved this policy on August 16, 2019. The policy includes changes stemming from legislation enacted by the 86th Legislative Session and clarifying content. Previous changes to this policy were approved on August 17, 2018.

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.

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING
INVESTMENT POLICY

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 36 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 36 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 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, Iran, or engaging in business with a foreign terrorist organization.[1]

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:

- 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 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.

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

O~~O~~FFICE OF CONSUMER CREDIT
COMMISSIONER INVESTMENT POLICY
STATEMENT

[*Effective August 16, 2019 ~~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 16, 2019 ~~17, 2018~~ to re-approve this policy as revised to include legislation enacted by the 86th Legislature and to clarify content within this policy. Previously, this policy was reviewed and approved on August 17, 2018 ~~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.

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/Endowment IPS September 2018 (FINAL).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) or §2256.013 ~~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, in Iran, or with a foreign terriorist organization.[1] ~~;~~
- ~~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

[1] Lists of companies with ties to Sudan, Iran and foreign terrorist organizations are published on the Texas Comptroller's website at https://comptroller.texas.gov/purchasing/publications/divestment.php.

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 organization[2] 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.

[2] 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 16, 2019*]

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 16, 2019 to re-approve this policy as revised to include legislation enacted by the 86th Legislature and to clarify content within this policy. Previously, this policy was reviewed and approved on August 17, 2018 .

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

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

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

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

2.**Identification of Covered Funds**

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

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

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

	act was committed. Recovery is limited by the provisions of §341.606 to an aggregate of $25,000 per claim.

Texas Financial Education Endowment Fund (TTSTC #3071)	
Enabling Legislation	§393.628, TEX. FIN. CODE
Distribution Policy	Annual distributions, payable quarterly or annually, are calculated as 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.**<u>Types of Authorized Investments</u>**

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/Endowment_IPS_September_2018_(FINAL).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) or §2256.013 ;
    - 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, in Iran, or with a foreign terriorist organization.[1]

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.

[1] Lists of companies with ties to Sudan, Iran and foreign terrorist organizations are published on the Texas Comptroller's website at https://comptroller.texas.gov/purchasing/publications/divestment.php.

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 organization[2] 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. 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

[2] 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.

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~~16, 2019

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 (Government Code Ch. 2256), 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~~August 16, 2019 to re-approve this policy as revised to include legislation enacted by the 86th Legislature and to clarify content within this memorandum. Previously, this policy was reviewed and ~~changes were~~ approved on August 17, 2018.~~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) or §2256.013 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

Commented [BW1]: Added per HB 2706. §2256.013 relates to commercial paper.

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, in Iran, or with a foreign terrorist organization. [1]
- ~~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

[1] Lists of companies with ties to Sudan, Iran and foreign terrorist organizations are published on the Texas Comptroller's website at https://comptroller.texas.gov/purchasing/publications/divestment.php.

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 organization[2] 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.

[2] 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.

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.

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

ADMINISTRATIVE MEMORANDUM – 2027

August 16, 2019

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 (Government Code Ch. 2256), 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 16, 2019 to re-approve this policy as revised to include legislation enacted by the 86th Legislature and to clarify content within this memorandum. Previously, this policy was reviewed and approved on August 17, 2018.

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) or §2256.013 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, in Iran, or with a foreign terrorist organization. [1]

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,

[1] Lists of companies with ties to Sudan, Iran and foreign terrorist organizations are published on the Texas Comptroller's website at https://comptroller.texas.gov/purchasing/publications/divestment.php.

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 organization[2] 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.

[2] 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

Department of Savings & Mortgage Lending

Internal Audit Services

An Internal Audit of:

Information Technology Change Management Program

Report #19-001

August 4, 2019

This report provides management with information about the condition of risks and internal controls at a specific point in time. Future changes in environmental factors and actions by personnel will impact these risks and internal controls in ways that this report cannot anticipate.

MJ McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS

MJ McConnell & Jones LLP
Certified Public Accountants

August 4, 2019

Ms. Caroline Jones, Commissioner
Department of Savings & Mortgage Lending
2602 N. Lamar Blvd.
Austin, Texas 78705

Dear Ms. Jones

Attached is internal audit report #19-001 Information Technology Change Management Program. This audit was performed as part of the approved FY 2019 Annual Internal Audit Plan.

We assessed the Department of Savings & Mortgage Lending's (SML) internal controls and business processes in place to ensure that changes to information technology follow standardized methods and procedures to reduce change-related incidents while ensuring improvement to day-to-day operations. Our audit procedures determined that the agency has processes in place to ensure that information technology changes are performed in a controlled manner to reduce risk to the agency.

We wish to thank all agency staff involved in the audit and recognize their openness and responsiveness to our requests.

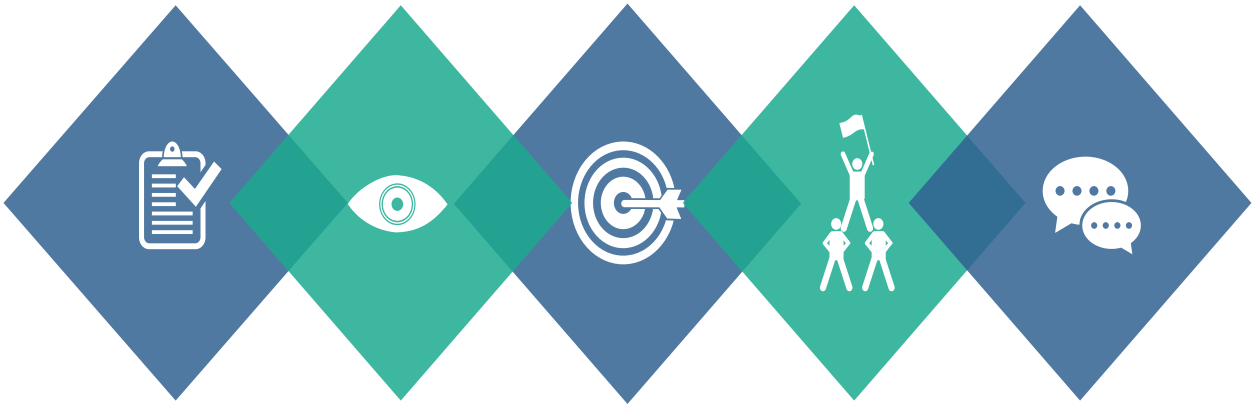
Please contact Darlene Brown at 281.740.0017 if you should have any questions about this audit report.

Sincerely,

Odysseus M. Lanier, CPA
Partner

7600 Chevy Chase Drive
Suite 307
Austin, TX 78752
Phone: 512.430.5358
WWW.MCCONNELLJONES.COM

1.0 AUDIT AT A GLANCE



Purpose

- To evaluate the Department of Savings & Mortgage Lending's internal controls and business processes in place to ensure that changes to information technology follow standardized methods and procedures to reduce change-related incidents while ensuring improvement to day-to-day operations.

Scope

- September 1, 2017 through February 28, 2019.

Focus

- Polices and Procedures
- IT changes' evaluation criteria, authorization and documentation
- IT changes risk evaluation

Internal Control Rating

- Effective

Recommendations

- None

Number of Findings by Risk Rating

High	Medium	Low	Total
0	0	0	0

Acknowledgement

We wish to thank all staff involved in the audit for their time and efforts. Without their assistance, we would not have been able to complete this audit.

INTRODUCTION

McConnell & Jones LLP (MJ), serving as the outsourced internal audit function (Internal Audit) for the Department of Savings & Mortgage Lending (SML), performed an internal audit of SML's Information Technology (IT) change management program. MJ Included this audit in the approved FY 2019 Internal Audit Plan.

We conducted the Information Technology Change Management Program audit in conformance with the International Standards for the Professional Practice of Internal Auditing and in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained during the audit satisfied GAGAS standards.

We have not omitted pertinent information from this report, which summarizes the audit objective and scope, our assessment based on our audit objectives and the audit approach.

OBJECTIVE

The purpose of this audit was to evaluate the Department of Savings & Mortgage Lending's internal controls and business processes in place to ensure that changes to information technology follow standardized methods and procedures to reduce change-related incidents while ensuring improvement to day-to-day operations.

Information Technology change management is a process to manage changes made to production hardware, network devices, operating systems and application software. An organization's management uses the IT change management process to:

- ✓ Ensure that IT changes meet the organization's needs and create business value.
- ✓ Anticipate and manage problems that may be introduced in the production environment because of changes.
- ✓ Promote the effectiveness and efficiency of IT change management efforts.

The audit objectives agreed upon by internal audit and the agency's management team were as follows:

- ✓ Determine if IT change management policies and procedures' documents are (1) complete, relevant and accurate; (2) comprehensive, including defined roles/responsibilities; and (3) are updated to reflect actual, existing processes.
- ✓ Determine if IT changes proposed and created were evaluated against established criteria, documented and reviewed for risks to the agency.
- ✓ Assess management's processes in place to ensure that IT changes were completed in a manner that did not disrupt operations or create other issues. This includes the documentation of (1) changes requested; (2) resources required; (3) testing of changes; (4) user acceptance; (5) implementation; and (6) evaluation of change.
- ✓ Verify that segregation of duties for information technology changes exist.

SCOPE

The scope period for this audit was September 1, 2017 through February 28, 2019. We performed some of our test procedures as of the date of fieldwork. This work product included our evaluation at a specific point in time, and cannot address the inherent, dynamic nature of subsequent changes to the process and procedures reviewed during our audit process.

PROCEDURES PERFORMED

We gathered documentation, conducted interviews and completed audit testing procedures to measure the performance of the internal control environment governing the IT change management environment and processes.

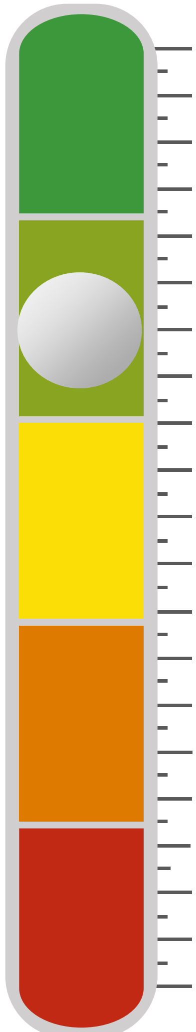
We documented all key areas of the agency's IT change management process, which includes the agency's hardware environment, internally developed applications and third-party applications. Based on the risk to operations and change volume, we determined that audit testing would be completed on the following:

- ✓ Third-party application changes
- ✓ Hardware changes

CONCLUSION AND INTERNAL CONTROL RATING

This audit identified findings that resulted in an overall internal control rating of ***Effective***. ***Figure 1*** *describes the internal control rating.*

INTERNAL CONTROL RATING



	RATING DESCRIPTION
Best Practices	***Best Practices*** – Observations indicate best practice opportunities identified during the course of the review that may add value to the function/department/organization. Best practices do not require management comments and do not require internal follow-up to validate implementation status.
Effective	***Effective*** **– Controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.**
Some Improvement Needed	***Some Improvement Needed*** – A few specific control weaknesses were noted; generally however, controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.
Major Improvement Needed	***Major Improvement Needed*** – Numerous specific control weaknesses were noted. Controls evaluated are unlikely to provide reasonable assurance that risks are being managed and objectives should be met.
Unsatisfactory	***Unsatisfactory*** – Controls evaluated are not adequate, appropriate, or effective to provide reasonable assurance that risks are being managed and objectives should be met.

Figure 1 *Internal control rating description.*

INFORMATION TECHNOLOGY PROGRAM OVERVIEW

This section of the report provides an overview of the agency's information technology program.

The agency outsources its Information Technology support functions to a third-party vendor. The agency also has an internal Information Technology Department that is staffed with two employees. **Figure 2** provides the organization structure and reporting relationships.

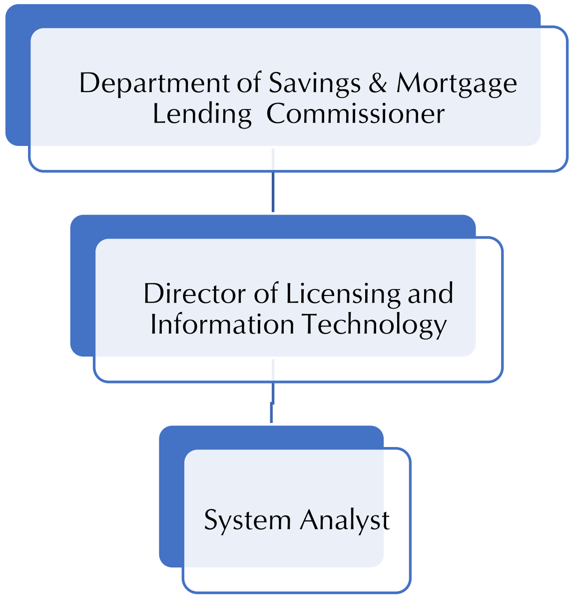


Figure 2 SML Information Technology Organization

The agency's risk exposure to IT changes is limited to basic hardware, software application and day-to-day IT issues. This conclusion is based upon the IT change documentation provided and interviews conducted with SML staff and the third-party vendor.

The third-party vendor documents each IT change following their change management process and communicates those changes to SML. The type of changes completed by the third-party vendor are as follow:

1. Server maintenance and security
2. Hardware services
3. Email server maintenance
4. Connectivity
5. PC Prep (Install Software)

SML's IT leadership coordinates with the third-party vendor to complete the documented services with communication occurring by email and telephone. Our review of the services completed indicate that the agency's IT changes were low risk. We noted that the third-party vendor completes a risk assessment of the respective IT change prior to implementation and communicates this to SML. The use of a third-party vendor ensures the responsibility of the IT change and assessment is completed by the vendor and communicated to the agency, thereby reducing the agency's risk exposure.

Internal IT changes completed by SML follow a systematic framework developed by the agency. The documentation provided and our interviews with staff indicate the types of IT changes being completed are low risk changes related to updates, access controls, and hardware issues.

Figure 3 provides an overview of SML's IT change Management process.

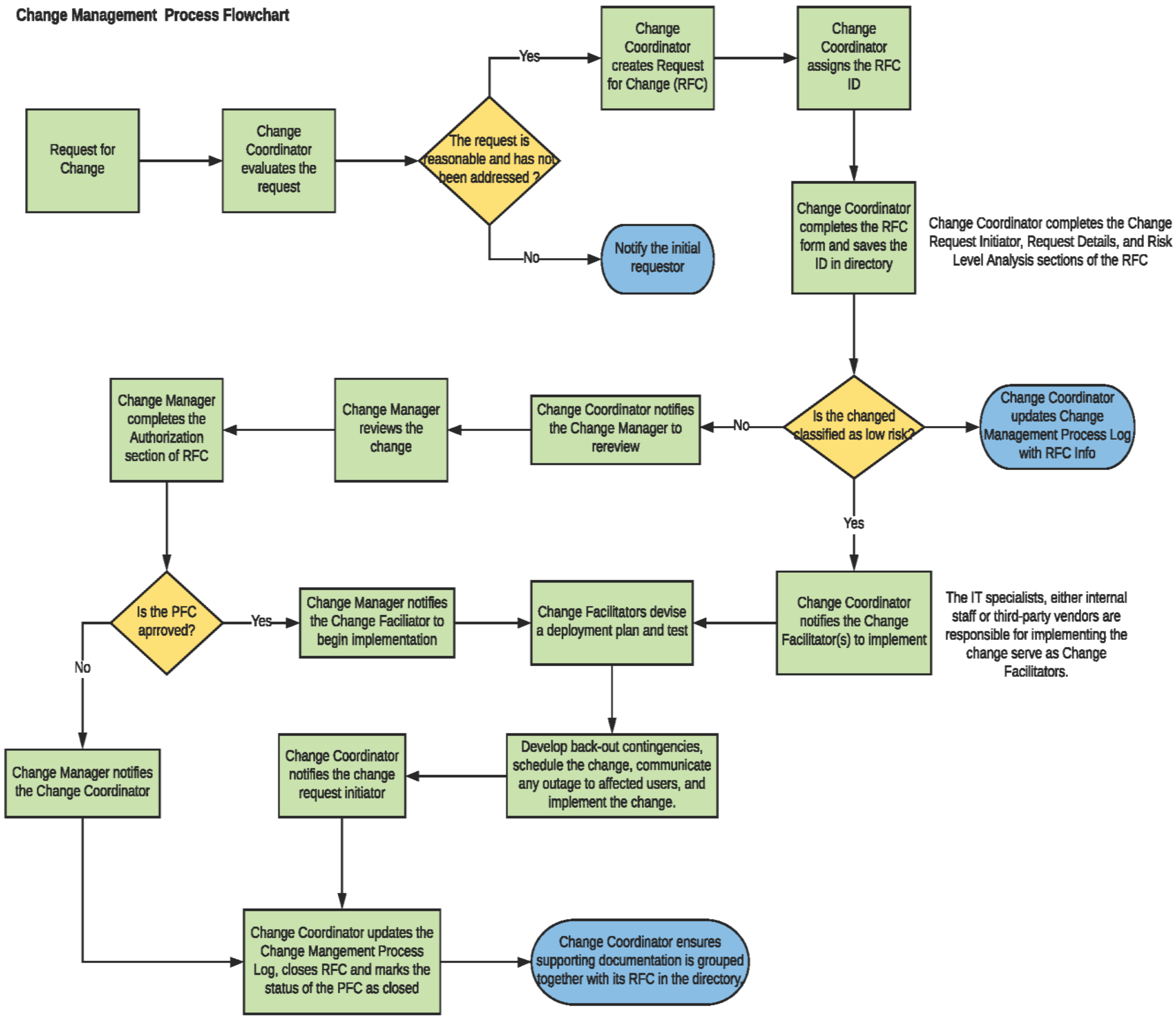


Figure 3 SML IT Change Management Process

DETAILED OPPORTUNITIES AND RECOMMENDATIONS

This section of the report provides a detailed discussion of opportunities for improvement we noted during the audit along with recommendations to improve internal controls or the business process.

Business Objective #1: Change management policies and procedures document completeness, relevance and accuracy, comprehensive procedures defined roles/responsibilities and are updated to reflect actual processes. (High Risk)

1. *Does the information technology change management program clearly define roles, responsibilities, authority and documentation requirements?*
2. *Is there a formal process in place to ensure potential changes to information technology are assessed and approved prior to the change being made?*
3. *Are information technology changes documented and retained?*

Audit Conclusion #1

IT change management encompass several components; therefore, this audit conclusion discussion is separated into the following:

A. Polices and Procedures

B. Planning, Oversight and Monitoring

C. Documentation

D. Authorization

E. Resource Management

The agency's policy and procedures dated April 2019 are effective in documenting the process and governance framework managing the IT change management with the agency. The agency's risk exposure to IT changes is low based on the size of the agency and the types of changes completed but the process documentation provided is enough to address any type of IT changes the agency may experience.

Policies and Procedures- Our assessment of the agency's written policy and procedures noted that the following key areas were included in the documents:

1. Purpose of the policy and procedure as it relates to IT Change Management.
2. Definition of the IT change management process and the areas of application.
3. Risk assessment process with description of authority for the risk assessment.
4. Define approval authority based on the risk ranking of IT change.
5. Definition of roles and responsibilities based on related IT change.
6. Defines how the documentation of IT changes is maintained in "Change Management Process Log".
7. Documentation of the IT change procedures by the process owner.

Policy #IT – 4 Change Management provides a structured process to be followed for evaluating, reviewing, assessing, implementing and documentation of the IT change Management Process.

The agency's documentation compared to best practice IT change framework has been noted as **effective**. **Figure 4** provides an overview of the key areas measured compared to best practices for an IT change management framework. The agency has the documented governance processes in place ensuring that any IT changes that may occur can be effectively addressed.

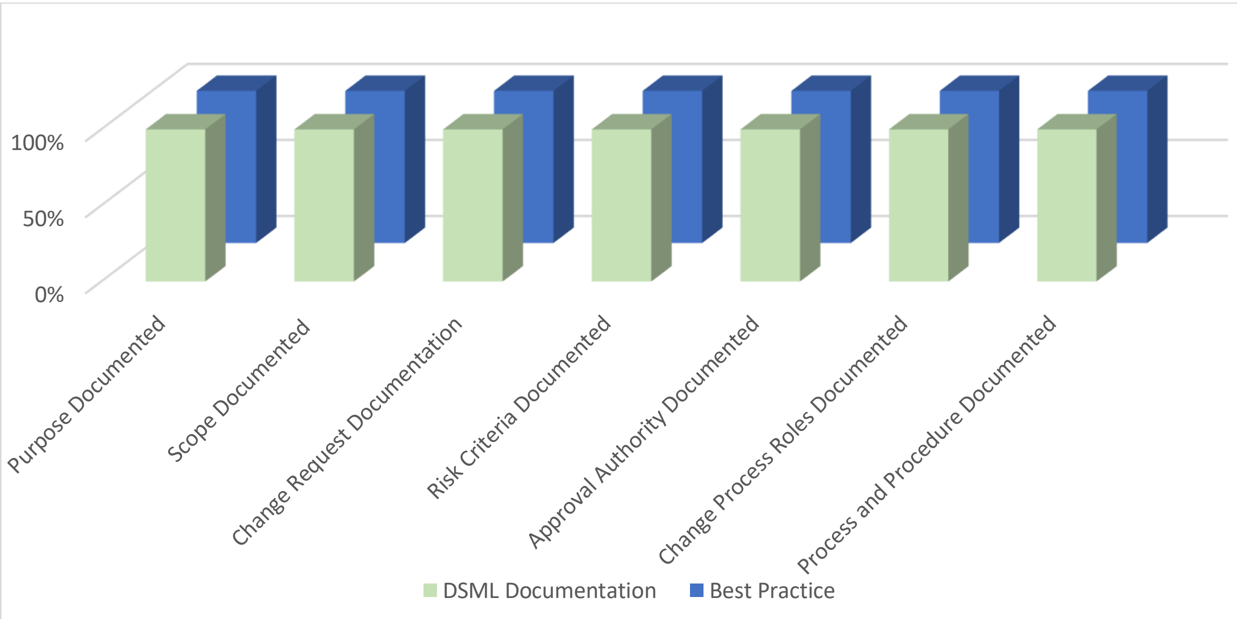


Figure 4 SML IT Change Management Activities Compared to Best Practices

Figure 5 summarizes the results of our audit testing based on the support documentation provided by staff to determine if IT changes are being completed as documented in the agency's policy and procedures. We have determined this process to be **effective**. The audit interview process, size of the agency and the type of changes being completed do not create a high level of risk. The interview process and support documentation provided indicates the agency manages IT changes with effective communication, monitoring and oversight that is executed on the change as it is occurring. The agency also does not have a high volume of changes or other IT support functions reducing their ability to manage a change function.

The agency's IT environment also ensures segregation of duties (SOD) are effectively addressed by using a third-party vendor and by effectively managing changes with the oversight and monitoring being completed by SML IT manager, communication with the Commissioner and the requestor of the IT change.

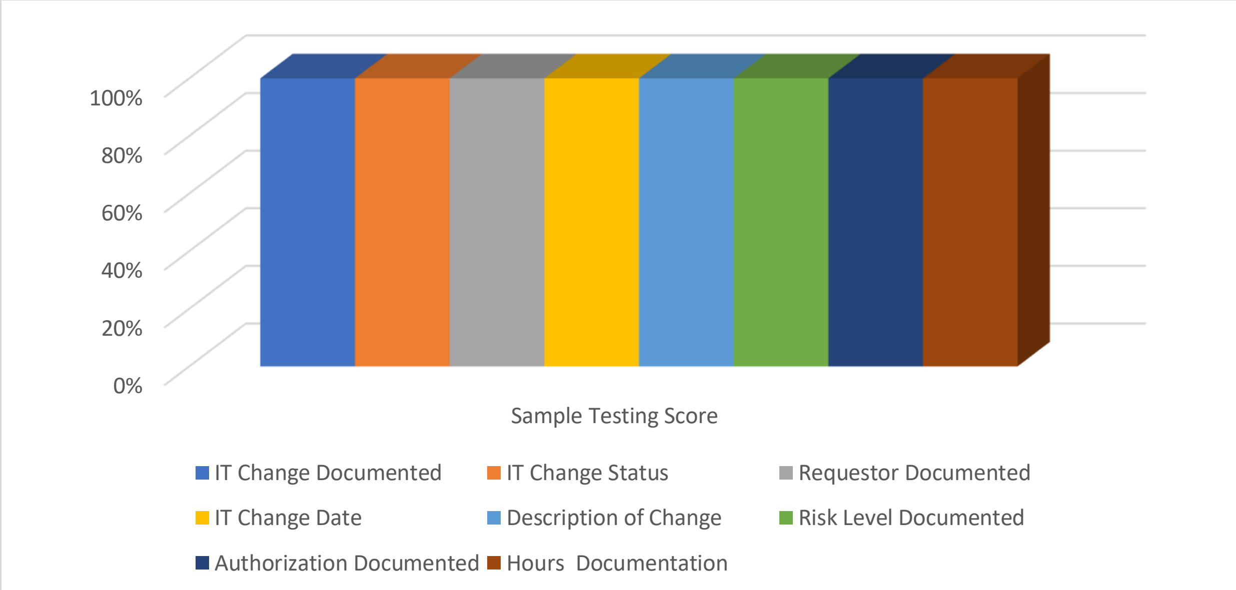


Figure 5 Summary of Audit Testing Results

Planning - The type of changes documented by the agency through the scope period indicate changes related to low risk activities such as maintenance which do not require significant planning. The risk of a major changes being completed without the knowledge of the senior leadership team is mitigated based on both the size of the agency, tenure of the IT leadership, and documented policy and procedures outlining change management procedures.

Oversight and Monitoring - We noted through the audit interview process and documentation provided IT changes are completed by a third-party vendor and by the SML IT staff. The responsibility of monitoring these changes is completed by SML's IT staff. The monitoring of changes completed by the third-party vendor is completed by SML through active follow-up completed with both telephone calls and email communication. The third-party vendor records the change in their ticketing system with a completed risk assessment. The services and its status are communicated to SML. The contracting of these service shifts the risk of IT change management to the management of the third-party vendors which was out of scope for this audit. The documentation provided and interviews conducted indicates that there is clear communication of changes completed by SML with the risk being assessed as low based on the description of services provided for the scope period. If the risk is determined to be medium to high, the agency has a documented procedure outlining the process that must be completed with defined roles, responsibility and authority.

Documentation – The agency provided two logs documenting change activity that occurred through the scope period. These logs indicate the recording of changes is occurring by both SML and the third-party vendor. A review of the documentation provided indicated most of the changes being completed are low risk activities that do not expose the agency. The agency has a documented process indicating how medium to high risk changes will be completed by the agency.

Authorization - The changes completed by the third-party vendor are completed based on contractual obligations that are monitored by SML's IT support staff, ensuring changes are being properly monitored and supervised. The contracting of a third-party vendor also reduces the opportunity of a high-risk item to occur without the knowledge of SML since the third-party vendor is required to communicate changes. It was also noted through the interview process with SML and the third-party vendor that this process occurs as needed and it is also clearly documented in the change logs provided. We also noted that SML documents the change facilitator in their change log along with the requested and completed date. The testing of the change logs provided noted 100 percent compliance of documented authorization.

Resource Management – The management of resources and their documentation is a key measuring point that it maintained through the IT change management process. We noted the policy and procedures and the Request for Change (RFC) documentation do not document the hours needed to complete an IT change process. Based on the type changes provided in the scope period, the agency does not have the risk of not being able to manage their resources since the changes being completed are not major changes. The implementation of a documented hours would improve the process but does not directly relate to the agency's current risk exposure.

Audit Recommendation #1

No recommendations are made for written policies and procedures as they are comprehensive and reflect the agency's current processes.

Management Response Recommendation #1

None required.

Business Objective #2: The agency has processes in place to complete risk assessments of proposed information technology changes. (High Risk)

1. *Are risk assessments completed for requested information technology changes to identify potential risks and impact to the agency?*
2. *Are risk assessments documented?*

Audit Conclusion #2

The agency has a well-developed framework in place to access and manage any type of IT change that could occur.

SML has documented the risk assessment process and criteria in DSML - POLICY # IT-4: Change Management documentation. Our audit testing of the documentation noted 100 percent compliance. It was also noted through the interview process that the third-party vendor conducts their own internal risk assessment and advises SML's IT team via email or telephone discussions of the risk. The changes documented on both logs provided were noted as low risk items which indicates the type of changes being completed by the agency.

Audit Recommendation #2

No recommendations are made for the risk assessment process controls are effective.

Management Response Recommendation #2

None required.

Business Objective #3: Business Objective #3: Segregation of duties for information technology changes. (High Risk)

1. *Does the agency have segregation of duties between information technology change programming, review and testing?*
2. *Are supplemental controls in place to ensure programming changes do not cause disruption to the agency?*
3. *Are information technology changes' segregation of duties documented?*

The segregation of duties framework developed and documented by the agency is sufficient for the size and the type of IT change completed by the agency. The documentation provided documents the responsibility of the change, implementation of the change and the authorization of change.

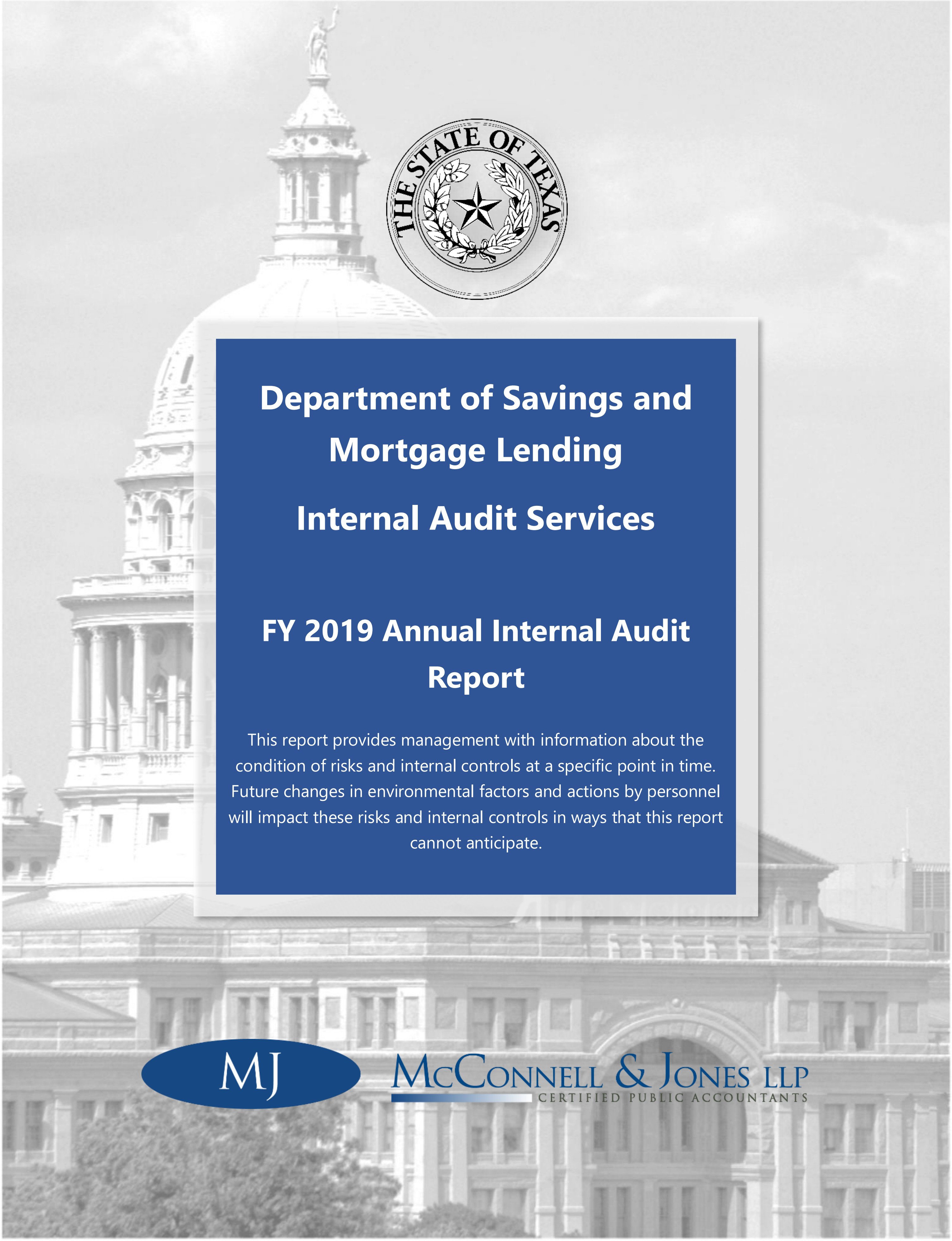
Changes completed by the third-party vendor are also documented with the same information and communication with SML IT team prior to a change being completed.

Audit Recommendation #3

No recommendations are made as adequate segregation of duties exist.

Management Response Recommendation #3

None required.



Department of Savings and Mortgage Lending

Internal Audit Services

FY 2019 Annual Internal Audit Report

This report provides management with information about the condition of risks and internal controls at a specific point in time. Future changes in environmental factors and actions by personnel will impact these risks and internal controls in ways that this report cannot anticipate.

McConnell & Jones LLP
CERTIFIED PUBLIC ACCOUNTANTS

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Section **Page Number**

McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS

August 16, 2019

The Honorable Greg Abbott, Governor
Members of the Legislative Budget Board
Internal Audit Coordinator, State Auditor's Office

Dear Ladies and Gentlemen:

Attached is the Fiscal Year 2019 Annual Internal Audit Report for the Department of Savings and Mortgage Lending (SML). This annual audit report is submitted in accordance with the Texas Internal Auditing Act requirement for state agency internal auditors to prepare and distribute an annual report (Government Code, Chapter 2102). McConnell & Jones LLP (MJ) was engaged on September 1, 2018, to provide internal audit services to the SML in accordance with The Texas Internal Auditing Act. Pursuant to the Request for Proposals (RFP) issued May 7, 2018, MJ submits this Annual Internal Audit Report for Fiscal Year 2019 on behalf of the Department of Savings and Mortgage Lending.

The Texas Internal Auditing Act requires agencies to file an annual report on their internal audit activities and the internal audit reports prepared for governing boards. The purpose of the Annual Internal Audit Report is to provide information on the assurance services, consulting services, and other activities of the internal audit function. In addition, the Annual Internal Audit Report assists oversight agencies in their planning and coordination efforts. According to Texas Government Code, Sections 2102.009 and 2102.0091, the Annual Internal Audit Report for Fiscal Year 2019 is due November 1, 2019.

Please contact Odysseus Lanier at 713.968.1603 or Caroline Jones, Commissioner, Department of Savings and Mortgage Lending at 512.475.1352, if you should have any questions about this Annual Internal Audit Report.

Sincerely,

Odysseus Lanier, CPA
Partner

7600 Chevy Chase Drive
Suite 307
Austin, TX 78752
Phone: 512.430.5358

WWW.MCCONNELLJONES.COM

I. COMPLIANCE WITH TEXAS GOVERNMENT CODE, SECTION 2102.015: POSTING THE AUDIT PLAN AND ANNUAL REPORT ON THE INTERNET

Texas Government Code, Section 2102.015, requires state agencies and institutions of higher education to post agency internal audit plans and internal audit annual reports to the agency's website within 30 days of approval. Texas Government Code, Section 2102.015, also requires agencies to update the posting on the website to include a detailed summary of any weaknesses, deficiencies, wrongdoings, or other concerns raised by the audit plan or annual report and include a summary of the actions taken by the agency to address the issues raised.

In accordance with requirements of Texas Government Code, Section 2102.015, McConnell & Jones LLP (MJ) will ensure the required internal audit plan, internal audit annual report and any other required internal audit information is provided to the Department of Savings and Mortgage Lending (SML) for posting to their website.

II. FISCAL YEAR 2019 INTERNAL AUDIT PLAN STATUS

The Fiscal Year 2019 Annual Internal Audit Plan was prepared by McConnell & Jones LLP based on a comprehensive risk assessment and approved by the Finance Commission of Texas (FC). The approved FY 2019 Annual Internal Audit Plan was completed as approved. The chart below reflects the approved audit plan status as of August 31, 2019.

Fiscal Year 2019 Annual Internal Audit Plan Status

#	Description	Report Number	Report Date	Report Title	Audit Status
1	Information Technology Change Management	19-001	August 4, 2019	Information Technology Change Management Program	Completed
2	Follow-Up on Open Audit Findings	The agency had no prior year open audit findings.			
3	Update Annual Risk Assessment & Audit Plan	N/A	N/A	N/A	Completed
4	Annual Audit Report	N/A	N/A	N/A	Completed
5	Audit Communications, Project Management	N/A	N/A	N/A	Ongoing

Deviation from FY 2019 Annual Internal Audit Plan:

MJ completed the approved FY 2019 Annual Internal Audit Plan with no deviations.

III. CONSULTING SERVICES AND NON-AUDIT SERVICES COMPLETED

Internal audit provided no consulting and advisory services to the agency during FY 2019.

IV. EXTERNAL QUALITY ASSURANCE REVIEW (PEER REVIEW)

MJ has been a member of the American Institute of Certified Public Accountants (AICPA) since 1987 and is subject to the AICPA's peer review process every three years. Our commitment to quality is underscored by the fact that, in our four most recent peer reviews, we have consistently received an unqualified opinion in external peer review reports on the quality of our accounting and auditing practice by the AICPA. After a thorough review of our procedures and work practices, the reviewers concluded that MJ complies with the stringent quality control standards established by the AICPA. We provide a copy of our most recent peer review letter below.

Your Vision Our Focus

TURNER STONE

Report on the Firm's System of Quality Control

January 31, 2018

To the Partners of
McConnell & Jones, LLP
and the National Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of **McConnell & Jones, LLP** (the Firm), applicable to engagements not subject to PCAOB permanent inspection, in effect for the year ended June 30, 2017. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a System Review as described in the Standards may be found at www.aicpa.org/prsummary. The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

Firm's Responsibility

The Firm is responsible for designing a system of quality control and complying with it to provide the Firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The Firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

Peer Reviewer's Responsibility

Our responsibility is to express an opinion on the design of the system of quality control and the Firm's compliance therewith based on our review.

Required Selections and Considerations

Engagements selected for review included engagements performed under Government Auditing Standards, including a compliance audit under the Single Audit Act; audits of employee benefit plans and an audit of a non-carrying broker-dealer.

As a part of our peer review, we considered reviews by regulatory entities as communicated by the Firm, if applicable, in determining the nature and extent of our procedures.

Turner, Stone & Company, L.L.P.
Accountants and Consultants
12700 Park Central Drive, Suite 1400
Dallas, Texas 75251
Telephone: 972-239-1660 / Facsimile: 972-239-1665
Toll Free: 877-853-4195
Web site: turnerstone.com

INAA GROUP
INTERNATIONAL ASSOCIATION OF ACCOUNTANTS AND AUDITORS

Opinion

In our opinion, the system of quality control for the accounting and auditing practice of **McConnell & Jones, LLP**, applicable to engagements not subject to PCAOB permanent inspection, in effect for the year ended June 30, 2017, has been suitably designed and complied with to provide the Firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. **McConnell & Jones, LLP** has received a peer review rating of *pass*.

Turner, Stone & Company, L.L.P.

VI. INTERNAL AUDIT PLAN FISCAL YEAR 2020

MJ developed the Fiscal Year 2020 Annual Internal Audit Plan based on results of a risk assessment. The risk assessment included reviewing the agency's Strategic Plan and policies and procedures, analyzing the agency's financial reports, and conducting discussions with management. Our assessment evaluated risk exposures relating to SML's governance, operations, and information systems, regarding the reliability and integrity of financial and operational information, effectiveness and efficiency of operations, safeguarding of assets, and compliance with laws, regulations, and contracts. **Figure 1** provides a heat map of the agency's function risks.

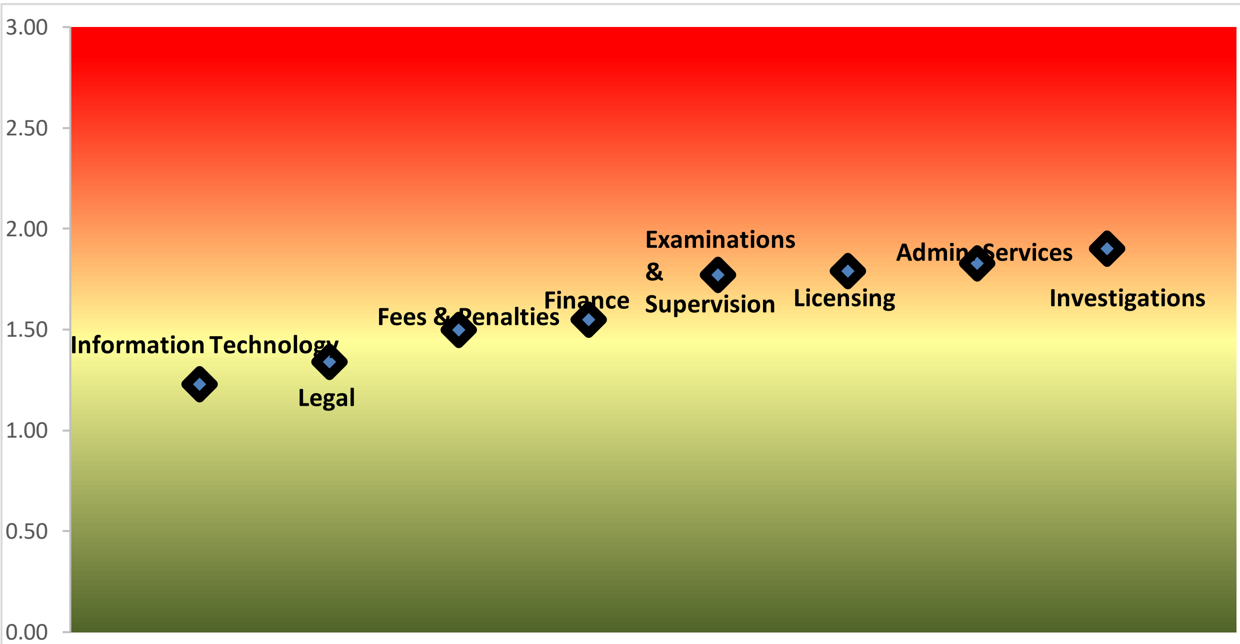


Figure 1 Agency Function and Business Process Risk Heat Map

MJ will conduct one audit, update the risk assessment, conduct prior audit finding follow-up activities, prepare the Fiscal Year 2021 Annual Internal Audit Plan and prepare the Fiscal Year 2020 Annual Internal Audit Report, in accordance with the Texas Internal Auditing Act. These activities are estimated to require **115 hours**. The planned audits, timing and estimated hours are summarized in the chart below.

Fiscal Year 2020 Annual Audit Plan Activities

Audit Activity #	Description	Risk Rating	Estimated Timing	Estimated Hours
1	Investigations	High	January 2020 – February 2020	76
2	Follow-Up on Prior Audit Findings	Compliance	Ongoing	15
3	Update Risk Assessment & FY 2021 Annual Audit Plan	Compliance	July 2020	14

Audit Activity #	Description	Risk Rating	Estimated Timing	Estimated Hours
4	Annual Audit Report	Compliance	July 2020	5
5	Audit Communications, Committee Meetings, Project Management	N/A	Ongoing	5
Total				**115**

VII. EXTERNAL AUDIT SERVICES PROCURED IN FISCAL YEAR 2018

External audit services procured in fiscal year 2018 consisted of the internal audit function.

VIII. SUMMARY OF PRIOR YEAR OPEN AUDIT FINDINGS

The Department of Savings and Mortgage Lending did not have any prior year open audit findings. The audit opportunities included in FY 2019 internal audits are currently being implemented and will be provided in next year's Annual Internal Audit Report.

IX. REPORTING SUSPECTED FRAUD AND ABUSE

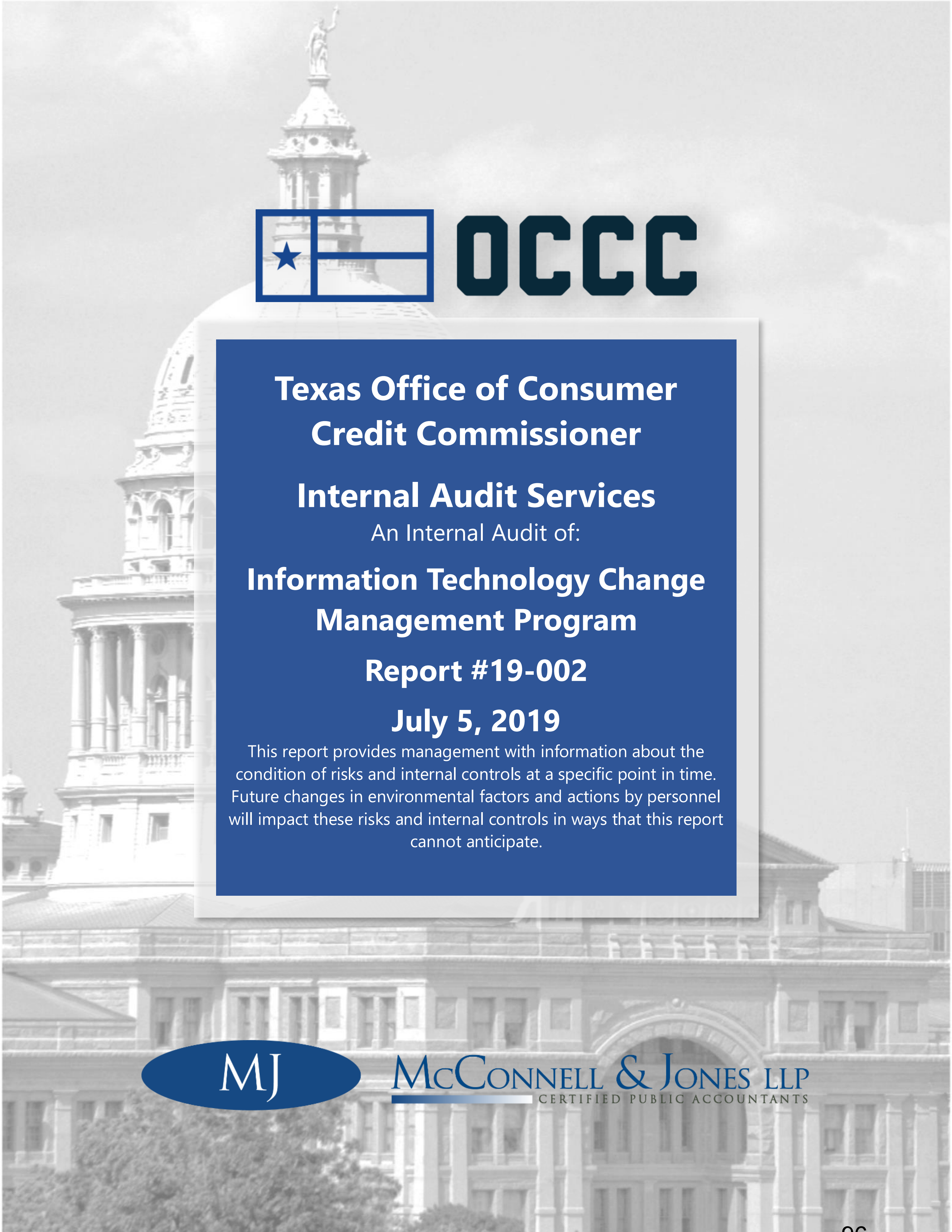
The Department of Savings and Mortgage Lending has implemented measures to comply with the General Appropriations Act (81st Legislature), Article IX, Section 7.10, and Texas Government Code, Section 321.022. These measures include, but are not limited to, the following:

> The Department of Savings and Mortgage Lending includes a link to the State Auditor's Office (SAO) website for fraud reporting at the footer of the SML's website. In addition, information on reporting suspected fraud to the State Auditor is included in the agency's policies and procedures.

X. SIGNIFICANT INTERIM CHANGES

Interim changes to the annual audit plan may occur from time to time due to changes in management direction, objectives, business risks, timing of initiatives, and staff availability. In accordance with Institute of Internal Auditors (IIA) Performance Standard 2020, MJ will communicate any significant changes of the audit plan to the Texas Finance Commission for review and approval. Notification of significant changes to the Annual Internal Audit Plan approved by the commissioners will be submitted to the State Auditor's Office.

This annual internal audit report was presented to the Finance Commission of Texas and approved on August 16, 2019.



OCCC

Texas Office of Consumer Credit Commissioner

Internal Audit Services

An Internal Audit of:

Information Technology Change Management Program

Report #19-002

July 5, 2019

This report provides management with information about the condition of risks and internal controls at a specific point in time. Future changes in environmental factors and actions by personnel will impact these risks and internal controls in ways that this report cannot anticipate.

MJ McConnell & Jones LLP
CERTIFIED PUBLIC ACCOUNTANTS

MJ McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS

July 5, 2019

Ms. Leslie Pettijohn, Commissioner
Office of Consumer Credit Commissioner
2602 N. Lamar Blvd.
Austin, Texas 78705

Dear Ms. Pettijohn:

Attached is internal audit report #19-002 Information Technology Change Management Program. This audit was performed as part of the approved FY 2019 Annual Internal Audit Plan.

We assessed the Office of Consumer Credit Commissioner's internal controls and business processes in place to ensure that changes to information technology follow standardized methods and procedures to reduce change-related incidents while ensuring improvement to day-to-day operations. Our audit procedures determined that the agency has processes in place to ensure that information technology changes are performed in a controlled manner to reduce risk to the agency. We identified opportunities to formalize and document these processes.

We wish to thank all agency staff involved in the audit and recognize their openness and responsiveness to our requests.

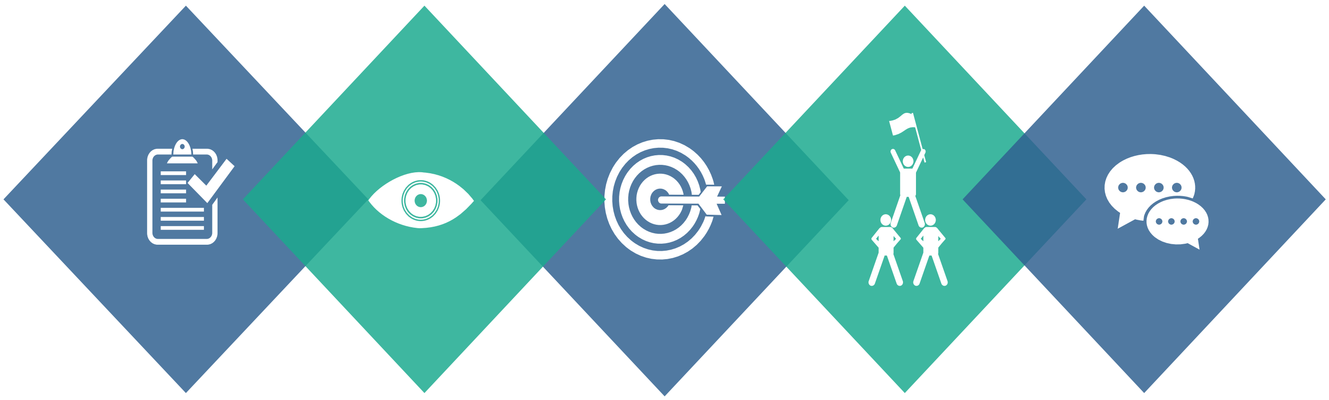
Please contact Darlene Brown at 281.740.0017 if you should have any questions about this audit report.

Sincerely,

Odysseus M. Lanier, CPA
Partner

7600 Chevy Chase Drive
Suite 307
Austin, TX 78752
Phone: 512.430.5358
WWW.MCCONNELLJONES.COM

1.0 AUDIT AT A GLANCE



Purpose

- To evaluate the Office of Consumer Credit Commissioner's internal controls and business processes in place to ensure that changes to information technology follow standardized methods and procedures to reduce change-related incidents while ensuring improvement to day-to-day operations.

Scope

- September 1, 2017 through February 28, 2019.

Focus

- Polices and Procedures
- IT changes' evaluation criteria, authorization and documentation
- IT changes risk evaluation

Internal Control Rating

- Some improvement needed

Recommendations

- Continue developing the IT change management framework and document change requests, authorities and change completion dates.
- Develop a formal risk assessment process for IT changes.
- Update written policies.
- Implement segregation of duties for IT changes.

Number of Findings by Risk Rating

High	Medium	Low	Total
2	1	0	3

Acknowledgement

We wish to thank all staff involved in the audit for their time and efforts. Without their assistance, we would not have been able to complete this audit.

INTRODUCTION

McConnell & Jones LLP (MJ), serving as the outsourced internal audit function (Internal Audit) for the Office of Consumer Credit Commissioner (OCCC), performed an internal audit of OCCC's Information Technology (IT) change management program. MJ Included this audit in the approved FY 2019 Internal Audit Plan.

We conducted the Information Technology Change Management Program in conformance with the International Standards for the Professional Practice of Internal Auditing and in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained during the audit satisfied GAGAS standards.

We have not omitted pertinent information from this report, which summarizes the audit objective and scope, our assessment based on our audit objectives and the audit approach.

OBJECTIVE

The purpose of this audit was to evaluate the Office of Consumer Credit Commissioner's internal controls and business processes in place to ensure that changes to information technology follow standardized methods and procedures to reduce change-related incidents while ensuring improvement to day-to-day operations.

Information Technology change management is a process to manage changes made to production hardware, network devices, operating systems and application software. An organization's management uses the IT change management process to:

- ✓ Ensure that IT changes meet the organization's needs and create business value.
- ✓ Anticipate and manage problems that may be introduced in the production environment because of changes.
- ✓ Promote the effectiveness and efficiency of IT change management efforts.

The audit objectives agreed upon by internal audit and the agency's management team were as follows:

- ✓ Determine if IT change management policies and procedures' documents are (1) complete, relevant and accurate; (2) comprehensive, including defined roles/responsibilities; and (3) are updated to reflect actual, existing processes.
- ✓ Determine if IT changes proposed and created were evaluated against established criteria, documented and reviewed for risks to the agency.
- ✓ Assess management's processes in place to ensure that IT changes were completed in a manner that did not disrupt operations or create other issues. This includes the documentation of (1) changes requested; (2) resources required; (3) testing of changes; (4) user acceptance; (5) implementation; and (6) evaluation of change.

SCOPE

The scope period for this audit was September 1, 2017 through February 28, 2019. We performed some of our test procedures as of the date of fieldwork. This work product included our evaluation at a specific point in time, and cannot address the inherent, dynamic nature of subsequent changes to the process and procedures reviewed during our audit process.

PROCEDURES PERFORMED

We gathered documentation, conducted interviews and completed audit testing procedures to measure the performance of the internal control environment governing the IT change management environment and processes.

We documented all key areas of the agency's IT change management process, which includes the agency's hardware environment, internally developed applications and third-party applications. Based on the risk to operations and change volume, we determined that testing would be completed on the following:

- ✓ Third-party application changes
- ✓ Hardware changes
- ✓ ALECS – internally developed system

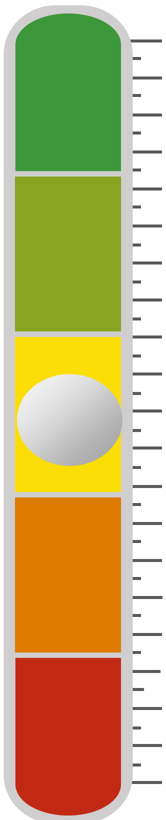
CONCLUSION AND INTERNAL CONTROL RATING

*This audit identified findings that resulted in an overall internal control rating of **Some Improvement Needed**. **Figure 1** describes the internal control rating.*

We discussed reportable opportunities to enhance internal controls and improve process efficiencies with management. Those observations are summarized in **Figure 2**.

The audit of the agency's IT change management process was based on the documentation provided which reflected the environment before any process changes made by OCCC. However, our recommendations included in this report considered changes to existing processes that are currently being implemented to support the IT change environment.

INTERNAL CONTROL RATING



	RATING DESCRIPTION
Best Practices	***Best Practices*** – Observations indicate best practice opportunities identified during the course of the review that may add value to the function/department/organization. Best practices do not require management comments and do not require internal follow-up to validate implementation status.
Effective	***Effective*** – Controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.
Some Improvement Needed	***Some Improvement Needed*** – **A few specific control weaknesses were noted; generally however, controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.**
Major Improvement Needed	***Major Improvement Needed*** – Numerous specific control weaknesses were noted. Controls evaluated are unlikely to provide reasonable assurance that risks are being managed and objectives should be met.
Unsatisfactory	***Unsatisfactory*** – Controls evaluated are not adequate, appropriate, or effective to provide reasonable assurance that risks are being managed and objectives should be met.

Figure 1 *Internal control rating description.*

OBSERVATION AND RISK RATING SUMMARY

Figure 2 *presents a summary of our audit observations. See the detailed observation section of this report for a discussion of all issues identified, recommendations and management responses.*

Our audit findings illustrate the absence of documented evidence, but do not reflect the actual IT change management processes that occurred at the time of the change. The findings related to the audit testing of changes reflect how IT change management was handled before the transfer of responsibility to the current staff in the IT Department. Our communication of the audit findings and recommendations provides a basis for the agency to develop a formal information technology change management framework. Management responses by staff reflect the changes that are currently being made to OCCC's IT change management process.

Number	Observation	Risk Rating
1	The agency does not have a formal, documented IT change management program in place. Staff responses and post audit interviews indicate an understanding of the formal information technology change process that needs to be developed to ensure IT change management is addressed effectively. ***Recommendations:*** 1. Develop a process to ensure that action plans are created for all IT builds and changes. 2. Create an information technology change request form that includes relevant information about a change, including the description of the change, initial change requirements, date of change and authorization. 3. *Document the information technology change date in the change request form.* 4. Document the information technology change implementation dates with the change test results and filed for future operation efficiency test of IT department. 5. Authorization/approval of the information technology change request should be granted and documented with approver's name and title before commencing any work related to the change. 6. Implement a process to capture, record and retain information on the total number of hours expended on implementing each change.	
2	The agency did not have a formalized risk information technology change risk assessment process that was completed for the changes within the scope of the audit. Interviews and documentation provided indicate the changes were informally assessed and communicated to key personnel within the agency as the IT change was being planned and completed. ***Recommendation:*** Develop a formal risk assessment process for information technology changes with a defined risk tolerance that is divided into high, medium and low categories.	
3	The segregation of duties related to OCCC's information technology changes requires review and formalization by the agency. The size of the agency's Information Technology Department does not provide the opportunity for the proper segregation of duties, but the process can be supported with an effective risk assessment, consistent documentation of user acceptance testing, and documentation of the position (internal or external) assigned to develop the IT change.	

Number	Observation	Risk Rating
	Recommendation: Consider the implementation of formal segregation of duties to ensure all IT changes are reviewed before implementation. A formal review process of changes being completed with a defined risk assessment, third party management functions and user acceptance testing will support the segregation of duties within the agency.	

FIGURE 2 Observation and Recommendation Summary.

Risk Rating and Suggested Corrective Action Timing Legend:

INFORMATION TECHNOLOGY PROGRAM OVERVIEW

This section of the report provides an overview of the agency's information technology program.

The individual previously assigned to manage information technology changes recently retired from the agency and the responsibility of IT change management is now shifted to OCCC's IT Department. The agency's Information Technology Department is staffed with three full-time employees. **Figure 3** provides the organization structure and reporting relationships.

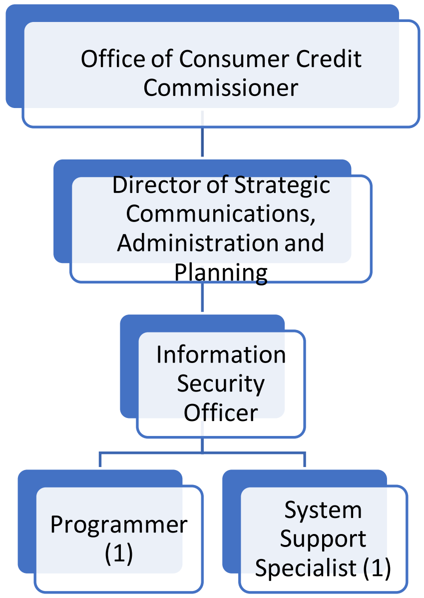


Figure 3 OCCC Information Technology Organization

Until recently, one person with years of experience and agency knowledge managed and maintained the agency's information technology change process, providing oversight, monitoring and management of the IT change environment. This individual maintained informal documentation that did not follow a systematic process; however, the documentation of IT changes the individual maintained was included in emails and web notes. We also noted the following:

1. There was a hands-on approach to IT change management, working with the requestor and developer to provide assurance that the change was being managed and effectively implemented. This approach ensured that if issues were noted they were immediately addressed in an effective manner.
2. Clear communication occurred with the agency commissioner to provide assurance that the change was being addressed effectively.
3. The formalization of an IT change management process has begun with the objective of ensuring requests, assessments, testing and approvals are completed and documented in a centralized application with defined criteria.

Current IT staff are aware of a need to formalize the IT change process to allow them to effectively manage IT changes while ensuring other IT functions are managed.

DETAILED OPPORTUNITIES AND RECOMEMNDATIONS

This section of the report provides a detailed discussion of opportunities we noted during the audit along with recommendations to improve internal controls or the business process.

Business Objective #1: The agency's information technology change management program follows a mature framework. (Medium Risk)

1. *Does the information technology change management program clearly define roles, responsibilities, authority and documentation requirements?*
2. *Is there a formal process in place to ensure potential changes to information technology are assessed and approved prior to the change being made?*
3. *Are information technology changes documented and retained?*

Audit Conclusion #1

The agency does not have a formal, documented IT change management program in place. Staff responses and post audit interviews indicate an understanding of the formal information technology change process that needs to be developed to ensure IT change management is addressed effectively. The agency should also develop formal documentation of policies and procedures that will support the IT change process.

Information technology change management programs provide management with assurance that the process is effectively controlled, monitored, and complies with sound practices. Effective change management programs enable an organization to implement information technology changes in a quick and reliable manner that reduces risk of negative impacts to operations or data integrity. Change management encompass several components; therefore, this audit conclusion is separated into the following functional areas, each with a separate recommendation and staff response:

A. Planning, Oversight and Monitoring
B. Documentation
C. Authorization
D. Resource Management

A. <u>Planning, Oversight and Monitoring</u>

We noted through the audit interview process that key areas of information technology changes were managed and communicated by one individual with full responsibility for the change including oversight and monitoring being completed by the requestor, IT change manager and commissioner. This process ensured the risks associated with IT changes were addressed effectively through the process. However, this did not provide adequate segregation of duties *(see Business Objective 3).*

We noted the following with respect to information technology management planning, oversight and monitoring:

Planning -The management and planning of actions needed for unplanned disruptions is key to an effective IT change management program. Our audit testing noted that the action plans for unplanned disruption in hardware changes are well documented. These plans are created for specific cases and risks. However, our audit testing of changes to application software indicated six out of 18 (33%) changes tested in the audit sample did not have documentation of corrective/preventative actions needed to ensure no disruption in agency functions. We also noted that the other 10 audit sample action plans provided for unplanned disruption in the Application Builds were not customized for the specific build.

Audit Recommendation #1A

Develop a process to ensure that action plans are created for all IT builds and changes. The organization's efficiency will be impacted if the unexpected issues are created during change implementation while there are no effective corrective action plans.

Management Response Recommendation #1A

The OCCC has focused on continuous improvement of its change management process throughout the time period covered by the audit. During this period the agency was in a transitional time to a more formalized objective method. OCCC's new formal process, which was implemented on July 1, 2019, includes action plans for IT builds and changes, including mitigation responses (roll-backs, hot fixes, etc.) if needed in the event of unexpected issues.

B. Documentation

We noted the following with respect to information technology management documentation:

Request Form - OCCC did not have a standardized request form or procedure to track change requests. Forty- four percent (44%) of the documented change requests included in our audit sample were either completed through employee conversations, posts on an internal communication platform or internal emails. Eleven percent (11%) of our audit sample indicated the absence of a formal process to ensure a description of the change was documented.

Audit Recommendation #1B

Create an information technology change request form that includes relevant information about a change, including the description of the change, initial change requirements, date of change and authorization. This establishes the specific criteria to ensure that the changes made met the agency's documented expectations. It also provides the agency with the ability to create a history of changes that can be used to determine if the changes were not completed previously or what the assessed risk is of a similar change.

Management Response Recommendation #1B

The OCCC has drafted a set of forms to formalize the process and record relevant information about the change, including the description of the change, initial change requirements, date of change and authorization. Also included is a "complexity ranking" that will identify minor changes of negligible impact (e.g., corrections to erroneously entered data) and categorize substantive change-oriented work by type, effort, and risk.

C. *Information Technology Change Dates* - Our audit testing of OCCC IT changes indicates that the agency did not have a formalized process control system. Eighty-nine percent (89%) of our audit sample did not have the date of change documented. As a result, management may not be able to determine if the change is completed within the timeline and evaluate the change process efficiency.

Audit Recommendation #1C

Document the information technology change date in the change request form.

Management Response Recommendation #1C

The OCCC has employed the new, formal documents for all IT builds and change requests, including documenting the change date.

D. *Implementation Dates* - Six out of 18 (33%) of the audit sample did not have the implementation date documented. As a result, the management may not determine if the change is completed within the timeline and evaluate the change process efficiency.

Audit Recommendation #1D

Document the information technology change implementation date with the change test results and filed for future operation efficiency test of IT department.

Management Response Recommendation #1D

The OCCC has included a conclusion form among the formalized documents, which includes the implementation date and evaluation of future improvement opportunities, and is being used for each IT build or change.

E. Authorization

We noted the following with respect to information technology change authorization:

Written Authorization/Approval - Eight out of 18 (44%) changes sampled did not have documented approval of the change. Additionally, three out of the 10 (30%) changes that did contain written authorization did not provide the approver's name and title.

Audit Recommendation #1E

Authorization/approval of the information technology change request should be granted and documented with approver's name and title prior to any work commencing in the change. Depending on the request, more approval levels may be necessary.

Management Response Recommendation #1E

The new project request documentation process includes formal documented project approval.

F. Resource Management

We noted the following with respect to information technology change resource management:

> The management of resources and their documentation is a key measuring point that is traditionally maintained in an IT change process. Eighty–nine percent (89%) of our audit sample did not have the actual hours/time required to complete the IT change. The lack of formal documentation of hours and resources needed does not provide the agency the opportunity to manage an IT change effectively, it also does not provide the agency with documentation for comparison on future projects.

Audit Recommendation #1F

Implement a process to capture, record and retain information on the total number of hours expended on implementing each change.

Management Response Recommendation #1F

The OCCC recognizes the importance of this finding and will consider employing an hours dedicated register for all development and test personnel during evaluation of builds and changes.

Business Objective #2: The agency has processes in place to complete risk assessments of proposed information technology changes. (High Risk)

1. *Are risk assessments completed for requested information technology changes to identify potential risks and impact to the agency?*
2. *Are risk assessments documented?*

Audit Conclusion #2

The agency did not have a formal risk information technology change risk assessment process that was completed for the changes within the scope of the audit. Interviews and documentation provided indicate the changes were informally assessed and communicated to key personnel within the agency as the IT change was being planned and completed.

Audit Recommendation #2

Develop a formal risk assessment process for information technology changes with a defined risk tolerance that is divided into high, medium and low categories. This ensures the agency can determine how the change may affect the agency based on the complexity of the change. Risk assessments should be completed by the IT team with assistance from the requestors and commissioner to ensure risks associated with the change are being effectively considered and managed throughout the IT change.

The development of a formal risk assessment will also help to ensure other key controls within the IT change process are being managed as other key IT functions are being maintained by the IT department.

Management Response Recommendation #2

The OCCC agrees with this recommendation. The agency has developed a more detailed and formal risk and impact process.

Business Objective #3: Segregation of duties for information technology changes. (High Risk)

1. *Does the agency have segregation of duties between information technology change programming, review and testing?*
2. *Are supplemental controls in place to ensure programming changes to not cause disruption to the agency?*
3. *Are information technology changes segregation of duties documented*

Audit Conclusion #3

The agency's information technology change segregation of duties requires review and formalization by the agency. The size of the agency's Information Technology Department does not provide the opportunity for proper segregation of duties, but the process can be supported with an effective risk assessment, consistent documentation of user acceptance testing, and documentation of the position (internal or external) assigned to develop the IT change. The agency placed strong reliance on a single person manage the change with user acceptance ensuring the change met the agency's expectation. The documentation of this process was not maintained in a formal structure, but the projects were completed as needed.

Inappropriate segregation of duties means errors can go undetected, and there are insufficient mitigating controls for process efficiency.

Our audit testing noted the following with respect to segregation of duties for information technology changes:

- Forty-four percent (44%) of the sample did not have documentation of the assigned developer. All tickets were assigned to the personnel, but the developer was not clearly identified. All developers and implementers assigned to Applications Builds are listed as "Sistema".
- The documentation provided did not include a review of the developer's code or change by a peer or manager with a similar understanding of the changes being implemented prior to implementation. The documents provided notes reviewed before implementation by the requestors and person managing the IT change project. The absence of a formal review of the changes implemented by qualified individuals does not provide the opportunity to validate that the changes completed do not alter the assurance that key information and assets are secured.

Audit Recommendation #3

The agency should consider the implementation of a formal segregation of duties process to ensure all IT changes are reviewed prior to implementation. A formal review process of changes being completed with a defined risk assessment, third party management functions and user acceptance testing will support the segregation of duties within the agency.

Management Response Recommendation #3

Although the OCCC did not have a formalized segregation of duties process among the department personnel, the OCCC recognizes the utility of and interest in a comprehensive segregation of duties matrix, or the option to endorse risks of material duplication as acceptable. Given the size of the organization some duplication of responsibilities is both inevitable and necessary. The OCCC considers this inability to fully segregate duties to be an acceptable risk based upon resource limitations and the impact of the associated risk, however, the OCCC will evaluate opportunities to segregate certain duties where feasible.

OCCC

Texas Office of Consumer Credit Commissioner

Internal Audit Services

FY 2019 Annual Internal Audit Report

This report provides management with information about the condition of risks and internal controls at a specific point in time. Future changes in environmental factors and actions by personnel will impact these risks and internal controls in ways that this report cannot anticipate.

MJ McConnell & Jones LLP
Certified Public Accountants

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Section Page Number

MCCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS

August 16, 2019

The Honorable Greg Abbott, Governor
Members of the Legislative Budget Board
Internal Audit Coordinator, State Auditor's Office

Dear Ladies and Gentlemen:

Attached is the Fiscal Year 2019 Annual Internal Audit Report for the Texas Office of Consumer Credit Commissioner (OCCC). This annual audit report is submitted in accordance with the Texas Internal Auditing Act requirement for state agency internal auditors to prepare and distribute an annual report (Government Code, Chapter 2102). McConnell & Jones LLP (MJ) was engaged on September 1, 2018 to provide internal audit services to the OCCC in accordance with The Texas Internal Auditing Act. Pursuant to the Request for Proposals (RFP) issued May 7, 2018 MJ submits this Annual Internal Audit Report for fiscal year 2019 on behalf of the Texas Office of Consumer Credit Commissioner.

The Texas Internal Auditing Act requires agencies to file an annual report on their internal audit activities and the internal audit reports prepared for governing boards. The purpose of the Annual Internal Audit Report is to provide information on the assurance services, consulting services, and other activities of the internal audit function. In addition, the Annual Internal Audit Report assists oversight agencies in their planning and coordination efforts. According to Texas Government Code, Sections 2102.009 and 2102.0091, the Annual Internal Audit Report for Fiscal Year 2019 is due November 1, 2019.

Please contact Odysseus Lanier at 713.968.1603 or Leslie Pettijohn at 512.475.7640 if you should have any questions about this Annual Internal Audit Report.

Sincerely,

Odysseus Lanier, CPA
Partner

7600 Chevy Chase Drive
Suite 307
Austin, TX 78752
Phone: 512.430.5358

WWW.MCCONNELLJONES.COM

I. COMPLIANCE WITH TEXAS GOVERNMENT CODE, SECTION 2102.015: POSTING THE AUDIT PLAN AND ANNUAL REPORT ON THE INTERNET

Texas Government Code, Section 2102.015, requires state agencies and institutions of higher education to post agency internal audit plans and internal audit annual reports to the agency's internet website within 30 days of approval. Texas Government Code, Section 2102.015, also requires agencies to update the posting on the website to include a detailed summary of any weaknesses, deficiencies, wrongdoings, or other concerns raised by the audit plan or annual report and include a summary of the actions taken by the agency to address the issues raised.

In accordance with requirements of Texas Government Code, Section 2102.015, McConnell & Jones LLP (MJ) will ensure the required internal audit plan, internal audit annual report and any other required internal audit information is provided to the Texas Office of Consumer Credit Commissioner (OCCC) for posting to their website.

II. FISCAL YEAR 2019 INTERNAL AUDIT PLAN STATUS

The fiscal year 2019 Annual Internal Audit Plan was prepared by McConnell & Jones LLP based on a comprehensive risk assessment and approved by the Texas Finance Commission (TFC). The approved FY 2019 Annual Internal Audit Plan was completed as approved. The chart below reflects the approved audit plan status as of August 31, 2019.

Fiscal Year 2019 Annual Internal Audit Plan Status

#	Description	Report Number	Report Date	Report Title	Audit Status
1	Investment Administration Controls	19-001	March 27, 2019	Investment Administration Controls	Completed
2	Information Technology Change Management	19-002	July 5, 2019	Information Technology Change Management Program	Completed
3	Follow-Up on Open Audit Findings	N/A	N/A	N/A (Agency is in process of implementing recommendation)	N/A
4	Update Annual Risk Assessment & Audit Plan	N/A	N/A	N/A	Completed
5	Annual Audit Report	N/A	N/A	N/A	Completed
6	Audit Communications, Project Management	N/A	N/A	N/A	On-going

Deviation from FY 2019 Annual Internal Audit Plan:

MJ completed the approved FY 2019 Annual Internal Audit Plan as approved with no deviations.

III. CONSULTING SERVICES AND NON-AUDIT SERVICES COMPLETED

Internal audit provided no consulting and advisory services to the agency during FY 2019.

IV. EXTERNAL QUALITY ASSURANCE REVIEW (PEER REVIEW)

MJ has been a member of the AICPA since 1987, and is subject to the AICPA's peer review process every three years. Our commitment to quality is underscored by the fact that, in our four most recent peer reviews, we have consistently received an unqualified opinion in external peer review reports on the quality of our accounting and auditing practice by the AICPA. After a thorough review of our procedures and work practices, the reviewers concluded that MJ complies with the stringent quality control standards established by the American Institute of Certified Public Accountants. We provide a copy of our most recent peer review letter below.

Your Vision Our Focus

Report on the Firm's System of Quality Control

January 31, 2018

To the Partners of
McConnell & Jones, LLP
and the National Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of **McConnell & Jones, LLP** (the Firm), applicable to engagements not subject to PCAOB permanent inspection, in effect for the year ended June 30, 2017. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a System Review as described in the Standards may be found at www.aicpa.org/prsummary. The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

Firm's Responsibility

The Firm is responsible for designing a system of quality control and complying with it to provide the Firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The Firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

Peer Reviewer's Responsibility

Our responsibility is to express an opinion on the design of the system of quality control and the Firm's compliance therewith based on our review.

Required Selections and Considerations

Engagements selected for review included engagements performed under Government Auditing Standards, including a compliance audit under the Single Audit Act; audits of employee benefit plans and an audit of a non-carrying broker-dealer.

As a part of our peer review, we considered reviews by regulatory entities as communicated by the Firm, if applicable, in determining the nature and extent of our procedures.

Turner, Stone & Company, L.L.P.
Accountants and Consultants
12700 Park Central Drive, Suite 1400
Dallas, Texas 75251
Telephone: 972-239-1660 / Facsimile: 972-239-1665
Toll Free: 877-853-4195
Web site: turnerstone.com

INAA GROUP
INTERNATIONAL ASSOCIATION OF ACCOUNTANTS AND AUDITORS

Opinion

In our opinion, the system of quality control for the accounting and auditing practice of **McConnell & Jones, LLP**, applicable to engagements not subject to PCAOB permanent inspection, in effect for the year ended June 30, 2017, has been suitably designed and complied with to provide the Firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. **McConnell & Jones, LLP** has received a peer review rating of *pass*.

Turner, Stone & Company, LLP

Turner, Stone & Company, L.L.P.

VI. INTERNAL AUDIT PLAN FISCAL YEAR 2020

MJ developed the Fiscal Year 2020 Annual Internal Audit Plan based on results of a risk assessment. The risk assessment included reviewing the agency's strategic plan, the Legislative Appropriations Request, and policies and procedures; analyzing the agency's financial reports; and conducting discussions with management. Our assessment evaluated risk exposures relating to OCCC's governance, operations, and information systems regarding the reliability and integrity of financial and operational information; effectiveness and efficiency of operations; safeguarding of assets; and compliance with laws, regulations, and contracts. **Figure 1** provides a heat map of the agency's function risks.

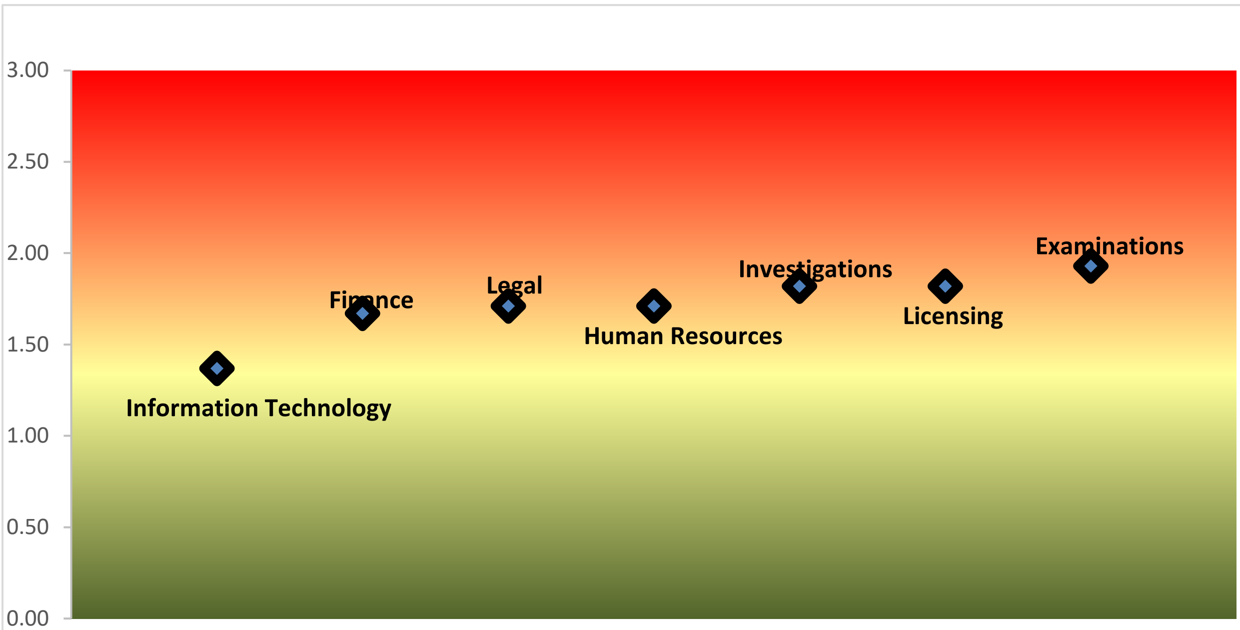

Figure 1 Agency Function and Business Process Risk Heat Map

MJ will conduct one audit, update the risk assessment, conduct prior audit finding follow-up activities, prepare the Fiscal Year 2021 Annual Internal Audit Plan and prepare the Fiscal Year 2020 Annual Internal Audit Report in accordance with the Texas Internal Auditing Act. These activities are estimated to require **149 hours**. The planned audits, timing and estimated hours are summarized in the chart below.

Fiscal Year 2020 Annual Audit Plan Activities

Audit Activity #	Description	Risk Rating	Estimated Timing	Estimated Hours
1	Examinations	High	January 2020 – February 2020	99
2	Follow-Up on Prior Audit Findings	Compliance	On-Going	22
3	Update Risk Assessment & FY 2021 Annual Audit Plan	Compliance	July 2020	18

Audit Activity #	Description	Risk Rating	Estimated Timing	Estimated Hours
4	Annual Audit Report	Compliance	July 2020	4
5	Audit Communications, Committee Meetings, Project Management	Compliance	On-Going	6
Total				**149**

VII. EXTERNAL AUDIT SERVICES PROCURED IN FISCAL YEAR 2018

External audit services procured in fiscal year 2018 consisted of the internal audit function.

VIII. SUMMARY OF PRIOR YEAR OPEN AUDIT FINDINGS

The Office of Consumer Credit Commissioner had one open audit finding from prior fiscal years at the end of FY 2019. The agency anticipates the recommendation to be fully implemented in September 2019. **Figure 2** provides a summary of the prior year's audit finding that remained open at the end of FY 2019.

Figure 2 Summary of Prior Year Open Audit Finding

IX. REPORTING SUSPECTED FRAUD AND ABUSE

The Texas Office of Consumer Credit Commissioner has implemented measures to comply with Article IX, Section 7.10, the General Appropriations Act (81st Legislature) and Texas Government Code, Section 321.022. These measures include, but are not limited to, the following:

The Texas Office of Consumer Credit Commissioner includes a link to the State Auditor's Office (SAO) website for fraud reporting at the footer of the OCCC's website. In addition, information on reporting suspected fraud to the State Auditor is included in the agency's policies and procedures.

X. SIGNIFICANT INTERIM CHANGES

Interim changes to the annual audit plan may occur from time to time due to changes in management direction, objectives, business risks, timing of initiatives, and staff availability. In accordance with IIA Performance Standard 2020, MJ will communicate any significant changes of the audit plan to the Texas Finance Commission for review and approval. Notification of significant changes to the Annual Internal Audit Plan approved by the commissioners will be submitted to the State Auditor's Office (SAO).

This annual internal audit report was presented to the Texas Finance Commission and approved on August 16, 2019.

Texas Department of Banking

Internal Audit Services

An Internal Audit of:

Information Technology Change Management Program

Report #19-001

June 27, 2019

This report provides management with information about the condition of risks and internal controls at a specific point in time. Future changes in environmental factors and actions by personnel will impact these risks and internal controls in ways that this report cannot anticipate.

McConnell & Jones LLP
CERTIFIED PUBLIC ACCOUNTANTS

McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS

June 27, 2019

Mr. Charles Cooper, Commissioner
Department of Banking
2602 N. Lamar Blvd.
Austin, Texas 78705

Dear Mr. Cooper:

Attached is internal audit report #19-001 Information Technology Change Management Program. This audit was performed as part of the approved FY 2019 Annual Internal Audit Plan.

We assessed the Department of Banking's internal controls and business processes in place to ensure that changes to information technology follow standardized methods and procedures to reduce change-related incidents while ensuring improvement to day-to-day operations. Our audit procedures determined that the agency has processes in place to ensure that information technology changes are performed in a controlled manner to reduce risk to the agency. We identified opportunities to formalize and document these processes.

We wish to thank all agency staff involved in the audit and recognize their openness and responsiveness to our requests.

Please contact Darlene Brown at 281.740.0017 if you should have any questions about this audit report.

Sincerely,

Odysseus Lanier, CPA
Partner

7600 Chevy Chase Drive
Suite 307
Austin, TX 78752
Phone: 512.430.5358
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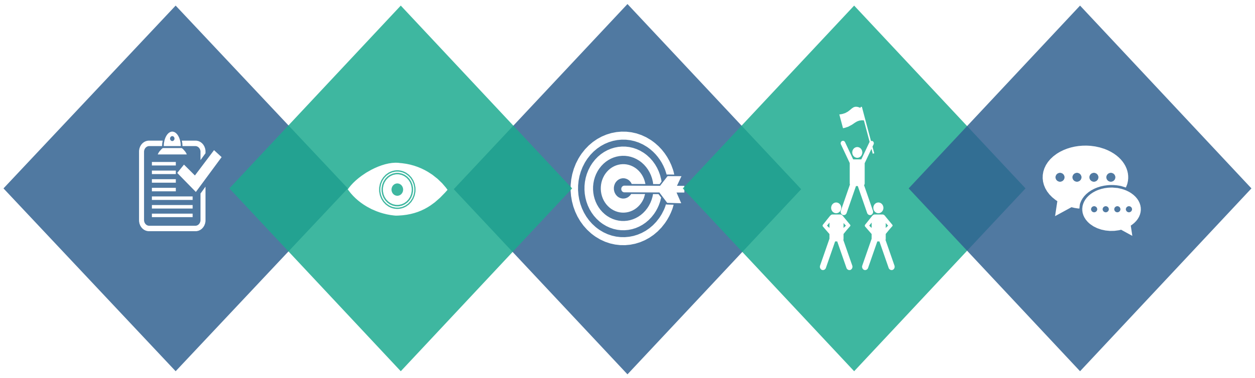
1.0 AUDIT AT A GLANCE



Purpose

- To evaluate the Department of Banking's internal controls and business processes in place to ensure that changes to information technology follow standardized methods and procedures to reduce change-related incidents while ensuring improvement to day-to-day operations.

Scope

- September 1, 2017 through February 28, 2019.

Focus

- Polices and Procedures
- IT changes' evaluation criteria and documentation
- IT changes risk evaluation

Internal Control Rating

- Adequate Controls, Some improvement needed

Recommendations

- Continue developing the IT change management framework and incorporate roles, responsibilities, authorities and documentation requirements.
- Develop a formal risk assessment process for IT changes.
- Update written policies.
- Ensure IT changes are communicated.
- Implement segregation of duties for IT changes.

Number of Findings by Risk Rating

High	Medium	Low	Total
3	2	0	5

Acknowledgement

We wish to thank all staff involved in the audit for their time and efforts. Without their assistance, we would not have been able to complete this audit.

INTRODUCTION

McConnell & Jones LLP (MJ), serving as the outsourced internal audit function (Internal Audit) for the Department of Banking (DOB), performed an internal audit of DOB's Information Technology (IT) change management program. MJ included this audit in the approved FY 2019 Internal Audit Plan.

We conducted the Information Technology Change Management Program audit in conformance with the International Standards for the Professional Practice of Internal Auditing and in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained during the audit satisfied GAGAS standards.

We have not omitted pertinent information from this report, which summarizes the audit objective and scope, our assessment based on our audit objectives and the audit approach.

OBJECTIVE

The purpose of this audit was to evaluate the Department of Banking's internal controls and business processes in place to ensure that changes to information technology follow standardized methods and procedures to reduce change-related incidents, while ensuring improvement to day-to-day operations.

Information Technology change management is a process to manage changes made to production hardware, network devices, operating systems and application software. An organization's management uses the IT change management process to:

- ✓ Ensure that IT changes meet the organization's needs and create business value.
- ✓ Anticipate and manage problems that may be introduced in the production environment because of changes.
- ✓ Promote the effectiveness and efficiency of IT change management efforts.

The audit objectives agreed upon by internal audit and the agency's management team were as follows:

- ✓ Determine if IT change management policies and procedures' documents are (1) complete, relevant and accurate; (2) comprehensive, including defined roles/responsibilities; and (3) are updated to reflect actual, existing processes.
- ✓ Determine if IT changes proposed and created were evaluated against established criteria, documented and reviewed for risks to the agency.
- ✓ Assess management's processes in place to ensure that IT changes were completed in a manner that did not disrupt operations or create other issues. This includes the documentation of (1) changes requested; (2) resources required; (3) testing of changes; (4) user acceptance; (5) implementation; and (6) evaluation of change.

SCOPE

The scope period for this audit was September 1, 2017 through February 28, 2019. We performed some of our test procedures as of the date of fieldwork. This work product includes our evaluation at a specific point in time, and cannot address the inherent, dynamic nature of subsequent changes to the process and procedures reviewed during our audit process.

PROCEDURES PERFORMED

We gathered documentation, conducted interviews and completed audit testing procedures to measure the performance of the internal control environment governing the IT change management environment and processes.

We documented all key areas of the agency's IT change management process, which includes the agency's hardware environment, internally developed applications and third-party applications. Based on the risk to operations and change volume, we determined that testing would be completed on the internally developed applications which are as follows:

- ✓ SARA – licensing and regulation tracking system
- ✓ CATS - licensing tracking system
- ✓ EDISON - regulation tracking system
- ✓ Time Travel – the agency's travel reporting system

CONCLUSION AND INTERNAL CONTROL RATING

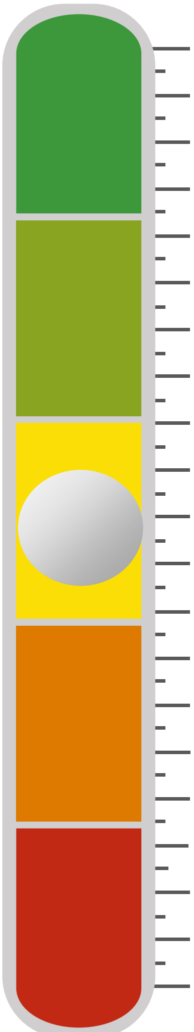
*This audit identified findings that resulted in an overall internal control rating of **Some Improvement Needed**. **Figure 1** describes the internal control rating.*

We discussed reportable opportunities to enhance internal controls and improved process efficiencies with management. Those observations are summarized in **Figure 2**.

The director of Information Technology advised Internal Audit that the information technology change management environment was in the process of being modified to be more reflective of the agency's changing IT support environment, and this audit would help to validate the areas they already knew needed development.

The audit of the agency's IT change management process was based on the documentation provided which reflected the environment before any changes made by DOB. However, our recommendations included in this report considered the changes that are currently being implemented to support the IT change environment.

INTERNAL CONTROL RATING



Rating	RATING DESCRIPTION
Best Practices	***Best Practices*** – Observations indicate best practice opportunities identified during the course of the review that may add value to the function/department/organization. Best practices do not require management comments and do not require internal follow-up to validate implementation status.
Effective	***Effective*** **–** Controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met**.**
Adequate Controls, Some Improvement Needed	***Adequate Controls, Some Improvement Needed*** – **A few specific control weaknesses were noted; generally however, controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met**.
Major Improvement Needed	***Major Improvement Needed*** – Numerous specific control weaknesses were noted. Controls evaluated are unlikely to provide reasonable assurance that risks are being managed and objectives should be met.
Unsatisfactory	***Unsatisfactory*** – Controls evaluated are not adequate, appropriate, or effective to provide reasonable assurance that risks are being managed and objectives should be met.

Figure 1 *Internal control rating description.*

OBSERVATION AND RISK RATING SUMMARY

Figure 2 *presents a summary of our audit observations. See the detailed observation section of this report for a discussion of all issues identified, recommendations and management implementation plans.*

DOB's information technology change management program is an immature process that is currently being developed by the agency. Our assessment of the IT change management processes indicates that although the Information Technology Department is currently implementing activities related to its IT change management program, the department has not formally documented the new activities to reflect the current processes. We also noted that staff within the IT Department do not consistently perform all activities related to the IT change management process. This can be improved with a formal IT change management framework that defines the agency's expectations.

Number	Observation	Risk Rating
1	The agency's information technology change management program is currently being developed to ensure that a mature framework is in place to address the growth of IT applications and hardware that support the agency's functions. ***Recommendation:*** The agency should continue developing its information technology change management framework. This framework should incorporate roles, responsibilities, authorities and related documentation requirements.	
2	The agency does not have a formally developed risk assessment process for information technology changes with defined measurement criteria, or communication process designating who should be contacted based on the risk rating. ***Recommendation:*** The agency should develop a formal risk assessment process to ensure the risks associated with IT changes are effectively managed, with high-risk changes being communicated to key individuals within the agency.	
3	The information technology change approval process documented in the IT Department's policies and procedures is not being followed. ***Recommendation:*** The agency should update the written information technology change management process policies and procedures to reflect the approval authority based on the risk rating to ensure proper communication of risk so that interested parties can be prepared if a change directly affects a function that is critical to the agency's ability to conduct business.	
4	Information technology changes are not consistently communicated to users. ***Recommendation:*** Include communications and tracking protocols when updating the IT change management process.	
5	The agency currently does not follow a documented or consistent framework that provides segregation of duties to ensure the programming code is reviewed before implementation of changes.	

Number	Observation	Risk Rating
	Recommendation: The agency should consider the implementation of formal segregation of duties to ensure all IT changes are reviewed prior to implementation. If this is not feasible then the agency should ensure changes with a high risk are reviewed, approved and documented before the implementation of the change. Changes that are not rated as a high risk can be assessed and approved at the user acceptance level.	

FIGURE 2 Observation and Recommendation Summary.

Risk Rating and Suggested Corrective Action Timing Legend:

Priority: **Low: < 12 months** **Medium: 6-12 months** **High: < 6 months**

INFORMATION TECHNOLOGY PROGRAM OVERVIEW

This section of the report provides an overview of the agency's information technology program.

The agency's Information Technology Department is staffed with seven full-time equivalent employees (FTE) and one vacant programmer position. The Director of Information Technology is responsible for facilitating information technology changes and managing the information technology change management program. **Figure 3** provides the organization structure and reporting relationships within the Information Technology Department.

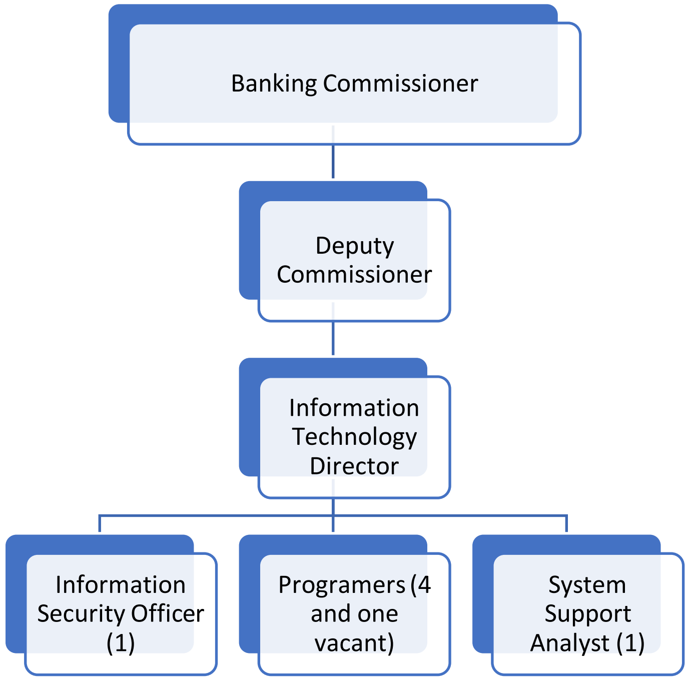


Figure 3 DOB Information Technology Organization

DETAILED OPPORTUNITIES AND RECOMMENDATIONS

This section of the report provides a detailed discussion of opportunities we noted during the audit along with recommendations to improve internal controls or the business process.

Business Objective #1: The agency's information technology change management program follows a mature framework. (Medium Risk)

1. *Does the information technology change management program clearly define roles, responsibilities, authority and documentation requirements?*
2. *Is there a formal process in place to ensure potential changes to information technology are assessed and approved prior to the change being made?*
3. *Are information technology changes documented and retained?*

Audit Conclusion #1

The agency's information technology change management program is currently being developed to ensure that a mature framework is in place to address the growth of IT applications and hardware that support the agency's functions. Our assessment noted that the agency's current environment reflects the need for developing an IT change management framework that provides assurance that the risks related to IT changes are consistently addressed for each IT change completed by the agency.

We noted the following areas that require a consistent framework:

1. The information being entered into the TRACK-IT system does not consistently ensure the documentation supporting the IT change adequately documents the reason for the change, change requirements, resources needed, testing and approval.
2. IT Department staff are not reviewing or reconciling prior IT changes and similar change requests to determine if the change requested is a version of previous change, or if the change is being requested because an issue was not identified and flagged through the user acceptance process.

Audit Recommendation #1

The agency should continue developing its information technology change management framework. This framework should incorporate roles, responsibilities, authorities and documentation requirements.

Management Response Recommendation #1

The agency agrees with this finding and has implemented a new change management system, Jira. Data owners will enter program change requests into Jira, the programmer will document the changes required, schedule the change and document what changes were made. After the change has been completed, the data owner will test the changes in a test environment and if acceptable will sign off on the change. The policy will be updated by September 1, 2019.

Business Objective #2: The agency has processes in place to complete risk assessments of proposed information technology changes. (High Risk)

1. ***Are risk assessments completed for requested information technology changes to identify potential risks and impact to the agency?***
2. ***Are risk assessments documented?***

Audit Conclusion #2

The agency does not have a formally developed risk assessment process for information technology changes with defined measurement criteria or a communication process designating who should be contacted based on the risk rating. The agency is currently relying on the expertise of the application user and the programmer to determine the risk of the change, which is then informally communicated to key process owners via email.

This process has been effective for the agency in the past, but with the agency's continued growth and its plans to update the programming change environment, the IT Department needs to formalize its risk assessment process. A formal risk assessment process allows the DOB to prepare contingency plans if a change results in the disruption of a key application or hardware supporting an agency function.

The absence of a formal risk assessment process could lead to the risk of an IT change occurring that could disrupt key agency process, and key process owners and management staff would not have the opportunity to be prepared to respond to unforeseen circumstances.

Audit Recommendation #2

The agency should develop a formal risk assessment process to ensure the risks associated with IT changes are effectively managed, with high-risk changes being communicated to key individuals within the agency. The risk assessment process should ensure the following is completed:

1. Document who is responsible for ensuring a risk assessment is completed for each IT change contemplated.
2. Develop measurement criteria and risk tolerance based on the IT change being completed.
3. Standardize the process ensuring a simple measure of risk based on the high, medium or low rating with documentation maintained to support the rating.
4. Determine points of contact within the agency based on the IT changes being made.

Management Response Recommendation #2

The agency agrees with this finding and has developed a risk rating system for program changes. The new procedure will determine who is responsible for determining the risk, who must sign off on program changes and who must approve the changes after the change has been completed. The policy will be updated by September 1, 2019.

Business Objective #3: DOB's IT change management process is governed by comprehensive written policies and procedures. (Medium Risk)

1. ***Is the IT change management process governed by comprehensive written policies and procedures?***
2. ***Are written policies and procedures easily accessible to staff?***

Audit Conclusion #3

The agency has written policies and procedures for the IT change management processes. However, the current approval process documented in the agency's written policy and procedures is not being followed. The policies and procedures state that approvals must be completed by the director of Information Technology/IRM with additional approval of the deputy commissioner.

Our audit testing of the approval process supports the method described in the interview process, which is that the requestor and programmer determine the changes required, risk and final approvals, which are subsequently documented in the TRACK-IT system. Our audit testing indicated the requestor approved the IT change and completed the work, rather than the director of Information Technology and deputy commissioner approving the IT change. The current approval process followed for information technology changes where the requestor level is approving the change is enough for internal control purposes, but the process should be supported with a defined and documented risk assessment. This will ensure proper communication to all defined positions that require communication of risk based on a high, medium and low ranking.

Audit Recommendation #3

The agency should update the written information technology change management process policy and procedures to reflect the approval authority based on the risk rating to ensure proper communication of risk so that interested parties can be prepared if a change directly affects a function that is critical to the agency's ability to conduct business.

Management Response Recommendation #3

The agency agrees with this finding and will update the procedures manual to allow data owners to sign off on changes with a risk rating of low, data owners and division directors must sign off on changes with a risk rating of medium and a data owners, division directors, and the Deputy Commissioner must sign off on changes with a risk rating of high. The policy will be updated by September 1, 2019.

Business Objective #4: Processes are in place to inform users of information technology changes. (High Risk)

1. ***How are information technology changes communicated to users?***

Audit Conclusion #4

The process for communicating software application changes needs improvement. Our review of the documentation provided noted request tickets that were submitted after a major change was completed. These request tickets primarily related to why they user did not see the change or could not log onto the application due to the change. The lack of effective communication to the end-users of the software application creates inefficiency and could cause issues with agency functions if the version being used by the end-user has not been updated effectively.

We also noted a high volume of changes being performed throughout the scope period. The changes being made are based on the agency's needs. However, the agency may want to determine if it is possible to group changes by specific applications to ensure version control.

Audit Recommendation #4

Updating the IT change management process should also include a review of how software application updates and changes will be communicated and tracked. A consistent communication framework will ensure the IT change management process becomes imbedded within the agency.

Management Response Recommendation #4

The agency agrees with this finding and will implement a new versioning system for desktop applications that are run from local hard drives. When a program is started it will compare the running software version with the current version; if the versions are not the same, the program will be updated. All applications will be updated by September 1, 2019.

Business Objective #5: Segregation of duties for information technology changes. (High Risk)

1. ***Does the agency have segregation of duties between information technology change programming, review and testing?***
2. ***Are supplemental controls in place to ensure programming changes to not cause disruption to the agency?***
3. ***Are information technology changes segregation of duties documented***

Audit Conclusion #5

The agency currently does not follow a documented or consistent framework that provides segregation of duties to ensure the programming code is reviewed prior to implementation. The agency's size creates an environment where the lack of formal segregation of duties may not be significant, but the risk remains for programming code being implemented that is not a benefit to the agency.

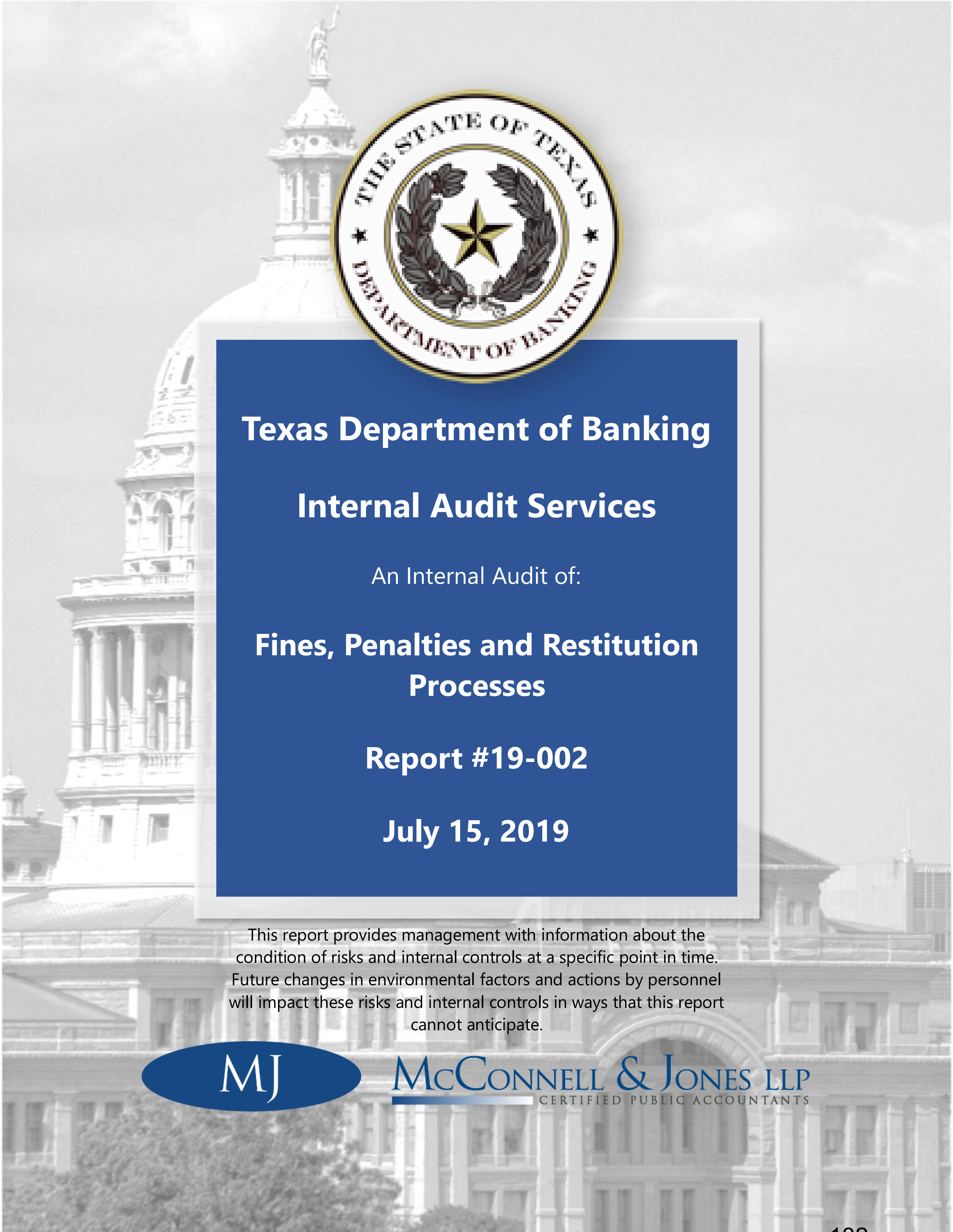
Given the small size of the agency and information technology staff, the segregation of duties process can be addressed at the risk assessment level and user acceptance level to create a mitigating control that may be more efficient for the agency's current environment. The development of the process at this level will also ensure changes have been assessed and reviewed.

Audit Recommendation #5

The agency should consider the implementation of formal segregation of duties to ensure all IT changes are reviewed prior to implementation. If this is not feasible then the agency should ensure changes with a high risk are reviewed, approved and documented before the implementation of the change. Changes that are not rated as a high risk can be assessed and approved at the user acceptance level.

Management Response Recommendation #5

The agency agrees with this finding and has implemented a process to review the code changes prior to implementation based on the risk of each change. The new process will consider the program's content and experience of the programmer. The policy will be updated by September 1, 2019.



Texas Department of Banking

Internal Audit Services

An Internal Audit of:

Fines, Penalties and Restitution Processes

Report #19-002

July 15, 2019

This report provides management with information about the condition of risks and internal controls at a specific point in time. Future changes in environmental factors and actions by personnel will impact these risks and internal controls in ways that this report cannot anticipate.

MJ McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS

MJ McConnell & Jones LLP
Certified Public Accountants

July 19, 2019

Mr. Charles Cooper, Commissioner
Department of Banking
2602 N. Lamar Blvd.
Austin, Texas 78705

Dear Mr. Cooper:

Attached is internal audit report #19-002 Fines, Penalties and Restitution Processes (FPR). This audit was performed as part of the approved FY 2019 Annual Internal Audit Plan.

We assessed the Department of Banking's internal controls and business process in place to develop enforcement orders; track assessed fines, penalties and restitution; and ensure complexness and accuracy of the financial recording of payments received.

We wish to thank all agency staff involved in the audit and recognize their openness and responsiveness to our requests.

Please contact Darlene Brown at 281.740.0017 if you should have any questions about this audit report.

Sincerely,

Odysseus Lanier, CPA

Partner

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Suite 307
Austin, TX 78752
Phone: 512.430.5358
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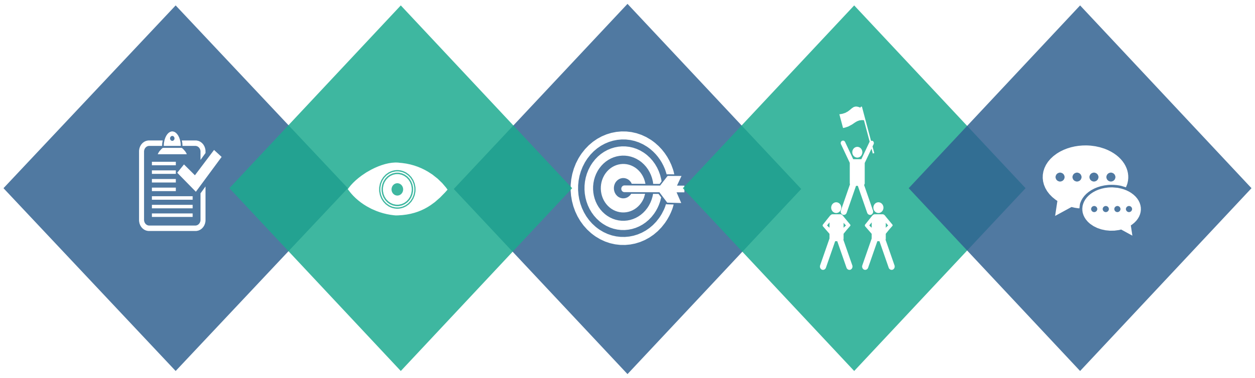
1.0 AUDIT AT A GLANCE



Purpose

- To evaluate the Department of Banking's internal controls and business processes in place to ensure that fines, penalties and restitutions assessed are collected, accurately recorded and accurately reported.

Scope

- The scope covered the active posted enforcement orders found on the Department of Banking website as of May 21, 2019.

Focus

- Policy and procedures governing the fines, penalties and restitution processes.
- Complaint or agency investigation finding's documentation supporting investigations fines, penalties or restitution activities.
- Fines, penalties and restitutions recording, reconciliation and reporting.
- Financial management of the guaranty fund.

Internal Control Rating

- Internal controls are effective.

Recommendations

- None

Number of Findings by Risk Rating

High	Medium	Low	Total
0	0	0	0

Acknowledgement

We wish to thank all staff involved in the audit for their time and efforts. Without their assistance, we would not have been able to complete this audit.

INTRODUCTION

McConnell & Jones LLP (MJ), serving as the outsourced internal audit function (Internal Audit) for the Department of Banking (DOB), performed an internal audit of DOB's assessed fines, penalties and restitution processes. MJ included this audit in the approved FY 2019 Internal Audit Plan.

We conducted the Fines, Penalties and Restitution Processes (FPR) audit in conformance with the International Standards for the Professional Practice of Internal Auditing and in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained during the audit satisfied the GAGAS standards.

We have not omitted pertinent information from this report, which summarizes the audit objective and scope, our assessment based on our audit objectives and the audit approach.

OBJECTIVE

The purpose of this audit was to evaluate the Department of Banking's internal controls and business processes in place to provide the agency assurance that their fines, penalty and restitution processes follow standardized methods and procedures to ensure the agency meets its objectives.

The agency assesses organizations fines, penalties and restitution through enforcement orders when instances of non-compliance with regulations are identified. We performed an internal audit of the agency's existing processes used to manage any fine, penalty and restitution assessed to ensure that the assessments are sufficiently tracked and monitored, and that payment is recorded in a complete, accurate and timely manner.

The objective of this audit was to determine if management's governance, processes, and existing internal controls are operating effectively to provide reasonable assurance that:

1. Policy and procedures governing the fines, penalties and restitution processes are (1) complete, relevant and accurate; (2) comprehensive, including defined roles/responsibilities; and (3) are updated to reflect actual, existing processes.
2. The agency documents complaints or agency findings resulting in investigations leading to fines, penalties or restitution activities.
3. The collection of a fine, penalty or restitution meets the agency outlined in the agency's enforcement order.
4. Recording of collected of fines, penalties and restitutions is complete, accurate and reconciled.
5. Financial management of the guaranty fund meets agency and state requirements.

SCOPE

The scope covered the active posted enforcement orders found on the Department of Banking's website. (https://www.dob.texas.gov/laws-regulations/enforcement-orders) as of May 31, 2019. We performed some of our test procedures as of the date of fieldwork. This work product includes our evaluation at a specific point in time, and cannot address the inherent, dynamic nature of subsequent changes to the process and procedures reviewed during our audit process.

PROCEDURES PERFORMED

We conducted interviews, business process walkthroughs, reviews of written policies and procedures, and sample audit testing of supporting documentation to determine if DOB's control environment is effective in the governance of the enforcement orders process and the collection of fines, penalties and restitution related to the order.

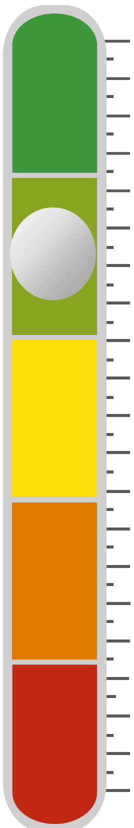
CONCLUSION AND INTERNAL CONTROL RATING

*This audit identified findings that resulted in an overall internal control rating of **Effective**. Figure 1 describes the internal control rating.*

The current fines, penalties and restitution processes are supported with a strong governance function supported with policy and procedures, a strong understanding of the process, tenured staff, and experience dealing with a unique agency function.

We noted the agency is currently in the process of updating the fines, penalties and restitution process currently being executed with an internally developed software application that will reduce manual functions currently involved in the management of the program.

INTERNAL CONTROL RATING



	RATING DESCRIPTION
Best Practices	***Best Practices*** – Observations indicate best practice opportunities identified during the course of the review that may add value to the function/department/organization. Best practices do not require management comments and do not require internal follow-up to validate implementation status.
Effective	***Effective* – Controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.**
Some Improvement Needed	***Some Improvement Needed*** – A few specific control weaknesses were noted; generally however, controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.
Major Improvement Needed	***Major Improvement Needed*** – Numerous specific control weaknesses were noted. Controls evaluated are unlikely to provide reasonable assurance that risks are being managed and objectives should be met.
Unsatisfactory	***Unsatisfactory*** – Controls evaluated are not adequate, appropriate, or effective to provide reasonable assurance that risks are being managed and objectives should be met.

Figure 1 *Internal control rating description.*

OBSERVATION AND RISK RATING SUMMARY

***We had no reportable observations**. See the detailed observation section of this report for a discussion of processes and controls in place.*

FINES, PENALTIES AND RESTITUTION PROGRAM OVERVIEW

This section of the report provides an overview of the agency's fines, penalties and restitution processes.

The Texas Department of Banking performs functions designed to maintain a financial regulatory system for Texas that promotes a consistent banking environment, and provides the public with convenient, safe, competitive banking and other stable financial services. The agency's major functions are to charter, license, or register specific entities, which may include regulating, examining and supervising the following:

- Trust Companies
- Money Services Businesses
- Prepaid Funeral Contract Sellers
- Perpetual Care Cemeteries
- Private Child Support Enforcement Agencies
- Check Verification Companies
- Cemetery Brokers

The Department of Banking Commissioner has authority granted in statute to issue enforcement orders concerning entities regulated by the agency. DOB maintains funds to guarantee performance by sellers of trust-funded and insurance-funded prepaid funeral benefits contracts. The Guaranty Fund Advisory Council is charged with supervising the operation and maintenance of these prepaid funeral benefit contract funds. Provisions governing the Advisory Council and the Guaranty Fund are outlined in Chapter 154, subchapter H of the Texas Finance Code.

DOB issued 30 enforcement orders, and assessed a total of $2,840,567 in fines, penalties, and restitutions between September 1, 2017 and May 31, 2019. DOB collected $2,696,605 in fines, penalties and restitutions between September 1, 2017 and May 31, 2019. **Figure 2** provides a summary of fine, penalty and restitution activity between September 1, 2017 and May 31, 2019.

Description	FY 2018		Sept. 1, 2018 – May 31, 2019		Total	
	No.	Amount	No.	Amount	No.	Amount
Fine/Penalty Assessed	13	$928,132	12	$1,366,065	25	$2,294,197
Restitution Assessed	1	20,890	2	525,480	3	546,370
Total Assessed	**14**	**$949,022**	**14**	**$1,891,545**	**28**	**$2,840,567**
Fine/Penalty Collected		629,510		1,327,956		1,957,466
Restitution Collected		0		739,138*		739,138
Total Collected		**$629,510**		**$2,067,094**		**$2,696,605**

Figure 2 Fine, Penalty and Restitution Summary September 1, 2017 to May 31, 2019
**March 1, 2018 to February 28, 2019*
Source: https://www.dob.texas.gov/laws-regulations/enforcement-orders and Trust Fund Guaranty Fund Activity March 1, 2018 through February 28, 2019

Multiple DOB departments play a role in the agency's fines, penalties and restitution processes. **Figure 3** provides a process flow of the fines, penalties and restitutions process.

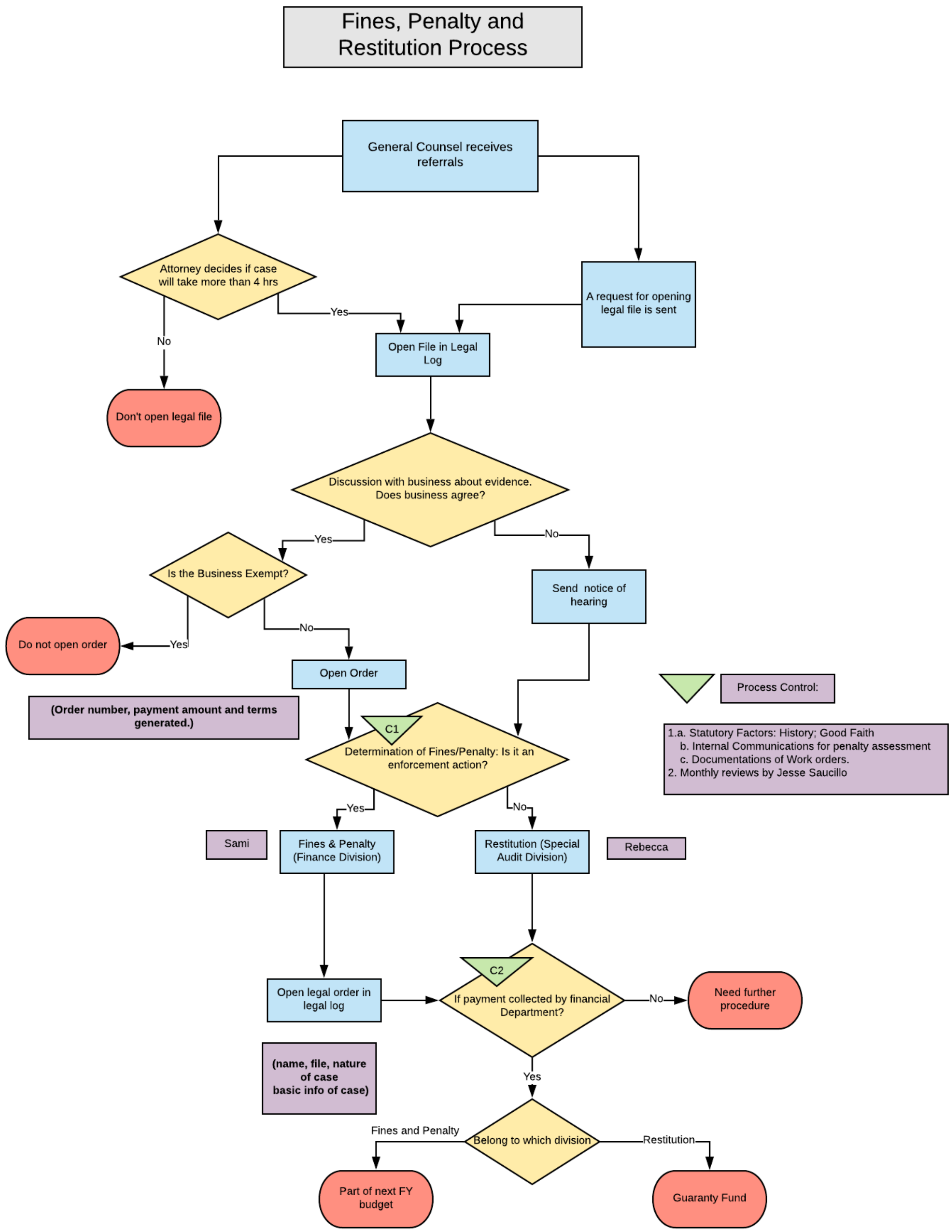


Figure 3 DOB Fines, Penalties and Restitution Processes

DETAILED OPPORTUNITIES AND RECOMMENDATIONS

This section of the report provides a detailed discussion of opportunities for improvement we noted during the audit along with recommendations to improve internal controls or the business process.

Business Objective #1: DOB's fines, penalties and restitution processes are governed by comprehensive written policies and procedures. (High Risk)

1. *Are the agency's fines, penalties and restitution processes governed by comprehensive written policies and procedures that include defined roles, responsibilities and authorities?*
2. *Are written policies and procedures easily accessible to staff?*

Audit Conclusion #1

DOB assesses fines, penalties and restitutions pursuant to Texas Finance Code §151, Texas Finance Code §154, Texas Government §2001 and Texas Finance Code §35.009. The agency has formalized policies for monitoring fines, penalties and restitutions.

We assessed the fine, penalties and restitution policies and procedures governing the processes across the Legal, Special Audits and Finance divisions. We noted the policies and procedures reflect the current processes are being completed within an effective internal control environment.

The agency's Legal Division has developed procedures for opening and closing files in Legal Log, a software application used to document legal notes and documentation related to a case being developed by the agency. The procedures also communicate how the agency should manage physical documentation. The Legal Division also developed the *Assessment of Penalties for Illegal Activity by Licensed Entities* documenting a formulized penalty matrix based on the Texas Finance Code §151, Texas Finance Code §154 and Texas Government §2001. This document provides guidance for the agency's attorneys to access the fine, penalty or restitution.

The Special Audits Division (SAD) manages the process of monitoring assessed fines, penalties or restitution payments. The SAD developed the *SOP for Monitoring Procedures* which provides guidance on how to monitor and report payments collected from enforcement orders. The procedures also include the payment reconciliation process completed by the SAD.

The agency's Finance Department recorded deposits and payments following its documentation of policies and procedures governing the financial process.

The development of these policies and procedures ensure that the agency's three divisions complete a systematic approach to developing, monitoring, collecting, recording and reporting of the enforcement order program. We also noted that written policies and procedures communicate roles, responsibility and authority within the process.

Audit Recommendation #1

No recommendations are made for written policies and procedures as they are comprehensive and reflect the agency's current processes.

Management Response Recommendation #1

None required.

Business Objective #2: The agency has processes in place to ensure complaint or agency findings documentation is maintained to support the assessed fine, penalty or restitution. (High Risk)

1. *Are enforcement orders supported with documentation of the complaint or agency findings?*
2. *Are enforcement orders developed in a consistent manner?*
3. *Is the process well-known and understood by staff involved?*

Audit Conclusion #2

The agency has developed a systematic process supporting the development of enforcement orders. The enforcement orders are developed on a case-by-case basis depending on the type of compliance infraction identified by an entity that is monitored by the Department of Banking.

The agency receives complaints and completes audits that could result in a formal investigation to determine if a violation of the Texas Finance code has occurred. Documentation is maintained for each of these activities. If the agency's investigation determines the case may result in an enforcement order, it is also documented in the agency's Legal Log software application with the physical documentation maintained by the agency.

The legal process is supported with standardized procedures providing guidance on how the documentation should be maintained if there is a possibility that an enforcement order may be issued that could result in the assessment of a fine, penalty or restitution activity.

The process is also supported with internal discussions with the agency's legal team, Special Audits, deputy commissioner and commissioner, along with the monitored entity. Notes and documentation of the discussion and activity are documented in the Legal Log software application. Once the investigators conclude that an enforcement order is necessary, the agency uses its penalty matrix to determine the action that will be taken based on the type of infraction. The final documentation of the actions taken are included in an enforcement order with both the Commissioner and entity signing off in agreement with the actions taken. If no agreement can be reached, then the case will proceed further into the legal process, which is not within the scope of this audit.

The standardized procedures, communication and documentation of the enforcement order process in Legal Log with supporting physical documentation provides assurance enforcement orders are being assessed within a systematic framework and a strong monitoring function.

Audit Recommendation #2

No recommendations are made for the documentation process controls are effective.

Management Response Recommendation #2

None required.

Business Objective #3: The agency has processes in place to ensure fines, penalties and restitution assessment payments agree to the enforcement order. (High Risk)

1. *Does the agency have internal controls and processes in place to ensure that fines, penalties and restitution amounts assessed are protected against unauthorized changes?*
2. *Is there adequate separation of duties between enforcement order generation, monitoring, payment collection, payment recording and payment reporting?*
3. *Are fines, penalties and restitution payments reconciled to the enforcement order to ensure the full amount is collected?*
4. *If partial payments are made, do they abide by the enforcement order's terms?*

Audit Conclusion #3

The agency's enforcement orders document the actions and fees, penalties or restitution that require collection from the monitored entity to the DOB. The SAD enforcement orders are posted on the agency's website. These orders include the action and the amount of fine, penalties or restitution that were assessed. The agency receives payments via check or wire transfers. Each payment received is compared to the enforcement order. When the agency's accounting staff receives a payment, they contact the SAD to validate that the amount received meets the enforcement guidelines. The agency maintains copies of the transaction and the validation of the payment received.

The results of our audit sample used to test the function noted full compliance with the documented process.

Audit Recommendation #3

No recommendations are made for ensuring that fines, penalties and restitution payments received agree to the enforcement order's terms, as controls for this process are effective and adequate segregation of duties exist.

Management Response Recommendation #3

None required.

Business Objective #4: The agency has processes in place to ensure that the assessed fine, penalty or restitution payments are accurately recorded and reconciled. (High Risk)

1. *Does the agency have adequate controls in place to ensure that fine, penalty and restitution payments are recorded in a complete, accurate and timely manner?*
2. *Does the agency reconcile fines, penalties and restitution payments received to the financial system records to ensure completeness and accuracy?*

Audit Conclusion #4

DOB's accounting team receives and records fine, penalty and restitution payments according to the agency's policies and procedures developed for the proper recording of cash receipts. The accounting team also performs reconciliations of payments received to the amounts recorded. Our audit testing of general ledgers, monthly reconciliations and bank statements noted compliance with recording payments accurately in a timely manner.

Audit Recommendation #4

No recommendations are made for the fine, penalty and restitution payment recording and reconciliation processes as the controls are effective and adequate segregation of duties exist.

Management Response Recommendation #4

None required.

Business Objective #5: The agency has processes in place to ensure compliance with the Trust-Funded Prepaid Guaranty Fund's requirements. (High Risk)

1. *Are the agency's Guaranty Fund management processes governed by comprehensive written policies and procedures that include defined roles, responsibilities and authorities?*
2. *Are there processes in place to ensure that the Guaranty Fund is reconciled on a regular basis?*
3. *Are Guaranty Fund investment reports presented to the Texas Finance Commission and Audit Committee?*

Audit Conclusion #5

The procedures implemented for the Guaranty Fund management meet the requirements of the agency and Texas Finance Code for information regarding the penalties, fines and restitution process.

The agency developed separate written policies and procedures for the Insurance-Funded Prepaid Guaranty Fund and the Trust-Funded Prepaid Guaranty Account for Governing the Prepaid Guaranty Funds (PGF). These policy and procedures documents ensure that the financial management of the Guaranty Fund meets agency and state requirements. We noted that DOB prepares quarterly and annual reports that are reviewed and signed off by the agency's Deputy Commissioner and are presented to the Texas Finance Commission, the Audit Committee, and the Prepaid Funeral Guaranty Fund Advisory Council.

Chapter 154, subchapter H of the Texas Finance Code provide requirements of the Guaranty Fund, including funding sources and uses. Sec. 154.352 of this code requires the agency to assess and collect from a seller not more than $1 for each unmatured prepaid funeral benefits contract sold during each calendar year and shall deposit the assessments in the fund until the fund first reaches $1 million. The fund has reached $1 million and therefore this is no longer being collected. However, enforcement order restitution payments are deposited into this fund. The Trust Funded Prepaid Funeral Guaranty Fund's balance was $1.334 million as of August 31, 2018.

Sec. 154.3525 of this code requires the agency to assess and collect from a seller not more than $1 for each insurance-funded contract sold during each calendar year and shall deposit the assessments in the insurance-funded contract account within the fund until the fund first reaches $1 million. The agency also places any seized funds into this account. The Insurance Funded Guaranty Fund's balance was $553,335 as of August 31, 2018.

Audit Recommendation #5

No recommendations are made for the documentation process controls are effective.

Management Response Recommendation #5

None required.

Texas Department of Banking

Internal Audit Services

FY 2019 Annual Internal Audit Report

This report provides management with information about the condition of risks and internal controls at a specific point in time. Future changes in environmental factors and actions by personnel will impact these risks and internal controls in ways that this report cannot anticipate.

MJ McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS

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Section Page Number

MJ McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS

August 16, 2019

The Honorable Greg Abbott, Governor
Members of the Legislative Budget Board
Internal Audit Coordinator, State Auditor's Office

Dear Ladies and Gentlemen:

Attached is the Fiscal Year 2019 Annual Internal Audit Report for the Texas Department of Banking (DOB). This annual audit report is submitted in accordance with the Texas Internal Auditing Act requirement for state agency internal auditors to prepare and distribute an annual report (Government Code, Chapter 2102). McConnell & Jones LLP (MJ) was engaged on September 1, 2018 to provide internal audit services to the DOB in accordance with The Texas Internal Auditing Act. Pursuant to the Request for Proposals (RFP) issued May 7, 2018 MJ submits this Fiscal Year 2019 Annual Internal Audit Report on behalf of the DOB.

The Texas Internal Auditing Act requires agencies to file an annual report on their internal audit activities and the internal audit reports prepared for governing boards. The purpose of the Fiscal Year 2019 Annual Internal Audit Report is to provide information on the assurance services, consulting services, and other activities of the internal audit function. In addition, the Fiscal Year 2019 Annual Internal Audit Report assists oversight agencies in their planning and coordination efforts. According to Texas Government Code, Sections 2102.009 and 2102.0091, the Fiscal Year 2019 Annual Internal Audit Report is due November 1, 2019.

Please contact Odysseus Lanier at 713.968.1603 or Charles Cooper at 512.475.1325 if you should have any questions about this Annual Internal Audit Report.

Sincerely,

Odysseus Lanier, CPA
Partner

7600 Chevy Chase Drive
Suite 307
Austin, TX 78752
Phone: 512.430.5358

WWW.MCCONNELLJONES.COM

I. COMPLIANCE WITH TEXAS GOVERNMENT CODE, SECTION 2102.015: POSTING THE AUDIT PLAN AND ANNUAL REPORT ON THE INTERNET

Texas Government Code, Section 2102.015, requires state agencies and institutions of higher education to post agency internal audit plans and internal audit annual reports to the agency's internet website within 30 days of approval. Texas Government Code, Section 2102.015, also requires agencies to update the posting on the website to include a detailed summary of any weaknesses, deficiencies, wrongdoings, or other concerns raised by the audit plan or annual report and include a summary of the actions taken by the agency to address the issues raised.

In accordance with requirements of Texas Government Code, Section 2102.015, McConnell & Jones LLP will ensure the required internal audit plan, internal audit annual report and any other required internal audit information is provided to the DOB for posting to their website.

II. FISCAL YEAR 2019 INTERNAL AUDIT PLAN STATUS

The fiscal year 2019 Annual Internal Audit Plan was prepared by McConnell & Jones LLP based on a comprehensive risk assessment and approved by the Finance Commission of Texas (FC). The approved FY 2019 Annual Internal Audit Plan was completed as approved. The chart below reflects the approved audit plan status as of August 31, 2019.

Fiscal Year 2019 Annual Internal Audit Plan Status

#	Description	Report Number	Report Date	Report Title	Audit Status
1	Information Technology Change Management	19-001	June 27, 2019	Information Technology Change Management Program	Completed
2	Fines and Penalties	19-002	July 15, 2019	Fines, Penalties and Restitution Processes	Completed
2	Follow-Up on Open Audit Findings	The agency had no prior year open audit findings.			
3	Update Annual Risk Assessment & Audit Plan	N/A	N/A	N/A	Completed
4	Annual Audit Report	N/A	N/A	N/A	Completed
5	Audit Communications, Project Management	N/A	N/A	N/A	On-going

Deviation from FY 2019 Annual Internal Audit Plan:

MJ completed the approved FY 2019 Annual Internal Audit Plan as approved with no deviations.

III. CONSULTING SERVICES AND NON-AUDIT SERVICES COMPLETED

Internal audit provided no consulting and advisory services to the agency during FY 2019. MJ performed an efficiency audit of the FC agencies under a separate engagement letter. The FC agencies underwent a Sunset Advisory Commission review in FY 2019. The Sunset Advisory Commission Staff Report Recommendation 2.6 directed the Finance Commission to minimize duplication of agency functions and promote more cost-efficient administration of the finance agencies. MJ's efficiency audit provided an independent assessment for minimizing duplication of agency administrative functions.

IV. EXTERNAL QUALITY ASSURANCE REVIEW (PEER REVIEW)

MJ has been a member of the American Institute of Certified Public Accountants (AICPA) since 1987 and is subject to the AICPA's peer review process every three years. Our commitment to quality is underscored by the fact that, in our four most recent peer reviews, we have consistently received an unqualified opinion in external peer review reports on the quality of our accounting and auditing practice by the AICPA. After a thorough review of our procedures and work practices, the reviewers concluded that MJ complies with the stringent quality control standards established by the AICPA. We provide a copy of our most recent peer review letter below.

Your Vision Our Focus

Report on the Firm's System of Quality Control

January 31, 2018

To the Partners of
McConnell & Jones, LLP
and the National Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of **McConnell & Jones, LLP** (the Firm), applicable to engagements not subject to PCAOB permanent inspection, in effect for the year ended June 30, 2017. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a System Review as described in the Standards may be found at www.aicpa.org/prsummary. The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

Firm's Responsibility

The Firm is responsible for designing a system of quality control and complying with it to provide the Firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The Firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

Peer Reviewer's Responsibility

Our responsibility is to express an opinion on the design of the system of quality control and the Firm's compliance therewith based on our review.

Required Selections and Considerations

Engagements selected for review included engagements performed under Government Auditing Standards, including a compliance audit under the Single Audit Act; audits of employee benefit plans and an audit of a non-carrying broker-dealer.

As a part of our peer review, we considered reviews by regulatory entities as communicated by the Firm, if applicable, in determining the nature and extent of our procedures.

Turner, Stone & Company, L.L.P.
Accountants and Consultants
12700 Park Central Drive, Suite 1400
Dallas, Texas 75251
Telephone: 972-239-1660 / Facsimile: 972-239-1665
Toll Free: 877-853-4195
Web site: turnerstone.com

INAA GROUP
INTERNATIONAL ASSOCIATION OF ACCOUNTANTS AND AUDITORS

Opinion

In our opinion, the system of quality control for the accounting and auditing practice of **McConnell & Jones, LLP**, applicable to engagements not subject to PCAOB permanent inspection, in effect for the year ended June 30, 2017, has been suitably designed and complied with to provide the Firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. **McConnell & Jones, LLP** has received a peer review rating of *pass*.

Turner, Stone & Company, LLP

Turner, Stone & Company, L.L.P.

VI. INTERNAL AUDIT PLAN FISCAL YEAR 2020

MJ developed the Fiscal Year 2020 Annual Internal Audit Plan based on results of a risk assessment. The risk assessment included reviewing the agency's strategic plan, internal budgets and financial statements, and policies and procedures; analyzing the agency's financial reports; and conducting discussions with management. Our assessment evaluated risk exposures relating to DOB's governance, operations, and information systems regarding the reliability and integrity of financial and operational information; effectiveness and efficiency of operations; safeguarding of assets; and compliance with laws, regulations, and contracts. **Figure 1** provides a heat map of the agency's function risks.

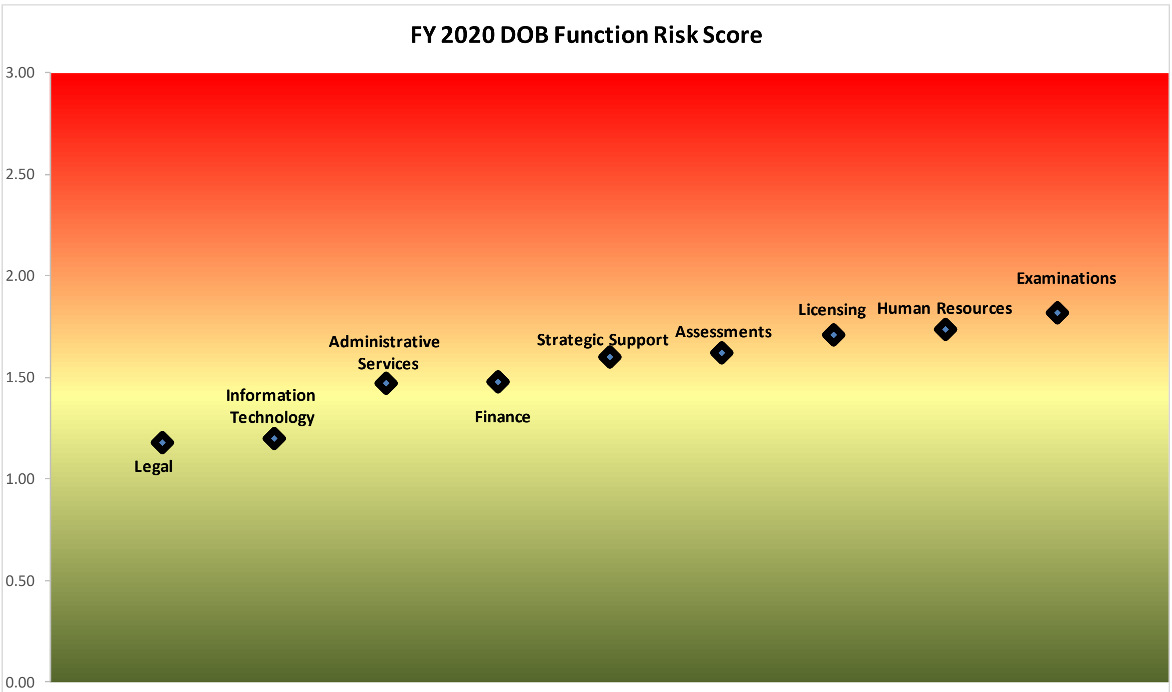


Figure 1 Agency Function and Business Process Risk Heat Map

MJ will conduct two audits, update the risk assessment, conduct prior audit finding follow-up activities, prepare the Fiscal Year 2021 Annual Internal Audit Plan and prepare the Fiscal Year 2020 Annual Internal Audit Report in accordance with the Texas Internal Auditing Act. These activities are estimated to require **391 hours**. The planned audits, timing and estimated hours are summarized in the chart below.

Fiscal Year 2020 Annual Audit Plan Activities

Audit Activity #	Description	Risk Rating	Estimated Timing	Estimated Hours
1	Examinations – Information Technology Procedures	High	November 2019 – December 2019	132
2	Human Resources – Validation of Hours	High	February 2020 – March 2020	127

Audit Activity #	Description	Risk Rating	Estimated Timing	Estimated Hours
3	Follow-Up on Prior Audit Findings	Compliance	On-Going	83
4	Update Risk Assessment & FY 2021 Annual Audit Plan	Compliance	July 2020	25
5	Annual Audit Report	Compliance	July 2020	18
6	Audit Communications, Committee Meetings, Project Management	N/A	On-Going	6
Total				**391**

VII. EXTERNAL AUDIT SERVICES PROCURED IN FISCAL YEAR 2019

Services for internal audit were procured in fiscal year 2018 to be performed in fiscal year 2019. Except for what is included in this report, no other external audit services were procured or performed.

VIII. SUMMARY OF PRIOR YEAR OPEN AUDIT FINDINGS

The Department of Banking did not have any prior year open audit findings. The audit opportunities included in FY 2019 internal audits are currently being implemented and will be provided in next year's Annual Internal Audit Report.

IX. REPORTING SUSPECTED FRAUD AND ABUSE

The Texas Department of Banking has implemented measures to comply with Article IX, Section 7.10, the General Appropriations Act (81st Legislature) and Texas Government Code, Section 321.022. These measures include, but are not limited to, the following:

> The Texas Department of Banking includes a link to the State Auditor's Office (SAO) website for fraud reporting at the footer of the DOB's website. In addition, information on reporting suspected fraud to the SAO is included in the agency's policies and procedures.

X. SIGNIFICANT INTERIM CHANGES

Interim changes to the annual audit plan may occur from time to time due to changes in management direction, objectives, business risks, timing of initiatives, and staff availability. In accordance with the Institute of Internal Auditors (IIA) Performance Standard 2020, MJ will communicate any significant changes of the audit plan to the FC for review and approval. Notification of significant changes to the Annual Internal Audit Plan approved by the commissioners will be submitted to the SAO.

This annual internal audit report was presented to the FC and approved on August 16, 2019.

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

OPERATING STATEMENT AND BUDGET ANALYSIS

For the Period Ended May 31, 2019

	FY 2018 ACTUAL	FY 2019 BUDGET	FY 2019 PERFORMANCE YTD BUDGET	YTD ACTUAL*	(OVER)/UNDER BUDGET	PERCENT BUDGET
REVENUE:						
Annual Assessment	1,884,681	2,540,764	2,209,215	2,171,434	37,781	98.3%
Thrift Application Fees	26,900	20,000	15,000	11,300	3,700	75.3%
Licensing Fees	3,872,600	3,372,025	3,000,250	2,756,503	243,747	91.9%
Fines and Penalties	485,604	0	0	365,165	(365,165)	0.0%
Recovery Fund Offset	0	8,000	0	0	0	0.0%
Depository Interest	164,018	90,000	67,500	177,917	(110,417)	263.6%
Miscellaneous	1,917	3,000	300	187	113	62.3%
Judgements and Settlements	84,483	0	0	0	0	0.0%
TOTAL REVENUE	6,520,203	6,033,789	5,292,265	5,482,506	(190,241)	103.6%
EXPENDITURES:						
Salaries and Wages-						
Exempt	194,750	194,750	146,062	146,062	0	100.0%
Classified	3,918,338	3,868,872	2,853,767	2,687,400	166,367	94.2%
Other Personnel Costs	149,467	250,352	70,856	69,911	945	98.7%
	4,262,555	4,313,974	3,070,685	2,903,373	167,312	94.6%
Travel-						
In-State	203,034	220,000	166,750	160,970	5,780	96.5%
Out-of-State	69,631	69,000	40,250	36,483	3,767	90.6%
	272,665	289,000	207,000	197,453	9,547	95.4%
Other Expenditures-						
Professional Services/Fees	119,176	89,345	50,288	50,094	194	99.6%
Consumable Supplies	10,513	12,000	8,700	7,804	896	89.7%
Utilities	31,537	34,910	25,511	22,687	2,824	88.9%
Rent-Space & Equipment	7,038	6,000	3,025	2,785	240	92.1%
Other Operating Expenses	562,224	338,138	210,768	203,579	7,189	96.6%
	730,488	480,393	298,292	286,949	11,343	96.2%
Other Agency Costs						
Employee Benefits	1,274,041	1,321,883	973,711	911,256	62,455	93.6%
SWCAP Indirect Costs	20,299	21,000	15,750	15,669	81	99.5%
	1,294,340	1,342,883	989,461	926,925	62,536	93.7%
TOTAL EXPENDITURES	6,560,048	6,426,250	4,565,438	4,314,700	250,738	94.5%
EXPENDITURES (OVER)/ UNDER REVENUE	(39,845)	(392,461)	726,827	1,167,806	(440,979)	N/A

* Amounts include accruals and encumbrances.

Department of Savings and Mortgage Lending

Budget Variance Analysis as of May 31, 2019

Revenues:

Overall revenues are at 3.6% over budget.

Licensing Revenues – Overall licensing revenues are 8.1% under budget due to fewer license applications received during the 2nd quarter.

Depository Interest – Revenues are over budget due to higher than budgeted interest rates.

Fines and Penalties – No amount was budgeted.

Expenditures:

Overall expenditures are at 5.5% under budget.

Employees' Salaries and Related Benefits – These categories are at 6% under budget due to vacancies.

Travel – This category is 4.6% under budget mostly due to less out-of-state travel expenses incurred.

Utilities – Lower telecommunication charges due to vacancies and lower electricity bills cause this category to be 11.1 % under budget.

Travel Breakdown 3rd Qtr FY19			
Category	In-State	Out-of-State	Total
Regulation and Supervision	$152,519	$12,419	$164,938
Development and Training	7,149	18,854	26,003
Other Regulatory Activities	345	5,210	5,555
Non-Employee Travel	957		957
Total	$160,970	$36,483	$197,453

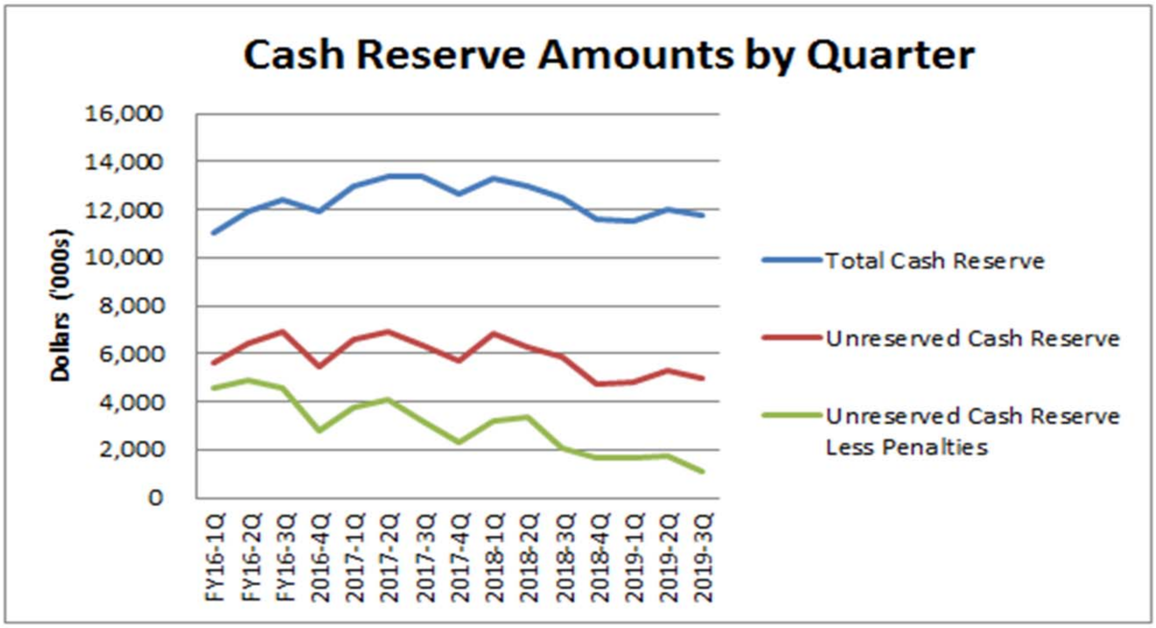
DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

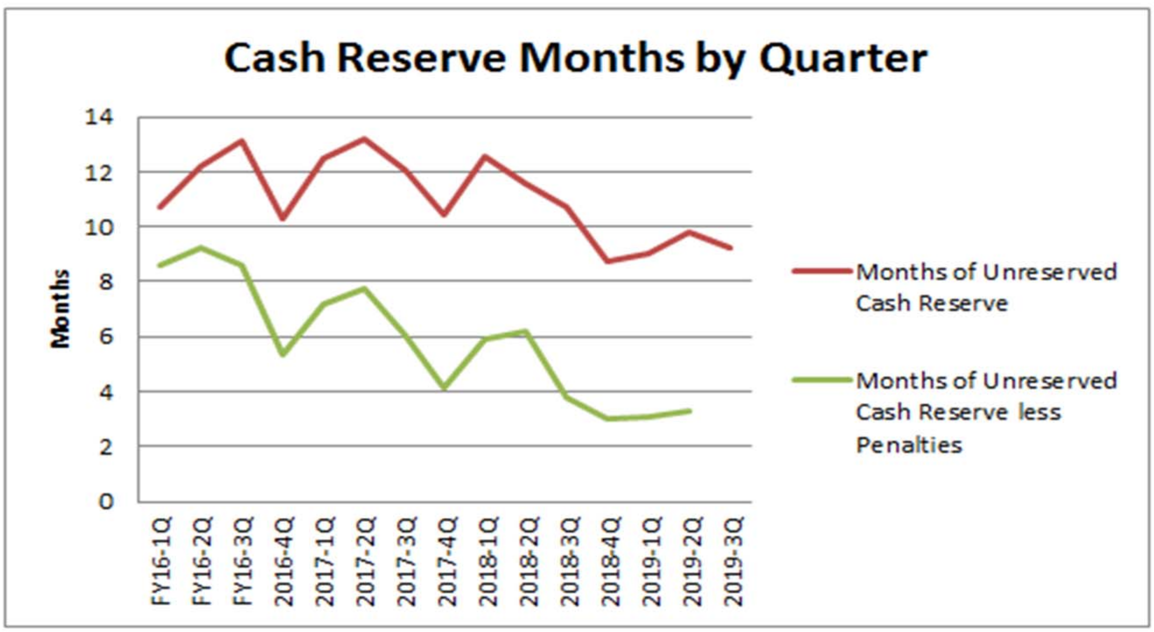
LIQUIDITY REPORT

For the Quarter Ending May 31, 2019

		Actual
Cash at Beginning of Period	$	12,033,832
Revenues Over (Under) Expenditures CY	$	(272,651)
Revenues Over (Under) Expenditures PY	$	996
Increase (Decrease) in Payables/Encumbrances	$	3,296
(Increase) Decrease in Receivables	$	7,240
Cash at End of Period	**$**	**11,772,713**

Reserved Cash Balance:		
Bldg. maintenance/IT	$	-
Long-term facilities planning	$	6,187,251
Payables (net of receivables)	$	493,901
Lump Sums for Retirements	$	142,663
Program Funds	$	-
Other	$	-
Total Reserved Cash Balance	$	6,823,815
Unreserved Cash Balance:		
Future Operations	$	4,948,898
Total Unreserved Cash Balance	$	4,948,898
Total Cash Balance	**$**	**11,772,713**
Unreserved Cash/FY2019 Monthly Budget		9.2 months


Cash Reserve Amounts by Quarter
Dollars ('000s)
16,000
14,000
12,000
10,000
8,000
6,000
4,000
2,000
0
FY16-1Q
FY16-2Q
FY16-3Q
2016-4Q
2017-1Q
2017-2Q
2017-3Q
2017-4Q
2018-1Q
2018-2Q
2018-3Q
2018-4Q
2019-1Q
2019-2Q
2019-3Q
Total Cash Reserve
Unreserved Cash Reserve
Unreserved Cash Reserve Less Penalties


Cash Reserve Months by Quarter
Months
14
12
10
8
6
4
2
0
FY16-1Q
FY16-2Q
FY16-3Q
2016-4Q
2017-1Q
2017-2Q
2017-3Q
2017-4Q
2018-1Q
2018-2Q
2018-3Q
2018-4Q
2019-1Q
2019-2Q
2019-3Q
Months of Unreserved Cash Reserve
Months of Unreserved Cash Reserve less Penalties

OFFICE OF CONSUMER CREDIT COMMISSIONER

OPERATING STATEMENT & BUDGET ANALYSIS

For the Period Ended May 31, 2019

						75.0%	
	FY	FY	FY 2019 PERFORMANCE				
	2018	2019	YTD	YTD	(OVER)/UND	PERCENT	
	ACTUAL	BUDGET	BUDGET	ACTUAL	BUDGET	BUDGET	
REVENUES:							
Regulated Lenders	$ 2,197,475	$ 2,032,936	$ 1,992,253	$ 1,896,011	$ 96,242	95.2%	
Pawn Industry	986,540	990,596	443,064	505,803	(62,739)	114.2%	(1)
MV Industry	3,717,789	4,129,497	709,786	825,559	(115,773)	116.3%	(2)
Credit Access Industry	1,188,900	1,213,200	1,208,634	1,172,275	36,359	97.0%	
Penalties	413,410	-	-	84,300	(84,300)	-	
Debt Management Services	47,120	45,140	43,837	44,835	(998)	102.3%	
Debt Cancellation	43,000	27,500	18,706	28,750	(10,044)	-	
RAL Assessment	134,025	122,100	121,827	140,300	(18,473)	115.2%	(3)
Precious Metals	40,075	45,000	37,898	19,550	18,348	51.6%	(4)
Tax Liens	70,803	64,100	63,149	57,870	5,279	91.6%	
Sale of Publications	1,307	-	-	1,607	(1,607)	-	
Creditor Registration	83,220	89,420	86,707	96,570	(9,863)	111.4%	(5)
Mortgage Loan Originators	88,125	70,600	65,072	64,900	172	99.7%	
Other Revenue	85,384	2,392	2,392	872	1,520	36.5%	
Investment / Interest Income	161,958	160,000	107,421	193,789	(86,368)	180.4%	
TOTAL REVENUES	***$ 9,259,131***	***$ 8,992,481***	***$ 4,900,745***	***$ 5,132,991***	***$ (232,246)***	***104.7%***	
EXPENDITURES:							
Salaries and Wages-							
Base Pay	$ 5,079,765	$ 5,602,012	$ 4,201,509	$ 3,922,722	278,787	93.4%	
Benefit Replacement Pay	6,247	6,162	4,621	5,904	(1,283)	127.8%	
Longevity	75,700	84,680	63,510	54,400	9,110	85.7%	
	$ 5,161,712	***$ 5,692,854***	***$ 4,269,640***	***$ 3,983,026***	***$ 286,614***	***93.3%***	(6)
Travel-							
Public Transportation, Lodging, Meals & Mileage	688,536	877,225	657,919	584,396	73,523	88.8%	(7)
	$ 688,536	***$ 877,225***	***$ 657,919***	***$ 584,396***	***$ 73,523***	***88.8%***	
Other Expenditures-							
Professional Services & Fees	327,740	202,520	151,890	90,721	61,169	59.7%	(8)
Consumable Supplies	18,110	22,000	16,500	10,149	6,351	61.5%	
Postage & Freight	11,717	17,750	13,313	12,588	725	94.6%	
Telephone & Communications	69,146	77,175	57,881	52,539	5,342	90.8%	
Bldg. & Utilities	298,227	96,770	72,578	43,337	29,241	59.7%	(9)
Publication / Printing & Reproduction	2,192	2,000	1,500	5,908	(4,408)	393.9%	(10)
Other Operating	354,961	389,725	292,294	282,867	9,427	96.8%	
	$ 1,082,093	***$ 807,940***	***$ 605,955***	***$ 498,109***	***$ 107,846***	***82.2%***	
Acquisition of Info Technology	$ 127,117	$ 100,630	$ 75,473	$ 68,107	$ 7,366	90.2%	
Employee Benefits	1,858,812	2,108,309	1,581,232	1,425,793	155,439	90.2%	
SWCAP Reimb to Unapp Gr 0001	32,902	35,000	26,250	27,059	(809)	103.1%	
SORM Assessment	6,230	6,500	4,875	5,551	(676)	113.9%	
Unemployment Benefits	6,925	10,000	7,500	-	7,500	0.0%	
	$ 2,031,986	$ 2,260,439	$ 1,695,329	$ 1,526,510	$ 168,819	90.0%	
TOTAL EXPENDITURES:	***$ 8,964,327***	***$ 9,638,458***	***$ 7,228,843***	***$ 6,592,041***	***$ 636,802***	***91.2%***	
EXPENDITURES (OVER) / UNDER REVENUE	$ 294,804	$ (645,977)	$ (2,328,098)	$ (1,459,050)	$ (869,048)		

Office of Consumer Credit Commissioner

Overview of Budget Variances for 3rd Quarter FY 2019

Revenues- 104.7% of budget

1.) Pawn Industry is above budget in the 3rd quarter due to the renewal period opening early in early May, approximately 44% of renewals were received in May.

2.) Motor Vehicle Industry is over budget partly due to unlicensed activity late fees collected and renewal late fees for licensed locations for the 3rd quarter.

3.) RAL Assessment is above budget due to an increase in registrations for this industry that occurs around tax season, which falls in the 3rd quarter.

4.) Precious Metals is under budget in the 3rd quarter due to a gradual transition into ALECS. Transitioning registrants over to ALECS has created some delays in registrants getting their registrations. Additionally they received a "grace period" and do not have to renew until December 2020.

5.) Creditor Registration is above budget due to an increase in registered creditor applications for the 3rd qtr.

Expenditures- 93.0% of budget

6.) Salaries and Wages expenditures are 93.3% of the projected budget. The variance is primarily due to vacant positions throughout the year.

7.) Travel expenditures are at 88.8% of the projected budget. Employee vacancies within the Exam department have contributed to this variance.

	In-State	Out-State
Regulatory Supervision	$510,985.70	$5,466.93
Development & Training	60,016.48	5,975.06
Other Reg Activities	-	-
Non-Employee	1,951.72	-
Total	$572,953.90	$11,441.99

8.) Professional Fee expenditures are below budget mainly due to deferring of ALECS enhancements to the fourth quarter. In addition, only about half of the Legal services budget has been expended. In addition, the funds for IT Consulting, Architect/Engineering, and other Professional Fees have not been used.

9.) Building and utilities are under budget due to deferred maintenance that has not yet occurred as of the 3rd qtr.

10.) Publications & Reproduction Printing Services is above budget due to the necessary purchase of Service Brochures and Pawn Facts for English and Spanish readers.

Office of Consumer Credit Commissioner
Liquidity Report
For the Quarter Ending May 31, 2019

	Actual
Cash at Beginning of Period	$ 12,593,670.57
Revenues Over (Under) Expenditures	(1,197,768.22)
Increase (Decrease) in Payables/Encumbrances	(96,574.91)
(Increase) Decrease in Receivables	(12,826.02)
Cash at End of Period	$ 11,286,501.42
Reserved Cash Balance:	
Building Maintenance/IT	$ -
Long-term facilities planning	6,186,028.25
Payables (net of receivables)	690,267.50
Lump sums for Retirements	254,736.69
Program Funds	-
Other	-
Total Reseved Cash Balance	7,131,032.44
Unreserved Cash Balance:	
Future Operations	4,155,468.98
Total Unreserved Cash Balance	4,155,468.98
Total Cash Balance	**$ 11,286,501.42**
Unreserved Cash / FY 2019 Monthly Budget	5.17

Texas Department of Banking
Operating Statement and Budget Analysis
For Period Ending May 2019

	FY 2018 ACTUAL	FY 2019 BUDGET	QUARTER PERFORMANCE 3rd Quarter BUDGET	3rd Quarter ACTUAL	(OVER)/UNDER BUDGET	PERCENT BUDGET	FY 2019 PERFORMANCE YTD BUDGET	YTD ACTUAL	(OVER)/UNDER BUDGET	PERCENT BUDGET
REVENUE:										
Bank & Trust Regulation	$23,033,007.34	$25,299,546.49	$7,024,200.00	$5,824,022.04	$1,200,177.96	82.9%	$20,834,026.00	$19,772,753.51	$1,061,272.49	94.9%
Nonbank Regulation	3,249,957.84	3,384,232.34	483,059.00	499,299.99	(16,240.99)	103.4%	2,498,732.50	3,501,873.02	(1,003,140.52)	140.1%
Miscellaneous Revenues	197,408.31	184,400.00	46,100.00	98,097.20	(51,997.20)	212.8%	138,300.00	423,352.61	(285,052.61)	306.1%
TOTAL REVENUES:	$26,480,373.49	$28,868,178.83	$7,553,359.00	$6,421,419.23	$1,131,939.77	85.0%	$23,471,058.50	$23,697,979.14	($226,920.64)	101.0%
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	16,226,308.54	17,955,800.63	4,505,007.18	4,114,564.12	390,443.06	91.3%	13,168,435.47	12,286,125.91	882,309.56	93.3%
Other Personnel Costs	533,541.90	580,050.46	125,431.60	125,732.27	(300.67)	100.2%	263,168.79	287,874.30	(24,705.51)	109.4%
	$16,994,575.44	$18,770,576.09	$4,689,120.03	$4,298,977.64	$390,142.39	91.7%	$13,607,648.01	$12,750,043.96	$857,604.05	93.7%
Travel										
In-State	$1,280,268.95	$1,511,051.97	$393,995.10	$375,154.55	$18,840.55	95.2%	$1,079,837.91	$976,632.85	$103,205.06	90.4%
Out-of-State	588,476.17	695,637.00	159,485.50	153,786.63	5,698.87	96.4%	471,061.00	470,212.06	848.94	99.8%
	$1,868,745.12	$2,206,688.97	$553,480.60	$528,941.18	$24,539.42	95.6%	$1,550,898.91	$1,446,844.91	$104,054.00	93.3%
Other Expenditures										
Professional Fees & Services	$349,935.45	$462,440.00	$69,633.48	$111,105.34	($41,471.86)	159.6%	$163,190.60	$309,634.87	($146,444.27)	189.7%
Postage	8,030.39	9,799.00	740.00	274.15	465.85	37.0%	3,515.00	$2,201.60	1,313.40	62.6%
Consumable Supplies	294,155.08	115,180.00	50,196.71	51,075.35	(878.64)	101.8%	92,648.86	$91,020.66	1,628.20	98.2%
Telephone	267,091.79	334,514.28	75,824.57	64,727.57	11,097.00	85.4%	228,518.71	$197,663.48	30,855.23	86.5%
Utilities	43,465.07	45,481.00	11,574.00	8,001.77	3,572.23	69.1%	41,344.44	$37,824.21	3,520.23	91.5%
Rent - Buildings	392,638.80	415,455.44	97,032.61	89,080.11	7,952.50	91.8%	326,040.70	$322,260.25	3,780.45	98.8%
Rent - Machinery & Other	35,949.31	35,728.00	6,682.00	6,105.56	576.44	91.4%	20,896.00	$18,673.28	2,222.72	89.4%
Other Operating	799,435.02	372,940.24	22,296.96	26,306.65	(4,009.69)	118.0%	169,712.73	$182,520.89	(12,808.16)	107.5%
Subscriptions	13,852.17	20,689.84	4,842.46	5,963.95	(1,121.49)	123.2%	14,422.38	$13,379.85	1,042.53	92.8%
Employee Training / Reg. Fees	219,002.51	275,964.00	69,764.75	72,174.88	(2,410.13)	103.5%	174,055.25	$160,068.52	13,986.73	92.0%
Claims/SORM Assessment	33,881.13	22,630.00	5,532.00	1,140.74	4,391.26	20.6%	22,630.00	$14,486.28	8,143.72	64.0%
Capital / Other IT Expenditures	45,168.92	59,000.00	0.00	0.00	0.00	0.0%	25,000.00	24,884.32	115.68	99.5%
	$2,502,605.64	$2,169,821.80	$414,119.54	$435,956.07	($21,836.53)	105.3%	$1,281,974.67	$1,374,618.21	($92,643.54)	107.2%
Total Expenditures before Benefits	$21,365,926.20	$23,147,086.86	$5,656,720.17	$5,263,874.89	$392,845.28	93.1%	$16,440,521.59	$15,571,507.08	$869,014.51	94.7%
Employee Benefits (Less BRP)	$4,805,392.70	$5,395,952.84	$1,345,777.45	$1,231,494.52	$114,282.93	91.5%	$3,905,394.98	$3,638,798.81	$266,596.17	93.2%
Payroll Hlth. Care/Retirement Cont.	237,902.15	270,139.13	$68,455.33	$60,541.68	$7,913.65	88.4%	$200,167.19	$181,442.62	$18,724.57	90.6%
SWCAP	$50,548.00	$55,000.00	$0.00	$0.00	$0.00	0.0%	$55,000.00	$58,678.00	($3,678.00)	106.7%
TOTAL EXPENDITURES:	$26,459,769.05	$28,868,178.83	$7,070,952.95	$6,555,911.09	$515,041.86	92.7%	$20,601,083.76	$19,450,426.51	$1,150,657.25	94.4%
EXPENDITURES (OVER) / UNDER REVENUE:	$20,604.44	$0.00	$482,406.05	($134,491.86)	$616,897.91		$2,869,974.74	$4,247,552.63	($1,377,577.89)	

Texas Department of Banking

Overview of Budget Variances for the Third Quarter of Fiscal Year 2019 – (Variances in excess of $1,000 and 5% from budget are reported).

Bank & Trust Regulation – Actual revenues were less than budgeted due to the reduction in the third quarter bank assessments of 20% or approximately $1.3 million. Year to date bank and trust regulation revenue is at 94.9% of budget and was adequate to cover all direct and indirect costs of the Bank and Trust area.

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

Classified Salaries and Employee Benefits – The positive variance relates to vacant staff positions. Vacancies in terms of FTEs as of May 31, 2019 are listed below:

Administrative	5
Examiners	12

Travel Breakdown

	In-State Travel	Out-of-State Travel
Regulatory Supervision	$324,485.11	$73,314.23
Development and Training	$43,026.47	$71,916.82
Other Regulatory Activities	$7,289.87	$8,555.58
Non-Employee	$353.10	$0.00
Total	**$375,154.55**	**$153,786.63**

Professional Fees and Services – The negative variance relates to a net combination of: (1) Two contract IT programmers that were budgeted as full-time employees but because we were unable to hire qualified employees from our external postings, we opted to use contract programmers; and (2) budgeted architect expenditures that did not occur.

Telephone – The positive variance is due to data line upgrade costs that were lower than anticipated.

Utilities – The positive variance is due to lower than projected expenditures which were based on historical trends.

Rent – Buildings – The positive variance is due a reimbursement for space rental related to training.

Other Operating – The negative variance is related to a temporary employee used after departure of the Commissioner's executive assistant.

Subscriptions – The negative variance is due to higher than anticipated renewal fees for several subscriptions.

Claims/SORM Assessment – The positive variance is due to a lower SORM assessment than anticipated.

Payroll Health Insurance/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, 2019

	Actual
Cash at Beginning of Period	$ 18,892,400
Revenues Over (Under) Expenditures	$ (134,492)
Increase (Decrease) in Payables/Encumbrances	$ 14,940
(Increase) Decrease in Receivables	$ (112,956)
Cash at End of Period	**$ 18,659,892**

Reserved Cash Balance:	
Bldg. maintenance/IT	$ -
Long-term facilities planning	$ 6,187,249
Payables (net of receivables)	$ 1,864,233
Lump Sums for Retirements	$ 599,332
Program Funds	$ -
Other	$ -
Total Reserved Cash Balance	$ 8,650,814
Unreserved Cash Balance:	
Future Operations	$ 10,009,078
Total Unreserved Cash Balance	$ 10,009,078
Total Cash Balance	**$ 18,659,892**
Unreserved Cash/FY2019 Monthly Budget	4.19 months

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

BUDGET INFORMATION FY2019-20

Revenue/Expenditure Category	Approved Budget FY2019	Proposed Budget FY2020
REVENUES:		
Annual Thrift Assessment	2,540,764	2,609,638
Thrift Application Fees	20,000	20,000
Licensing Fees	3,372,025	3,024,935
Fines and Penalties	0	0
Recovery Fund Offset	8,000	10,000
Depository Interest	90,000	200,000
Miscellaneous	3,000	3,000
TOTAL REVENUES	6,033,789	5,867,573
EXPENDITURES:		
Personnel Costs		
Exempt Salaries	194,750	194,750
Employees' Salaries	3,868,872	3,869,308
Other Personnel Costs	230,394	82,795
Add'l Health/Retirement Costs	56,987	60,011
Subtotal Salaries and Wages	4,351,003	4,206,864
Travel		
In-State	220,000	213,500
Out-of-State	69,000	72,700
Subtotal Travel	289,000	286,200
Other Expenditures		
Professional Fees & Services	89,345	93,500
Consumables	12,000	11,000
Utilities	34,910	33,017
Rent - Space & Equipment	6,000	7,300
Other Operating Expense		
Communications	43,000	40,310
Employee Training	44,000	44,000
Information Technology	132,237	148,815
Misc Other Operating Expense	102,872	108,608
Subtotal Other Expenditures	464,364	486,550
Subtotal Direct Costs	5,104,367	4,979,614
Employee Benefits	1,321,883	1,335,363
Subtotal Indirect Costs	1,321,883	1,335,363
TOTAL EXPENDITURES	6,426,250	6,314,977
EXPENDITURES (OVER)/ UNDER REVENUES	(392,461)	(447,404)
Budgeted Staff Count	60	58

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

BUDGET INFORMATION FY2019-20

Revenue/Expenditure Category	Budget FY2019	Estimated FY2019	% of 2019 Budget		Budget FY2020	$ Change Budget FY19 to Budget FY20	% Change Budget FY19 to Budget FY20
REVENUES:							
Annual Thrift Assessment	2,540,764	2,517,499	99%		2,609,638	68,874	2.7%
Thrift Application Fees	20,000	13,100	66%		20,000	0	0.0%
Licensing Fees	3,372,025	3,083,528	91%		3,024,935	(347,090)	-10.3%
Fines and Penalties	0	405,165	0%		0	0	0.0%
Recovery Fund Offset	8,000	0	0%		10,000	2,000	25.0%
Depository Interest	90,000	237,917	264%		200,000	110,000	122.2%
Miscellaneous	3,000	3,000	100%		3,000	0	0.0%
TOTAL REVENUES	6,033,789	6,260,209	104%		5,867,573	(166,216)	-2.8%
EXPENDITURES:							
Personnel Costs							
Exempt Salaries	194,750	194,750	100%		194,750	0	0.0%
Employees' Salaries	3,868,872	3,643,877	94%		3,869,308	436	0.0%
Other Personnel Costs	230,394	225,516	98%		82,795	(147,599)	-64.1%
Add'l Health/Retirement Costs	56,987	54,273	95%		60,011	3,024	5.3%
Subtotal Salaries and Wages	4,351,003	4,118,416	95%		4,206,864	(144,139)	-3.3%
Travel							
In-State	220,000	200,970	91%		213,500	(6,500)	-3.0%
Out-of-State	69,000	51,483	75%		72,700	3,700	5.4%
Subtotal Travel	289,000	252,453	87%		286,200	(2,800)	-1.0%
Other Expenditures							
Professional Fees & Services	89,345	84,514	95%		93,500	4,155	4.7%
Consumables	12,000	10,804	90%		11,000	(1,000)	-8.3%
Utilities	34,910	29,961	86%		33,017	(1,893)	-5.4%
Rent - Space & Equipment	6,000	3,485	58%		7,300	1,300	21.7%
Other Operating Expense							
Communications	43,000	41,230	96%		40,310	(2,690)	-6.3%
Employee Training	44,000	43,250	98%		44,000	0	0.0%
Information Technology	132,237	110,436	84%		148,815	16,578	12.5%
Misc Other Operating Expense	102,872	94,784	92%		108,608	5,736	5.6%
Subtotal Other Expenditures	464,364	418,464	90%		486,550	22,186	4.8%
Subtotal Direct Costs	5,104,367	4,789,333	94%		4,979,614	(124,753)	-2.4%
Employee Benefits	1,321,883	1,226,538	93%		1,335,363	13,480	1.0%
Subtotal Indirect Costs	1,321,883	1,226,538	93%		1,335,363	13,480	1.0%
TOTAL EXPENDITURES	6,426,250	6,015,871	94%		6,314,977	(111,273)	-1.8%
EXPENDITURES (OVER)/ UNDER REVENUES	(392,461)	244,338			(447,404)	(54,943)	
Budgeted Staff Count	60				58		

Office of Consumer Credit Commissioner
Proposed Budget Fiscal Year 2020

	Budget 2019	* Budget 2020
REVENUE:		
Regulated Lenders	$ 2,167,636	$ 2,140,633
Credit Access Industry	1,213,200	1,166,200
MV Industry	4,156,997	933,300
Pawn Industry	990,596	925,632
Registered Industry	301,660	293,760
Miscellaneous Revenues	162,392	210,000
TOTAL REVENUES:	$ 8,992,481	$ 5,669,525
EXPENDITURES:		
Salaries and Wages		
Exempt Salaries	$ 196,000	$ 196,000
Classified Salaries	5,406,012	5,086,775
Other Personnel Costs	90,842	78,870
	5,692,854	5,361,645
Travel		
In-State	862,625	769,500
Out-of-State	38,600	46,000
Out-of-State Reimbursements	(24,000)	(37,500)
	877,225	778,000
Other Expenditures		
Professional Fees & Services	200,020	250,450
Consumable Supplies	22,000	16,000
Utilities	21,900	21,400
Rent - Buildings	25,100	24,750
Other Operating	560,920	491,483
Capital Expenditures	95,130	103,978
	925,070	908,061
Total Expenditures before Benefits	7,495,149	7,047,706
Employee Benefits	2,024,279	1,837,994
Payroll Hlth Care/Retirement Cont.	84,030	79,242
SWCAP	35,000	35,000
	2,143,309	1,952,235
TOTAL EXPENDITURES:	$ 9,638,458	$ 8,999,941
EXPENDITURES (OVER)/UNDER REVENUE:	$ (645,977)	$ (3,330,416)
FTE's	91	87

* The proposed budget assumes the adoption of the proposed rule modifying the renewal cycle for motor vehicle sales finance (MVSF) licenses. The proposed rule extends the renewal date from July 2020 until Oct 2020 for a 15 month renewal term in this cycle. Consequently, no renewal assessments for MVSF licenses would be collected during FY20 due to the timing deferral to FY21. The deferral will better align the revenue collection within the fiscal year cycle.

Office of Consumer Credit Commissioner
Proposed Budget Fiscal Year 2020

	Budget 2019	Estimated FY 2019	% of 2019 Budget	* Budget 2020	$ Change Budget 2019 to Budget 2020	% Change Budget 2019 to Budget 2020
REVENUE:						
Regulated Lenders	$ 2,167,636	$ 2,064,181	95.23%	$ 2,140,633	$ (27,003)	-1.25%
Credit Access Industry	1,213,200	1,224,000	100.89%	1,166,200	(47,000)	-3.87%
MV Industry	4,156,997	4,319,075	103.90%	933,300	(3,223,697)	-77.55%
Pawn Industry	990,596	1,065,364	107.55%	925,632	(64,964)	-6.56%
Registered Industry	301,660	326,491	108.23%	293,760	(7,900)	-2.62%
Miscellaneous Revenues	162,392	266,245	163.95%	210,000	47,609	29.32%
TOTAL REVENUES:	$ 8,992,481	$ 9,265,355	103.03%	$ 5,669,525	$ (3,322,956)	-36.95%
EXPENDITURES:						
Salaries and Wages						
Exempt Salaries	$ 196,000	$ 196,000	100.00%	$ 196,000	$ -	0.00%
Classified Salaries	5,406,012	5,086,681	94.09%	5,086,775	(319,237)	-5.91%
Other Personnel Costs	90,842	78,287	86.18%	78,870	(11,972)	-13.18%
	5,692,854	$5,360,968	94.17%	5,361,645	(331,209)	-5.82%
Travel						
In-State	862,625	716,021	83.00%	769,500	(93,125)	-10.80%
Out-of-State	38,600	29,752	77.08%	46,000	7,400	19.17%
Out-of-State Reimbursements	(24,000)	(14,002)	58.34%	(37,500)	(13,500)	56.25%
	877,225	731,771	83.42%	778,000	(99,225)	-11.31%
Other Expenditures						
Professional Fees & Services	200,020	158,933	79.46%	250,450	50,430	25.21%
Consumable Supplies	22,000	15,140	68.82%	16,000	(6,000)	-27.27%
Utilities	21,900	20,009	91.36%	21,400	(500)	-2.28%
Rent - Buildings	25,100	23,980	95.54%	24,750	(350)	-1.39%
Other Operating	560,920	480,355	85.64%	491,483	(69,438)	-12.38%
Capital Expenditures	95,130	77,653	81.63%	103,978	8,848	9.30%
	925,070	776,069	83.89%	908,061	(17,009)	-1.84%
Total Expenditures before Benefits	7,495,149	6,868,808	91.64%	7,047,706	(447,443)	-5.97%
Employee Benefits	2,024,279	1,799,558	88.90%	1,837,994	(186,285)	-9.20%
Payroll Hlth Care/Retirement Cont.	84,030	74,812	89.03%	79,242	(4,789)	-5.70%
SWCAP	35,000	36,079	103.08%	35,000	-	0.00%
	2,143,309	1,910,449	89.14%	1,952,235	(191,074)	-8.91%
TOTAL EXPENDITURES:	$ 9,638,458	$ 8,779,257	91.09%	$ 8,999,941	$ (638,517)	-6.62%
EXPENDITURES (OVER)/UNDER REVENUE:	$ (645,977)	$ 486,098		$ (3,330,416)	$ (2,684,439)	
FTE's	91	91		87		

* The proposed budget assumes the adoption of the proposed rule modifying the renewal cycle for motor vehicle sales finance (MVSF) licenses. The proposed rule extends the renewal date from July 2020 until Oct 2020 for a 15 month renewal term in this cycle. Consequently, no renewal assessments for MVSF licenses would be collected during FY20 due to the timing deferral to FY21. The deferral will better align the revenue collection within the fiscal year cycle.

Texas Department of Banking
Budget FY 2020

	Budget 2019	Budget 2020*
REVENUE:		
Bank & Trust Regulation	$25,299,547	$25,521,034
Nonbank Regulation	$3,384,232	$3,687,557
Miscellaneous Revenues	$184,400	$404,800
TOTAL REVENUES:	$28,868,179	$29,613,391
EXPENDITURES:		
Salaries and Wages		
Exempt Salaries	$234,725	$234,725
Classified Salaries	$17,955,801	$18,656,222
Other Personnel Costs	$580,051	$406,089
	$18,770,577	$19,297,036
Travel		
In-State	$1,511,052	$1,513,093
Out-of-State	$695,637	$709,330
	$2,206,689	$2,222,423
Other Expenditures		
Professional Fees & Services	$462,440	$366,254
Postage	$9,799	$9,009
Consumable Supplies	$115,180	$268,488
Telephone	$334,514	$300,574
Utilities	$45,481	$46,022
Rent - Buildings	$415,455	$426,635
Rent - Machinery & Other	$35,728	$35,178
Other Operating	$372,940	$365,289
Subscriptions	$20,690	$19,345
Employee Training / Reg. Fees	$275,964	$284,514
Claims/SORM Assessment	$22,630	$16,557
Capital Expenditures	$59,000	$70,173
	$2,169,821	$2,208,038
Total Expenditures before Benefits	$23,147,087	$23,727,497
Employee Benefits (Less BRP)	$5,395,953	$5,545,899
Payroll Hlth Care/Retirement Cont.	$270,139	$279,995
SWCAP	$55,000	$60,000
TOTAL EXPENDITURES:	$28,868,179	$29,613,391
EXPENDITURES (OVER) / UNDER REVENUE:	$0	$0
FTEs	190	194

* FY 2020 budgeted assessments are net $3.1 million in Bank and Trust that are not expected to be assessed to operate the Department.

Texas Department of Banking
Budget FY 2020

	Budget 2019	Estimated FY 2019*	% of 2019 Budget		Budget 2020**	$ Change Budget 2019 to Budget 2020	% Change Budget 2019 to Budget 2020
REVENUE:							
Bank & Trust Regulation	$25,299,547	$22,755,962	89.95%		$25,521,034	221,487	0.88%
Nonbank Regulation	$3,384,232	$3,627,773	107.20%		$3,687,557	303,325	8.96%
Miscellaneous Revenues	$184,400	$519,452	281.70%		$404,800	220,400	119.52%
TOTAL REVENUES:	$28,868,179	$26,903,187	93.19%		$29,613,391	745,212	2.58%
EXPENDITURES:							
Salaries and Wages							
Exempt Salaries	$234,725	$234,725	100.00%		$234,725	0	0.00%
Classified Salaries	$17,955,801	$16,713,480	93.08%		$18,656,222	700,421	3.90%
Other Personnel Costs	$580,051	$556,686	95.97%		$406,089	(173,962)	-29.99%
	$18,770,577	$17,504,891	93.26%		$19,297,036	526,459	2.80%
Travel							
In-State	$1,511,052	$1,356,045	89.74%		$1,513,093	2,041	0.14%
Out-of-State	$695,637	$685,077	98.48%		$709,330	13,693	1.97%
	$2,206,689	$2,041,122	92.50%		$2,222,423	15,734	0.71%
Other Expenditures							
Professional Fees & Services	$462,440	$478,809	103.54%		$366,254	(96,186)	-20.80%
Postage	$9,799	$8,427	86.00%		$9,009	(790)	-8.06%
Consumable Supplies	$115,180	$115,326	100.13%		$268,488	153,308	133.10%
Telephone	$334,514	$296,089	88.51%		$300,574	(33,940)	-10.15%
Utilities	$45,481	$45,874	100.86%		$46,022	541	1.19%
Rent - Buildings	$415,455	$396,178	95.36%		$426,635	11,180	2.69%
Rent - Machinery & Other	$35,728	$25,175	70.46%		$35,178	(550)	-1.54%
Other Operating	$372,940	$359,208	96.32%		$365,289	(7,651)	-2.05%
Subscriptions	$20,690	$19,522	94.35%		$19,345	(1,345)	-6.50%
Employee Training / Reg. Fees	$275,964	$226,182	81.96%		$284,514	8,550	3.10%
Claims/SORM Assessment	$22,630	$14,486	64.01%		$16,557	(6,073)	-26.84%
Capital Expenditures	$59,000	$64,884	109.97%		$70,173	11,173	18.94%
	$2,169,821	$2,050,160	94.49%		$2,208,038	38,217	1.76%
Total Expenditures before Benefits	$23,147,087	$21,596,173	93.30%		$23,727,497	580,410	2.51%
Employee Benefits (Less BRP)	$5,395,953	$5,010,400	92.85%		$5,545,899	149,946	2.78%
Payroll Hlth Care/Retirement Cont.	$270,139	$250,012	92.55%		$279,995	9,856	3.65%
SWCAP	$55,000	$58,678	106.69%		$60,000	5,000	9.09%
TOTAL EXPENDITURES:	$28,868,179	$26,915,263	93.24%		$29,613,391	745,212	2.58%
EXPENDITURES (OVER) / UNDER REVENUE:	$0	($12,076)			$0		
FTEs	190				194	4	

* FY 2019 forecasted using a combination of estimated projections and annualized June 30, 2019 actuals. To only collect funds needed to operate the Department, fourth quarter Bank and Trust assessments were reduced approximately $3.9 million.

** FY 2020 budgeted assessments are net $3.1 million in Bank and Trust that are not expected to be assessed to operate the Department.

TFEE REPORT – AUGUST 15, 2019

N. <u>ACTIVITIES RELATING TO THE TEXAS FINANCIAL EDUCATION ENDOWMENT FUND</u>

The Grant Coordinator finalized and posted the 2020-21 TFEE Application on the TFEE Website on July 25. Applications are due on September 20. The Grant Advisory Committee will meet on October 17 to review applications and make grantee recommendations to the Finance Commission. The 2020-21 TFEE Grant Cycle will commence on January 1, 2020 and run through December 31, 2021.

Semi-Annual Grant Reports and Reimbursement Requests for 2018-2019 were due July 31. The Grant Coordinator worked with the 2018-19 TFEE Grantees to answer reporting questions before the end of the reporting period. Staff will review reports to monitor program progress and to ensure compliance with the grant agreement terms. A summary of these reports will be provided to the Finance Commission at the October Finance Commission meeting.

State Auditor's Office

April 30, 2019

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

Re: Audit Delegation Request 449-2019-001

Dear Mr. Chadli:

In accordance with Texas Government Code, Section 321.020, the State Auditor's Office delegates to the Finance Commission of Texas, the Department of Banking, the Department of Savings and Mortgage Lending, and the Office of Consumer Credit Commissioner (Agencies) the authority to employ a private auditor to provide internal audit services as described in your online request submitted April 17, 2019.

This delegation of authority is subject to the following:

1. The services provided should be performed in accordance with the Texas Internal Auditing Act (Texas Government Code, Chapter 2102).

2. This delegation of authority is for state fiscal year 2020.

3. The Agencies will notify the State Auditor's Office if an amendment to the contract significantly alters any contract terms, including, but not limited to, the scope of work to be performed and the term of the contract.

4. The Agencies will comply with applicable law, policies and procedures in the procurement of audit services, the expenditure of funds under the contract, and all other aspects of forming and administering the contract with the private auditor.

5. The Agencies will ensure that the State Auditor's Office promptly receives a copy of any report resulting from a peer review of the private auditor that is received by the private auditor after entering into the contract with the Agencies.

6. Any contracts entered into under this delegation of authority should include the following language: The Contractor understands that acceptance of state funds under this contract acts as acceptance of the authority of the State Auditor's Office to conduct an audit or investigation in connection with those funds. The Contractor further agrees to cooperate fully with the State Auditor's Office in the conduct of the audit or investigation, including providing all records requested. The Contractor will

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1501 N. Congress Avenue
Austin, Texas 78701

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

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ensure that this clause concerning the State Auditor's Office's authority to audit state funds and the requirement to cooperate fully with the State Auditor's Office is included in any subcontracts it awards. Additionally, the State Auditor's Office shall at any time have access to and the rights to examine, audit, excerpt, and transcribe any pertinent books, documents, audit documentation, and records of the Contractor relating to this contract

7. If the terms of the agreement with the private auditor are set forth only in an engagement letter, the engagement letter will include the language quoted in #6 above.

8. A signed copy of the contract or contract amendment should be provided to the State Auditor's Office within two weeks of execution. You may send it electronically to auditdelegation@sao.texas.gov or send a hard copy to the attention of Audit Delegation. Additionally, a copy of final audit reports should be provided to the State Auditor's Office upon completion. Texas Government Code, Section 2102.0091, requires that internal audit reports be filed with the State Auditor's Office, the Sunset Advisory Commission, the budget division of the Governor's Office, and the Legislative Budget Board not later than the 30th day after the date the report is submitted to the state agency's governing board or the administrator of the state agency if the state agency does not have a governing board. Internal audit reports may be sent to the State Auditor's Office electronically to iacoordinator@sao.texas.gov or a hard copy may be sent to the attention of Internal Audit Coordinator. Please include the audit delegation request number 449-2019-001 with all submissions and related correspondence.

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

Sincerely,

Verma L. Elliott

Verma L. Elliott, CPA, CIA, CGAP, MBA
Assistant State Auditor

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