

FINANCE COMMISSION OF TEXAS AUDIT COMMITTEE MEETING

Friday, June 24, 2022

8:30 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 of Texas 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 April 22, 2022 Audit Committee Meeting
- B. Review of Agencies' Activities
 - 1. Department of Savings and Mortgage Lending
 - 2. Texas Department of Banking
 - 3. Office of Consumer Credit Commissioner
- C. Discussion of the 2023 Budget Process
- D. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Department of Savings and Mortgage Lending's 2022 Annual Internal Audit Report as Prepared and Presented by Garza/Gonzalez and Associates
- E. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Texas Department of Banking's 2022 Annual Internal Audit Report as Prepared and Presented by Garza/Gonzalez and Associates
- F. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Office of Consumer Credit Commissioner's 2022 Annual Internal Audit Report as Prepared and Presented by Garza/Gonzalez and Associates
- G. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Activities of the Texas Financial Education Endowment Fund
- H. Discussion of and Consultation on Security Audit, Possible Issue Related to Confidential or Sensitive Information, Security Breach Audit and Assessment, or Security Assessments or Deployment Related to Information Resources Technology as Authorized by §§ 551.076 and 551.089, Texas Government Code

NOTE: The Audit Committee of the Finance Commission of Texas 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 of Texas will accommodate special needs. Those requesting auxiliary aids or services should notify the Texas Department of Banking, 2601 North Lamar Boulevard, Austin, Texas 78705, (512) 936-6222, as far in advance of the meeting as possible.

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**MINUTES OF THE
AUDIT COMMITTEE MEETING
Friday, April 22, 2022**

The Audit Committee of the Finance Commission of Texas convened at 8:30 a.m., on April 22, 2022, with the following members present:

Audit Committee Members in Attendance:

Debbie Scanlon, Chairman
Hector Cerna
Cliff McCauley

Chairman Scanlon announced there was a quorum of the Audit Committee of the Finance Commission of Texas with three (3) members present. (1:10 on audio file).

AGENDA ITEM	ACTION	LOCATION ON AUDIO FILE
A. Review and Approval of the Minutes of the February 18, 2022 Audit Committee Meeting	Cliff McCauley made a motion to Approve the Minutes of the February 18, 2022 Audit Committee Meeting. Hector Cerna seconded and the motion passed.	1:27 Start of discussion 1:45 Vote
B. Review of Agencies' Activities 1. Texas Department of Banking 2. Office of Consumer Credit Commissioner 3. Department of Savings and Mortgage Lending	No Action Required.	2:05 Start of discussion
C. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Agencies' 2022 Second Quarter Investment Officer Reports 1. Texas Department of Banking 2. Office of Consumer Credit Commissioner 3. Department of Savings and Mortgage Lending	Hector Cerna made a motion to recommend that the Finance Commission Approve the Agencies' 2022 Second Quarter Investment Officer Reports. Cliff McCauley seconded and the motion passed.	7:20 Start of discussion 13:15 Vote
D. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Agencies' 2022 Second Quarter Financial Statements 1. Texas Department of Banking 2. Office of Consumer Credit Commissioner 3. Department of Savings and Mortgage Lending	Cliff McCauley made a motion to recommend that the Finance Commission Approve the Agencies' 2022 Second Quarter Financial Statements. Hector Cerna seconded and the motion passed.	13:37 Start of discussion 20:26 Vote
E. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action to Reapprove the Internal Audit Contract for Garza/Gonzalez and Associates for Fiscal Year 2023	Cliff McCauley made a motion to recommend that the Finance Commission Reapprove the Internal Audit Contract for Garza/Gonzalez and Associates for Fiscal Year 2023. Hector Cerna seconded and the motion passed.	20:45 start of discussion 23:28 Vote

AGENDA ITEM	ACTION	LOCATION ON AUDIO FILE
F. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Texas Department of Banking’s Bank Examination Audit Report as Prepared and Presented by Garza/Gonzalez and Associates	Hector Cerna made a motion to recommend that the Finance Commission Approve the Texas Department of Banking’s Bank Examination Audit Report as Prepared and Presented by Garza/Gonzalez and Associates. Cliff McCauley seconded and the motion passed.	23:52 start of discussion 32:36 Vote
G. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Activities of the Texas Financial Education Endowment Fund	No Action Required.	33:00 start of discussion
H. Discussion of and Consultation on Security Audit, Possible Issue Related to Confidential or Sensitive Information, Security Breach Audit and Assessment, or Security Assessments or Deployment Related to Information Resources Technology as Authorized by §§551.076 and 551.09, Texas Government Code	No Discussion.	n/a

There being no further business of the Audit Committee of the Finance Commission of Texas, Chairman Scanlon adjourned the meeting at 9:20 a.m. *(51:10 on the audio file)*.

Debbie Scanlon, Chairman, Audit Committee
 Finance Commission of Texas

Charles G. Cooper, Executive Director
 Finance Commission of Texas

Ruth Wright, Executive Assistant
 Finance Commission of Texas

Department of Savings and Mortgage Lending

Audit Activities Report as of June 13, 2022

Auditor: *Department of Information Resources–
AT&T Cybersecurity Consulting* **Audit Report Date:** *Jan 31, 2022*

Audit Area: *Controlled Penetration Test and Web Application Vulnerabilities Scan*

Findings: *N/A* **Status Update:** *Penetration test and scan completed in January 2022. Initial report received on January 31, 2022 and currently under review.*

Auditor: *Garza/Gonzales* **Audit Report Date:** *Jun 13, 2022*

Audit Area: *Legal and Enforcement*

Recommendations: *Complete policies and procedures update.* **Status Update:** *Planned completion date August 31, 2022.*

Assess existing quality control processes and identify areas that can be enhanced. *Planned completion date for assessment August 31, 2022.*

Texas Department of Banking
Audit Activities Report
as of May 31, 2022

Auditor: *Department of Information Resources – AT&T* **Audit Report Date:** *Completed*

Audit Area: *Texas Cybersecurity Framework Assessment*

Findings: **Status Update:**
Remediations continue. Next report to Audit Committee will be in August 2022.

Auditor: *Texas Comptroller of Public Accounts* **Audit Report Date:** *Pending*

Audit Area: *Post Payment Audit*

Findings: **Status Update:**
In Progress – Audit field work completed. Awaiting preliminary report.

Auditor: *Garza/Gonzalez & Associates* **Audit Report May 2, 2022:**

Audit Area: *IT Examination Audit*

Findings: **Status Update:**
None *Completed.*

Auditor: *Garza/Gonzalez & Associates* **Audit Report May 2, 2022:**

Audit Area: *Follow-Up on Consumer Assistance*

Findings: **Status Update:**
None *Completed.*

Office of Consumer Credit Commissioner
Audit Activities Report
as of 06/15/2022

Auditor: *Garza/Gonzales*

Audit Report Date: *June 13, 2022*

Audit Area: *Internal Audit – Regulated Lender Examinations*

Findings:

Licensee’s Acknowledgement. Evaluate the feasibility of a control to prevent closure of exam without licensee’s signature

Status Update

Evaluation of control and training will be completed by 9/30/2022.

Examination Frequency: Review weighting and risk scored attributes related to examination frequency.

The review will be completed by 9/30/2022.

Examination Review Frequency: Establish guidelines to review exams in a timely manner.

Exam review policies and procedures will be updated by 9/30/2022.

Observations:

Training Certification Program: Update exam training procedures to clarify exemption from certification.

Procedures will be updated by 9/30/2022.

Report of Examination (ROE) – Quality Review: Reinforce training related to complete and accurate information in Exam Reports.

Training will be completed by 9/30/2022.

Exam Status Reports: Ensure reports generated from ALECS reflect correct data.

Evaluation and weekly verification sampling will be completed by 9/30/2022.

Prior Audit Follow-Up

Travel Policies and Procedures: Update travel policies to be consistent with current requirements and practices.

Updates to travel policies will be completed by 9/30/2022.

Auditor: *Dept. of Public Safety*

Audit Report Date: *May 18, 2022*

Audit Area: *Non-Criminal Justice Audit – Licensing*

Findings:

IT personnel who have access to the network computer had not been fingerprinted prior to access. Agency can limit IT access or fingerprint IT personnel.

Status Update:

The OCCC is investigating how to complete fingerprint based criminal history for all employees with relevant access. This will be completed by 9/30/22.

Two employees required security awareness training.

Complete – All employees have completed online security training.

Unsubscribe from individual criminal history records for which the OCCC is no longer entitled. More robust procedures and timelines for unsubscribing will be implemented by 9/3/2022.

Auditor: *DIR- A T&T Cybersecurity*

Audit Report Date: *April 26, 2022*

Audit Area: *Controlled Penetration Test and Web Application Vulnerabilities Scan*

Findings:
Confidential

Status Update:
Penetration test and scan was completed on 04/11/22; rescan pending

Auditor: *State Auditor's Office*

Audit Report Date: *March 2022*

Audit Area: *SDSI Audit*

Findings:
Develop and implement improved change management procedures that correspond to practice.

Status Update:
Revisions to the change management policy and procedures will be implemented by 8/31/2022.

Non-Criminal Justice Electronic Audit



Audit Complete

Consumer Credit Commissioner, Office of (Lic) [00174] [0102E] (TX920460Z)

Report created: Wed May 18 2022 10:51:09 GMT-0500 (Central Daylight Time)



Texas Department of Public Safety

Law Enforcement Support

Crime Records Service

PO Box 4143

Austin, Texas 78765-4143

The Access and Dissemination Audit Unit is conducting system wide electronic audits to insure agencies remain compliant with the rules and regulations concerning the collection, storage, retrieval, use, destruction, disclosure and dissemination of criminal history record information as cited by the FBI and the CJIS Security Policy. [Chapter TX GC Chapter 411, Subchapter F; Texas Government Code and pursuant to Public Law 92-544]

Compliance Report

Item: 1

Section Name: System Access

Question: How many computers are used to access the DPS Secure Site?

User Answer: 7

Compliance Response:

Please respond with how many computers access the DPS Secure Site.

Its shows 10 users with 1 expired account.

CJIS SP 5.5.2.1 - Least PrivilegeThe agency shall enforce the most restrictive set of rights/privileges or access needed by users for the performance of specified tasks. The agency shall implement least privilege based on specific duties, operations, or information systems as necessary to mitigate risk to CJI. This limits access to CJI to only authorized personnel with the need and the right to know.

Agency Response: 10 computers are used to access the secure site

Reviewed

Item: 2

Section Name: System Access

Question: Are all computers that are used to access the DPSSecure Site at this location? (Laptops, etc.?)

Sub Question

Item: 2.1

Question: Please explain any reasons why the DPS Secure Site would be accessed from an alternate location and the location for these terminals.

User Answer: Due to the COVID-19 pandemic, agency employees are primarily working from home through a laptop computer.

Compliance Response:

Agency will be sent WFH email with attachments to include:

1. Level One Security Awareness Training (for all household members over the age of 18)
2. DPS Sample Policy
3. COVID-19 PSA
4. CJIS Security Policy 5.9

CJIS SP 5.9.1 -Physically Secure LocationA physically secure location is a facility, a criminal justice conveyance, or an area, a room, or a group of rooms within a facility with both the physical and personnel security controls sufficient to protect CHRI and associated information systems.

Agency Response: The agency has disseminated this information to employees with relevant access.

Reviewed

Item: 3

Section Name: System Access

Question: Have all personnel with access to CHRI been background checked? Examples: IT personnel, contractors, custodial, and support personnel. (This does not include users on the Secure Site, DPS will perform their background checks.)

Sub Question

Item: 3.1

Question: If so, how?

User Answer: Name based

Compliance Response: Finding: Personnel having access to CJI had not been national fingerprint-based record checked prior to having access.

To Include:

IT having access to agency's network & computer had not been fingerprinted prior to access. Options: Agency can limit IT personnel with access to the network Agency can utilize a computer that does not connect to the network that IT has access to. Agency can fingerprint all of IT personnel

CJIS SP 5.12.1 -Personnel Screening Requirements for Individuals Requiring Unescorted Access to Unencrypted CJI

To verify identification, state of residency and national fingerprint-based record checks shall be conducted prior to granting access to CJI for all personnel who have unescorted access to unencrypted CJI or unescorted access to physically secure locations or controlled areas (during times of CJI processing).

Agency Response: The agency will investigate how to complete fingerprint-based criminal history for all employees with relevant access. Reviewed

Item: 4

Section Name: CJIS Security Awareness Training (SAT)

Question: Have all personnel with access (direct or indirect) to CHRI complete the mandatory CJIS Security Awareness Training within six months of employment and at least every 2 years thereafter?

User Answer: Yes

Compliance Response:

Finding: CJIS Online Security Awareness Training not completed for all personnel with direct/indirect access to CHRI.

Crichlow-Moise, Monique- Requires Level 3
Rigby, Michael- Expired 3/30/2018

CJIS SP 5.2 -Security Awareness Training Basic security awareness training shall be required within six month of initial assignment, and biennially thereafter, for all personnel who have access to CHRI.

Agency Response: All employees have completed Level 3 CJIS online security training Reviewed

Item: 5

Section Name: Fingerprint CHRI

Question: Does the agency disseminate (share/discuss) Fingerprint CHRI with any individual/entity? This includes the individual of the record, individuals within the agency, or other entities.

Sub Question

Item: 5.1

Question: Please explain the reason for the dissemination of Fingerprint CHRI. (Who, When, Why, & Where?)

User Answer: In cases where there is a relevant conviction, an encrypted letter is sent to the applicant only after fingerprint information is received to request more information about the relevant conviction.

Compliance Response:

Suggestion:
Creating a "Release Form" protecting your agency from improper access, use or dissemination of CHRI that is being submitted via email and keeping it on file with your agency.

TxGC 411.084 An agency or individual may not confirm the existence or non existence of criminal history record information to any person that is not eligible to receive the information.

CJIS SP 4.2.5.2 - Penalties Improper access, use or dissemination (giving or sharing) of CHRI is serious and may result in administrative sanctions including, but not limited to, termination of services and state and federal criminal penalties.

Agency Response: The agency will consider utilizing a release form.

Reviewed

Sub Question

Item: 5.2

Question: How is the information shared?

User Answer: Email

Compliance Response: How does your agency/dept confirm the identity of the individual receiving the email containing the CHRI?

TxGC 411.084An agency or individual may not confirm the existence or nonexistence of criminal history record information to any person that is not eligible to receive the information.

CJIS SP 5.10.1.2.1 -Encryption for CJJ in Transit

Sharing by Email: When CHRI is sent via email it shall be immediately protected by encryption. When encrypting the message and the email, FIPS 140-2 certified and cipher key strength of at least 128 bit strength must be in place.

Agency Response: Applicants enter their email into the online system through the application process and that is how the Licensing Department determines where to send email.

Reviewed

Item: 6

Section Name: Fingerprint CHRI

Question: Does your agency unsubscribe from records in the FACT Clearinghouse once the authorized purpose has ended (employment, contract)?
If YES, how soon after?

User Answer: Yes, after the license or registration has canceled after the renewal period.

Compliance Response: Finding: Agency did not unsubscribe from individuals record for whom they no are longer entitled to.

Per Access and Dissemination Policy:

C. FACT Clearinghouse Subscriptions Policy: Agencies with access to the FACT Clearinghouse shall unsubscribe to individuals who are no longer associated with the agency within 72 hours.

Subscription Total: 87,373 (at the time the records were pulled for the audit)

TxGC 411.0845Unsubscribeto recordsupon end of contract, employment, or other authorized purpose for access to the CHRI has ended.

DPS Entity Agreement

When the agency is no longer entitled to receive criminal history record information relating to a particular person the agency shall immediately unsubscribe.

Agency Response: The OCCC will develop more robust procedures and timelines to unsubscribe.

Reviewed

Item: 7

Section Name: Exit Interview

Question: Thank you for completing the Access and Dissemination Bureau (ADB) Audit Questionnaire.

During the audit, a Non-Criminal Justice Auditor will be following up with the Secure Site account Supervisor as designated by your Agency, to review the results of the questionnaire and provide guidance on areas that need improvement.

User Answer: I have read and understand the above statement.

Compliance Response: 01/28/2021

Dear Consumer Credit Commissioner, Office of (Lic),

This is your online audit report findings from the recent Access and Dissemination Bureau (ADB) Audit, which was performed on 01/27/2021. The audit consisted of an interview with Account Supervisor Mirand Zepeda as designated by your agency. The interview covered several specific areas of the non-criminal justice audit/criminal justice audit as it pertains to state and federal laws. [Reference: Texas Government Code 411, Federal Statutes, as applicable, and the Criminal Justice Information Services (CJIS) Security Policy].

At the time of the audit your agency had several name-based searches and/or subscriptions in the Fingerprint-based Applicant Clearinghouse of Texas (FACT).

After the interview, the auditor performed a review of the records, access, use, dissemination, storage, security, and destruction of the criminal history record information.

AREAS AUDITED ACCESS TO CRIMINAL HISTORY RECORD INFORMATION

Policy: Texas Government Code 411.083(b) (2) requires the Department to grant access to criminal and non-criminal justice agencies authorized by state or federal statute, or executive order to receive criminal history record information. A criminal and non-criminal justice entity must provide the Department with the name, sex, race, date of birth, and working title of each employee/official who will access and utilize information received from Department databases. The Department will conduct a name-based criminal history record check on each name submitted, and reserves the right to require a fingerprint-based criminal history record check on any employee/official. Only persons approved by the Department will be granted access to Department databases or information on behalf of the entity. Any person who is not granted access due to the results of the name-based criminal history record check may dispute the findings through the submission of their fingerprints.

Important: The Department reserves the right to limit the number of authorized employees/officials with access to Department databases and information. In addition, the Department will strictly enforce the most restrictive set of rights, privileges, and guidelines governing access to Department databases and information.

USE OF CRIMINAL HISTORY RECORD INFORMATION

Policy: Texas Government Code 411.084(a) Criminal history record information obtained from the department under this subchapter, including any identification information that could reveal the identity of a person about whom criminal history record information is requested and information that directly indicates or implies involvement of a person in the criminal justice system: (1) is for the exclusive use of the authorized recipient of the information; and (2) may be disclosed or used by the recipient only if, and to the extent that, disclosure or use is authorized or directed by: (A) this subchapter; (B) another statute; (C) a rule adopted under a statute; or (D) an order of a court of competent jurisdiction.

(a-1) The term "criminal history record" information under Subsection (a) does not refer to any specific document produced to comply with this subchapter but to the information contained, wholly or partly, in a document's original form or any subsequent form or use.

(b) Notwithstanding Subsection (a) or any other provision in this subchapter, criminal history record information obtained from the Federal Bureau of Investigation (FBI) may be released or

disclosed only to a governmental entity or as authorized by federal law and regulations, federal executive orders, and federal policy.

(c) An agency or individual may not confirm the existence or nonexistence of criminal history record information to any person that is not eligible to receive the information.

(d) If your agency is utilizing the FACT Clearinghouse, records must be unsubscribed to when you are no longer entitled to access the information, per Government Code 411.0845.

DISSEMINATION OF CRIMINAL HISTORY RECORD INFORMATION

Policy: Texas Government Code 411.083(a) Criminal history record information maintained by the department is confidential information for the use of the department and, except as provided by this subchapter, may not be disseminated by the department. (b) The department shall grant access to criminal history record information to: (1) criminal justice agencies; (2) non-criminal justice agencies authorized by federal statute or executive order or by state statute to receive criminal history record information.

(d) The department is not required to release or disclose criminal history record information to any person that is not in compliance with rules adopted by the department under this subchapter or rules adopted by the (FBI) that relate to the dissemination or use of criminal history record information.

Important: Access to Department and FBI criminal history record information by authorized employees / officials is subject to cancellation if dissemination of information is made outside the receiving department, related agency, or authorized entity. In addition, access to Department and FBI criminal history record information may not be disseminated to a person not authorized to receive the information. Criminal penalties (Government Code 411.085) are also in place for the improper dissemination of criminal history record information.

STORAGE AND SECURITY OF CRIMINAL HISTORY RECORD INFORMATION

Policy: Agencies are required to establish appropriate administrative, technical, and physical safeguards to ensure the security and confidentiality of records and to protect against any anticipated threats or hazards to their security and integrity.

Per the Department Databases and CJIS Security Policy: the computer site and/or terminal area must have adequate physical security to protect against any unauthorized personnel gaining access to the computer equipment or to any stored data; the location of all criminal history record information received from the Department and FBI must have adequate physical security to protect against any unauthorized viewing or access to displayed, stored or printed criminal history record information at all times; passwords must be secure to prevent unauthorized access; the auto save password feature should be disabled to prevent unauthorized logon; ensure that computer terminals have session lock features of less than thirty minutes; user access must be terminated when access is no longer authorized; file cabinets must have locks.

DESTRUCTION OF CRIMINAL HISTORY RECORD INFORMATION

Policy: Destruction of criminal history record information must be performed by authorized personnel. Agencies with access to criminal history record information must follow their 411 statute and the CJIS Security Policy regarding the destruction of criminal history record information. If the 411 statute does not provide a destruction time-frame, then the agency should follow the recommended time-frame presented during training or contact the training and audit unit to discuss a reasonable time-frame.

During the audit, areas of non-compliance at your agency were discovered. In order for our audit program to comply with the requirements set forth by the Department/FBI, we request that you acknowledge the return of the audit findings within 7 calendar days. You will be responsible to ensure all items listed as REQUIRED ACTION(s) in this report are corrected moving forward.

If you have any questions in regards to the results of this audit, please contact Erika Stiggers, Audit and Training Supervisor, at (512) 424-7927.

Sincerely,

Michelle Farris, Chief
Crime Records Division

Agency Response: Reviewed.

Reviewed

Final Review Notes

-- DPS Auditors suggest adopting DPS Sample Policy located on the CJIS Launch Pad for all CHRI pertaining to DPS Secure Site and add procedures OR add verbiage to existing policies to include All CJIS Data with added procedures referencing DPS Secure Site.

Auditor suggests a DPS Binder created for audit purposes, to include Policy and Procedures, Forms, Agreements, DPS Access & Dissemination Policy, Procedures of where to find both Access & Dissemination Policy and FBI CJIS Security Policy, Outsourcing Information (SA, MCA, OS), Security Awareness Training Certificates, as well as any other certificates required, etc.

CJIS Launch Pad: <https://texas.cjisapps.com/noncrim/launchpad/>

DPS Secure Site: <https://securite.dps.texas.gov>

Texas Constitution and Statutes: <https://statutes.capitol.texas.gov/>

CJIS Security Awareness Training: <https://www.cjisonline.com/>

Local Agency Review: February 9, 2021

Report Summary

Upon completion of this process, the DPS Audit Unit will guide you in completing the process for any corrections to be made due to citations noted during the audit or the Audit Unit will compliment you with a response to show your agency was found in compliance and that no further action is required.

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Lisa R. Collier,
CPA, CFE, CIDA,
State Auditor

April 22, 2021

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 451-2022-001

Dear Mr. Chadli:

In accordance with Texas Government Code, Section 321.020, and subject to the conditions listed in Attachment A, 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 7, 2022.

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

Attachment



Robert E. Johnson
Building
1501 N. Congress Avenue
Austin, Texas 78701



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



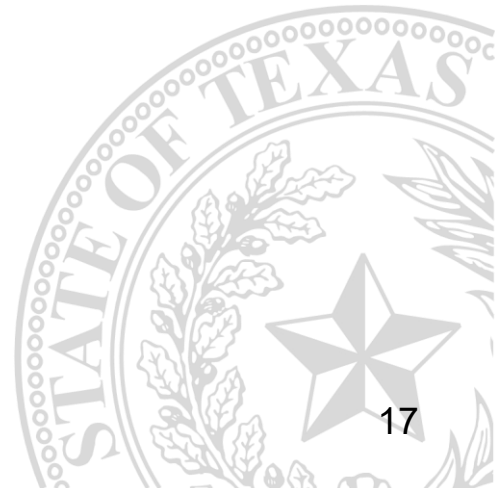
Phone:
(512) 936-9500



Fax:
(512) 936-9400



Internet:
www.sao.texas.gov



Attachment A

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 2023.
3. The Agencies must notify the State Auditor's Office if an amendment to the contract substantially 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 must 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. For any report resulting from a peer review of the private auditor that the private auditor receives after entering into the contract with the Agencies, the Agencies must ensure that the State Auditor's Office receives a copy of the report within ten (10) business days of receipt.
6. Any contracts entered into under this delegation of authority must include the following language: The state auditor may conduct an audit or investigation of any entity receiving funds from the state directly under the contract or indirectly through a subcontract under the contract. The acceptance of funds directly under the contract or indirectly through a subcontract under the contract acts as acceptance of the authority of the state auditor, under the direction of the legislative audit committee, to conduct an audit or investigation in connection with those funds. Under the direction of the legislative audit committee, an entity that is the subject of an audit or investigation by the state auditor must provide the state auditor with access to any information the state auditor considers relevant to the investigation or audit.
7. The term contract, as used throughout Appendix A, is used interchangeably with any written agreement, including an engagement letter. Therefore, if the terms of the agreement are not set out in a contract, the engagement letter or other written agreement, must still contain the language quoted in #6 above.
8. A signed copy of the contract and contract amendments must 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 must 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 the Internal Audit Coordinator. Please include the audit delegation request number 451-2022-001 with all submissions and related correspondence.

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Fiscal Year 2023 Tentative Budget Timeline

Date	Action
June – July 2022	Agencies develop draft 2023 budgets
August 1, 2022	Draft budgets posted on agencies' websites and submitted to Finance Commission members
August 10, 2022	Conduct public hearing on draft budgets
August 19, 2022	Audit Committee and Finance Commission to review draft budgets

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DEPARTMENT OF SAVINGS AND MORTGAGE LENDING
Austin, Texas

INTERNAL AUDIT ANNUAL REPORT

Fiscal Year 2022



DEPARTMENT OF SAVINGS AND MORTGAGE LENDING
Austin, Texas

Internal Audit Annual Report
Fiscal Year 2022

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Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

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

We performed procedures to determine the effectiveness and efficiency of the Department of Savings and Mortgage Lending's (SML) internal control structure over the Legal & Enforcement Area (the Area); and, its compliance with applicable Texas Finance Code chapters, Texas Administrative Code rules, and the Area's established policies and procedures, for the 7 months ended March 31, 2022.

The results of our tests disclosed that SML's internal control structure over the Area were generally adequate and no material instances of noncompliance were noted; however, we did identify certain matters that are included as observations in this report, that are opportunities for strengthening internal controls and ensuring compliance with state requirements and SML's established policies and procedures.

We have discussed the observations and recommendations from the audit of the Area with various SML personnel, and will be pleased to discuss them with you in further detail.

This report also includes all information required to comply with the State of Texas Internal Audit Annual Report requirements.



May 24, 2022

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

Internal Audit Annual Report

Fiscal Year 2022

INTRODUCTION

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

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

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

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

SML's primary goals and objectives are as follows:

1. **Thrift Industry Regulation:** Examine, monitor, and enforce the safe and sound operations of state-chartered savings institutions and their compliance with applicable state and federal statutes and regulations.
2. **Mortgage Industry Regulation:** Ensure timely and efficient licensing, registration, and examination of mortgage originators through fair, responsible, comprehensive regulation and enforce regulatory requirements.
3. **Consumer Responsiveness:** Ensure that complaints are timely and efficiently completed.

2022 Internal Audit Plan

Following is the internal audit and other functions performed, as identified in SML's *Internal Audit Plan for Fiscal Year 2022*, dated November 19, 2021, and approved by the Audit Committee and Finance Commission on December 17, 2021:

- Fiscal Year 2022 Risk Assessment & Preparation of the 2022 Internal Audit Plan
- Legal & Enforcement Area Audit
- Preparation of the 2022 Internal Audit Annual Report
- Other Tasks

This report contains the results of our audit of the Legal & Enforcement Area; and, meets the State of Texas Internal Audit Annual Report requirements.

INTERNAL AUDIT OBJECTIVES

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

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

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

Internal Audit Annual Report

Fiscal Year 2022

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

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

- An approved fiscal year 2023 audit plan, as provided by Texas Government Code, Section 2102.008.
- A fiscal year 2022 internal audit annual report, as required by Texas Government Code, Section 2102.009.

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

II. Consulting and Nonaudit Services Completed

The internal auditor did not perform any consulting services, as defined in the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* or any non-audit services, as defined in the *Government Auditing Standards*, 2018 Revision, Technical Update April 2021, Sections 3.64-3.106.

III. External Quality Assurance Review

The internal audit department's most recent *Peer Review Report*, dated December 15, 2021, indicates that its system of quality control has been suitably designed and conforms to applicable professional standards in all material respects.

IV. Internal Audit Plan for Fiscal Year 2022

The approved Internal Audit Plan (Plan) included one audit to be performed during fiscal year 2022. The Plan also included other tasks as may have been assigned by the Finance Commission or Audit Committee; and, preparation of the Internal Audit Annual Report for fiscal year 2022.

Risk Assessment

Utilizing information obtained through the completed questionnaires received and background information reviewed, 12 areas were identified as potential audit topics. A risk analysis utilizing 8 risk factors was completed for each individual audit topics and then compiled to develop an overall risk assessment.

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

Internal Audit Annual Report

Fiscal Year 2022

Following are the results of the risk assessment performed for the 12 potential audit topics identified:

HIGH RISK	MODERATE RISK	LOW RISK
Mortgage Examinations Legal and Enforcement Thrift Examinations Thrift Supervision and Compliance	Revenue Accounting Process Mortgage Licensing and Registration Management Information Systems [(MIS) Includes Disaster Recovery Plan] Payroll and Human Resources	Financial Reporting (Includes Fixed Assets & Travel) Procurement/ Contract Management/ HUB Consumer Protection Records Management

In the prior 3 years, the following audits and functions were performed by the internal auditor:

Fiscal Year 2021:

- Risk Assessment & Preparation of the Internal Audit Plan
- Procurement/Contract Management/HUB Audit
- Follow-Up of the Prior Year Internal Audits
- Preparation of the Internal Audit Annual Report

Fiscal Year 2020:

- Risk Assessment & Preparation of the Internal Audit Plan
- Records Management Audit
- Follow-Up of the Prior Year Internal Audits
- Preparation of the Internal Audit Annual Report

Fiscal Year 2019¹:

- Risk Assessment & Preparation of the Internal Audit Plan
- Information Technology Change Management Program Audit
- Follow-Up of the Prior Year Internal Audits
- Preparation of the Internal Audit Annual Report

¹ Performed by McConnell & Jones LLP

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING
 Internal Audit Annual Report
 Fiscal Year 2022

The internal audit and other tasks performed for fiscal year 2022 were as follows:

Report No.	Audits/Report Titles	Report Date
1.	Legal & Enforcement Audit <i>Objective:</i> To determine whether SML's policies and procedures and internal controls in place over the Legal & Enforcement Area (the Area) provide reasonable assurance that applicable state and federal laws and regulations are being administered and enforced over regulated industries within its jurisdiction; and, that internal controls are operating effectively.	5/24/2022
	Internal Audit Annual Report	5/24/2022
1.	<i>Includes all reported audit results for Fiscal Year 2022.</i>	
-	Other Tasks Assigned by the Finance Commission or the Audit Committee	None

V. Executive Summary

Legal & Enforcement

BACKGROUND

The Legal & Enforcement Area (the Area) consists of the General Counsel who reports to the Commissioner, 2 Attorneys, a Legal Assistant, and a Legal Secretary. The Area is responsible for enforcing applicable Finance Code chapters and Texas Administration Code rules relating to regulation of thrift and mortgage industry through enforcement actions taken against licensed and unlicensed individuals and entities.

The following are significant additions to the Finance Code that took effect in fiscal year 2022:

- Finance Code Chapter 156, Subchapter G, Mortgage Grant Fund (effective 9/1/2021) – establishes the Mortgage Grant Fund, funded by excess residential mortgage loan originator recovery fund fees.
- Finance Code Chapter 159, Wrap Mortgage Loan Financing (effective 1/1/2022) – provides licensing and registration requirements to the financing of residential real estate purchases by means of a wrap mortgage loan, and authorizes an administrative penalty.

Enforcement Referral Intake

The most common types of referrals received by the Area relate to mortgage examinations and consumer complaints, followed by the Recovery/Grant Fund Reimbursement Claims, and appeals for the denial of license application or renewal. Cases referred to the Area are first received by the Legal Secretary to perform the following functions:

- a. Ensure all documents required for a referral are received, and save them electronically in an Enforcement case file within the agency shared drive. Required documents include:
 - Mortgage Examinations – A copy of the Report of Examination (ROE) and the Administrative Action Request (AAR), signed by the Director of Mortgage Regulation, and inclusive of the administrative order type, violation citation(s), and administrative penalty calculation.
 - Consumer Complaints and Recovery/Grant Fund Reimbursement Claims – Investigation Report that includes a clear recommendation, and signed by the investigator.
 - License Denial – License denial file and the applicant’s timely request for a hearing.
- b. Open an Enforcement case in Semarca, an agency-wide information database, that centrally stores and tracks a wide array of information related to regulated entities. Information entered into Semarca includes the referral received date, referral type, and descriptive notes. Many fields in Semarca are pull-down menus that allow standardized data entry.
- c. Identify documents in the shared drive that are subject to records retention, and, as necessary, add a copy to the ApplicationXtender (AppX), a document imaging and management system.
- d. Add the case to the Legal Tracker Excel spreadsheet (Tracker), which is used by the Area staff as a case management log.

Information in the enforcement case file, Semarca, AppX, and Tracker is updated frequently, as new data is obtained by Enforcement staff.

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING
Internal Audit Annual Report
Fiscal Year 2022

Enforcement Actions

Most Enforcement cases referred to the Area result in the Area issuing one of the following:

- Advisory Letter – may be issued for less serious violations in lieu of formal disciplinary action based on specific factors determined by the Area.
- Agreed Order – issued when SML and the Respondent agree on terms. The Respondent signs the agreed order denoting their willful consent to the terms in the order.
- Order – issued without the Respondent’s consent; therefore, the Respondent is entitled to appeal and request for an administrative hearing. The order becomes final if a written notice of appeal is not filed by the Respondent within 30 days of the order date.

In accordance with various chapters of the Finance Code, SML has the authority to issue various enforcement actions; including, license revocation/suspension/denial, letter of reprimand, cease and desist, and/or penalty and restitution. Agreed orders and Orders must be signed by the Commissioner; while, advisory letters require signature of the General Counsel or an attorney.

The Area utilizes the Penalty Matrix, which was updated as recommended by the Sunset Commission, to ensure that mortgage companies and bankers are assessed disciplinary actions and the related administrative penalty in a uniform manner. During fiscal year 2022, SML implemented an enhanced Penalty Matrix that improved the clarity of the criteria, and provides detailed guidance, to be used by the Area when issuing enforcement actions and assessing fees.

During the period from September 1, 2021 to March 31, 2022, the number of enforcement actions issued by the Area along with the related fees, were as follows:

Type	Number	Penalty	Restitution
Advisory Letter	7	\$ -	\$ -
Agreed Order to Cease and Desist	2	-	-
Agreed Order to Take Affirmative Action	3	5,550	-
Agreed Settlement ²	76	112,500	-
Order to Cease and Desist	6	13,750	-
Order to Take Affirmative Action	5	19,000	1,650
Total	99	\$ 150,800	\$ 1,650

Tracking and Compliance Monitoring

The Legal Secretary is the staff member who is primarily responsible for updating the Tracker on a daily basis, to efficiently identify cases requiring status updates; such as, those past the 30-day appeal window, and, when penalty becomes past due or payment is received. A past due penalty is reported to the Texas Comptroller’s Office for a warrant hold, and large non-payments are referred to the Office of the Attorney General for collection if SML’s collection effort fails. In accordance with Finance Code Sec. 180.102, Enforcement actions are posted in the Nationwide Multistate Licensing System / Nationwide Mortgage Licensing System and Registry (NMLS) when they become final, except for Advisory Letters and orders against entities and individuals not licensed by SML.

² The figures include the following multi-state settlement agreements:

- 1 *Settlement Agreement and Order* with Rocket Mortgage, LLC. As part of the settlement, SML received \$37,500 in payment.
- 75 *Settlement Agreement and Consent Orders* with 75 Respondents, relating to the SAFE Act education violations. As part of the settlement, an administrative penalty of \$1,000 was assessed to each Respondent, for each participating state in which the Respondent was licensed.

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

Internal Audit Annual Report

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Recovery Fund/Mortgage Grant Fund

Texas Finance Code Chapter 156, Subchapter F establishes the Recovery Fund for residential mortgage loan applicants to file reimbursement claims for actual damages incurred because of acts committed by a residential mortgage loan originator (RMLO) licensed in Texas. Texas Finance Code Chapter 157, Subchapter G establishes the Mortgage Grant Fund and allows residential mortgage loan applicants to file reimbursement claims of damages caused by fraudulent unlicensed activity. Granted reimbursement claims are referred to Enforcement by the investigators. During the period from September 1, 2021 to March 31, 2022, 8 claims were referred to Enforcement. Of those, 1 was approved, 1 was withdrawn, 4 were denied, and 2 were resolved among parties. During the first 2 quarters of fiscal year 2022 through February 28, 2022, reimbursement payments were not made from either Fund, and combined activities of these Funds during that period were as follows:

Beginning Balance (9/1/2021)	Additions	Interest Received	Bank Fees	Ending Balance (2/28/2022)
\$ 4,647,296	\$ 150,540	\$ 4,049	\$ (115)	\$ 4,801,770

Reporting

The Area's activity is reported at every Finance Commission meeting as the *Legal and Enforcement Activity Report*. The Area utilizes the Crystal Reports application that semi-automate generation of various managerial reports, including Finance Commission reporting, which extracts data from Semarca in a consistent manner.

AUDIT OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The objective of our audit was to determine whether SML's policies and procedures and internal controls in place over the Legal & Enforcement area (the Area) provide reasonable assurance that applicable state and federal laws and regulations are being administered and enforced over regulated industries within its jurisdiction; and, that internal controls are operating effectively.

Scope

The scope of this audit was to review and/or test the Area's selected functions performed, for the 7-month period from September 1, 2021 through March 31, 2022 (audit period). The audit scope excludes consumer complaints intake and investigation, which is considered a separate auditable area.

Methodology

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

We obtained and/or reviewed the following internal and external documentation:

- a. Sections of the Texas Finance Code and the Texas Administrative Code applicable to the Area.
- b. *An Audit Report on The Department of Savings and Mortgage Lending: A Self-directed, Semi-independent Agency*, Report No. 17-034, State Auditor's Office (SAO), May 2017.
- c. *Staff Report with Final Results*, Sunset Advisory Commission, 2018-2019, 86th Legislature.
- d. The Area's organizational chart and job descriptions.
- e. SML's Legal/Enforcement Division Policies and Procedures (March 2017).
- f. Draft Zavanta Enforcement Policy and Procedures.
- g. 2 versions (before and after the 12/13/2021 effective date) of Penalty Matrices for Residential Mortgage Companies, and, for Residential Mortgage Loan Originators.
- h. Sample Legal Case Tracker.
- i. A listing of Enforcement Actions issued; Enforcement files closed; Enforcement referrals received; and Licensing denial appealed, during the audit period; and, supporting documentation for the 25 enforcement files selected for testing.
- j. Legal and Enforcement Activity Report as reported to the Finance Commission on April 22, 2022.
- k. Semarca Enforcement table user rights listing.

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

1. Reviewed and obtained an understanding of the sections of the Texas Finance Code and the Texas Administrative Code applicable to the Area.

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

Internal Audit Annual Report

Fiscal Year 2022

2. Reviewed the Area's written policies and procedures, and other applicable documentation; and, conducted virtual interviews and a walk-through, to obtain an understanding of controls, processes and current practices in place over the Area. Then, evaluated whether such controls adequately ensure compliance with applicable requirements identified in procedure 1 above.
3. Reviewed SAO and Sunset reports to identify recommendations relevant to the Area and verify implementation of applicable recommendations.
4. Obtained a list of Enforcement Actions issued; Enforcement files closed; Enforcement referrals received; and, Licensing denial appealed, for the period from September 1, 2021 to March 31, 2022, and selected 25 to test for the following attributes:
 - a. Accuracy of key information entered into the Semarca database.
 - b. Enforcement file contained all required documentation to sufficiently support the disposition.
 - c. The respondent was provided with due process of law.
 - d. Assessed penalty was consistent with penalty matrix guidelines and correct amount was collected.
 - e. Orders were signed by an authorized individual.
 - f. Enforcement Action was reported to the NMLS, except for an advisory letter, a case being appealed, and unlicensed/unregistered entities.
 - g. All relevant documents were added to the ApplicationXtender for retention.
5. Performed the following procedures for the Enforcement Actions list obtained for procedure 4 above, which was generated from Semarca, to assess data reliability and completeness:
 - a. For each Enforcement case, determined whether the Received Date, the Order Date, and the closed Date of each Enforcement case were in a chronological order.
 - b. Verified that all data fields were populated except for open cases in which the Closed Date field should be blank.
 - c. Searched for duplicate entries.
 - d. Cross-checked the Enforcement Files Closed list and the Referrals Received List to identify any omissions.
6. Obtained the Legal and Enforcement Activity Report presented to the Finance Commission on April 22, 2022, and traced the fiscal year 2022 measures (1st and 2nd quarters from September 1, 2021 to February 28, 2022) to the Enforcement Actions listing.
7. Obtained and reviewed the user rights list for Semarca's Enforcement table to assess whether access rights were proper based on the user's job responsibilities.

VI. Observations/Findings and Recommendations

SUMMARY and RELATED RATING of OBSERVATIONS/FINDINGS and RECOMMENDATIONS

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

Summary of Observations/Findings & Recommendations and Related Ratings		
Finding No.	Title	Rating
-	None	—
Observation No.	Title	Rating
1	Written Policies and Procedures	—
2	Quality Control	—
<p><u>Description of Rating</u></p> <p>A finding is rated <i>Priority</i> if the issues identified present risks or effects that if not addressed could <u>critically affect</u> the audited entity’s ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern(s) and reduce risks to the audited entity.</p> <p>A finding is rated <i>High</i> if the issues identified present risks or effects that if not addressed could <u>substantially affect</u> the audited entity’s ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern(s) and reduce risks to the audited entity.</p> <p>A finding is rated <i>Medium</i> if the issues identified present risks or effects that if not addressed could <u>moderately affect</u> the audited entity’s ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.</p> <p>A finding is rated <i>Low</i> if the audit identified strengths that support the audited entity’s ability to administer the program(s)/functions(s) audited <u>or</u> the issues identified do not present significant risks or effects that would negatively affect the audited entity’s ability to effectively administer the program(s)/function(s) audited.</p>		

OBSERVATIONS/FINDINGS and RECOMMENDATIONS

Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Fiscal Impact/Other Impact
1	5/24/2022	Legal and Enforcement	<p style="text-align: center;">OBSERVATIONS</p> <p>1. Written Policies and Procedures</p> <p>The Area’s written policies and procedures were last formally updated in March 2017. In 2021, SML began its agency-wide effort to modernize policies and procedures (P&P) documentation, which remains in progress. As such, the Area is also in the process of reviewing and updating its P&P using the Zavanta system, a cloud-based P&P management platform.</p> <p>While the P&P in Zavanta generally reflect current practices, and long-term employees who have the institutional knowledge do not require reference to both sets of P&P when performing their functions, in the event of employee turnover, a new employee would likely have to refer to both documents.</p> <p>Recommendation</p> <p>We recommend that the Area set a date as a goal for completing its P&P update to ensure comprehensive and current P&P are available for staff to refer to when performing their assigned functions.</p> <p>Management’s Response</p> <p>The Department agrees with the observation and recommendation and plans to complete the update of the policies and procedures by August 31, 2022.</p> <p>2. Quality Control</p> <p>Based on our testing of 25 Enforcement files and review of a listing of 101 Enforcement Actions, as generated from Semarca, we identified the following inconsistencies with current processes and controls, and non-compliance with established policies and procedures. Although these matters are isolated instances that may not be significant individually and were immediately corrected where applicable, in aggregate they give indication that the Area’s existing quality control can be enhanced:</p> <ol style="list-style-type: none"> a. In 1 instance, the Penalty Amount field in Semarca was left blank. b. In 1 instance, a Notice of License Revocation was retained in AppX but should have been removed since the respective issue was addressed by the Respondent and the Notice was therefore not transmitted to the Respondent. c. In 1 instance, an Order to Take Affirmative Action was not posted in the NMLS. 	<p>To ensure written policies and procedures are current and easily accessible to all employees.</p> <p>To enhance the Area’s quality control.</p>

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING
 Internal Audit Annual Report
 Fiscal Year 2022

Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Fiscal Impact/Other Impact
1	5/24/2022	Legal and Enforcement	<p>d. In 1 instance, an Order to Take Action and accompanying transmittal letter, both dated February 25, 2022, properly stated that the Respondent had 30 days to appeal; however, both had the incorrect appeal deadline of March 17, 202.</p> <p>e. In 1 instance, the Administrative Action Request was not signed and dated by an Enforcement staff denoting their receipt.</p> <p>f. In 3 instances from a related case, the Penalty Due Date entered in Semarca incorrectly differed from the due date found in NMLS notification.</p> <p>Recommendation</p> <p>We recommend that SML assess the existing quality control processes and identify areas that can be enhanced.</p> <p>Management’s Response</p> <p>The Department agrees with the observation and recommendations, will conduct an assessment by August 31, 2022, and identify improvements to the quality control processes to be implemented during FY 2023.</p>	

VII. External Audit Services Procured in Fiscal Year 2022

SML procured the internal audit services documented in the approved Internal Audit Plan for fiscal year 2022. No other external audit services were performed.

VIII. Reporting Suspected Fraud and Abuse

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

IX. Proposed Internal Audit Plan for Fiscal Year 2023

The risk assessment performed during fiscal year 2022 was used to identify the following *proposed* area that is recommended for internal audit and other tasks to be performed for fiscal year 2023. The Internal Audit Plan for Fiscal Year 2023 will be developed and presented to the Audit Committee and Finance Commission, for acceptance and approval, at a meeting to be determined at a later date.

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

ATTACHMENT

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING
History of Areas Audited
For Fiscal Year 2022

	POTENTIAL AUDIT TOPIC	Fiscal Year Audited/Reviewed										
		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
1	Consumer Protection			A			B*	D				
2	Financial Reporting (Includes Fixed Assets & Travel)			E*			B	D*/E*				
3	Legal and Enforcement						B	D				A
4	Management Information Systems [(MIS) Includes Disaster Recovery Plan]	C*	C*	C*	C*	A/C*	B*/C*	C/C*/D*	A1*	C*	C/C*	C*
5	Mortgage Examinations				A		B*	D			G*	
6	Mortgage Licensing and Registration	A					B*	D			G*	
7	Payroll and Human Resources		F*	E*				E*	F*			
8	Procurement/Contract Management/HUB			E*			B	D*/E*			A	
9	Records Management									A		
10	Revenue Accounting Process						B	D*				
11	Thrift Examinations						A	D				
12	Thrift Supervision and Compliance		A				B*	A/D				

Note: Performance Measures is included in the scope of the applicable audit area(s).

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

- A** Internal audit performed by Garza/Gonzalez & Associates, CPAs.
- A1** Internal audit performed by McConnell & Jones LLP.
- B** Audit performed by the State Auditor's Office (SAO).
- C** IT assessment performed by the Department of Information Resources (DIR) or a third-party vendor procured through the DIR.
- D** Sunset Review performed by the Sunset Advisory Commission.
- E** Post Payment Audit performed by the Comptroller of Public Accounts.
- F** Review performed by the Texas Workforce Commission.
- G** Review performed by the Department of Public Safety.

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Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

TEXAS DEPARTMENT OF BANKING Austin, Texas

INTERNAL AUDIT ANNUAL REPORT

Fiscal Year 2022

TEXAS DEPARTMENT OF BANKING
Austin, Texas

Internal Audit Annual Report
Fiscal Year 2022

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Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

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

We performed procedures to determine the effectiveness and efficiency of the Texas Department of Banking's (DOB) internal control structure over the IT Examinations area (Area); and, its compliance with the Texas Finance Code, the Texas Administrative Code, and the Area's established policies and procedures, for the 7 months ended March 31, 2022.

The results of our procedures disclosed that DOB's control structure over the Area, and its compliance with the various requirements and established policies and procedures, were adequate and no instances of noncompliance were noted. The report that accompanies this letter provides a summary of the Area; summarizes the audit objective, scope, and methodology; and, the procedures performed to achieve the objective of our audit.

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



May 2, 2022

TEXAS DEPARTMENT OF BANKING

Internal Audit Annual Report

Fiscal Year 2022

INTRODUCTION

The Texas Department of Banking (DOB) is a Texas state agency that performs functions designed to maintain a financial regulatory system for Texas to promote a consistent banking environment, and to provide the public with convenient, safe, and competitive banking and other financial services. DOB operates under the oversight of the Finance Commission of Texas pursuant to the authority of various provisions of the Texas Finance Code; the Texas Health and Safety Code; and, the Texas Administrative Code.

DOB's primary functions are to:

- Charter, regulate, and examine all state banks, foreign bank branches, agencies, and representative offices;
- Charter, regulate, and examine trust departments of commercial banks and trust companies;
- License, regulate, and examine prepaid funeral contract sellers (PFC) and perpetual care cemeteries (PCC);
- License, regulate, and examine money services businesses (MSB); and,
- Register check verification entities.

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

2022 Internal Audit Plan

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- IT Examinations Audit
- Follow-up of Prior Year Internal Audits
- Preparation of the 2022 Internal Audit Annual Report
- Other Tasks

This report contains the results of our audit of the IT Examinations Area; reflects the results of the follow-up procedures performed in the current year of the findings that were presented in the prior year internal audit report; and, meets the State of Texas Internal Audit Annual Report requirements. The Bank Examinations report, dated March 11, 2022, was presented to, and approved by, the Audit Committee and Finance Commission at the April 22, 2022 meetings.

INTERNAL AUDIT OBJECTIVES

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

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

TEXAS DEPARTMENT OF BANKING

Internal Audit Annual Report

Fiscal Year 2022

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

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

- An approved fiscal year 2023 audit plan, as provided by Texas Government Code, Section 2102.008.
- A fiscal year 2022 internal audit annual report, as required by Texas Government Code, Section 2102.009.

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

II. Consulting and Nonaudit Services Completed

The internal auditor did not perform any consulting services, as defined in the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* or any non-audit services, as defined in the *Government Auditing Standards*, 2018 Revision, Technical Update April 2021, Sections 3.64-3.106.

III. External Quality Assurance Review

The internal audit division's most recent *Peer Review Report*, dated December 15, 2021, indicates that its system of quality control has been suitably designed and conforms to applicable professional standards in all material respects.

IV. Internal Audit Plan for Fiscal Year 2022

The approved Internal Audit Plan (Plan) included two audits to be performed during fiscal year 2022. The Plan also included a follow-up of the prior year internal audit recommendations that were not fully implemented as of fiscal year ended August 31, 2021, other tasks as may have been assigned by the Finance Commission or the Audit Committee, and preparation of the Internal Audit Annual Report for fiscal year 2022.

TEXAS DEPARTMENT OF BANKING

Internal Audit Annual Report

Fiscal Year 2022

Risk Assessment

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

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

HIGH RISK	MODERATE RISK	LOW RISK
Bank Examinations Corporate Activities	Procurement/Contract Management/HUB Payroll & Human Resources Travel IT Examinations Trust Examinations Management Information Systems [(MIS) Includes Disaster Recovery Plan] Consumer Assistance Revenue Accounting Process	Fixed Asset Management Financial Reporting Money Service Businesses Prepaid Funeral Guaranty Fund Perpetual Care Cemeteries Prepaid Funeral Contracts Imaging & Records Management

In the prior 3 years, the following internal audits and other functions were performed:

Fiscal Year 2021:

- Risk Assessment & Preparation of the Internal Audit Plan
- Management Information Systems [(MIS) Includes Disaster Recovery Plan] Audit
- Consumer Assistance Audit
- Follow-Up of the Prior Year Internal Audits
- Preparation of the Internal Audit Annual Report

Fiscal Year 2020:

- Risk Assessment & Preparation of the Internal Audit Plan
- Revenue Accounting Process Audit
- Imaging & Records Management Audit
- Follow-Up of the Prior Year Internal Audits
- Preparation of the Internal Audit Annual Report

Fiscal Year 2019¹:

- Risk Assessment & Preparation of the Internal Audit Plan
- Information Technology Change Management Program
- Fines, Penalties, and Restitution Processes
- Follow-Up of the Prior Year Internal Audits
- Preparation of the Internal Audit Annual Report

¹ Performed by McConnell & Jones LLP.

TEXAS DEPARTMENT OF BANKING

Internal Audit Annual Report

Fiscal Year 2022

The internal audits and other tasks performed for fiscal year 2022 were as follows:

Report No.	Audits/Report Titles	Report Date
1.	Bank Examinations Audit <i>Objective:</i> To determine whether DOB’s policies and procedures and internal controls in place over the Bank Examinations area provide reasonable assurance that effective and timely bank examinations are performed; that they are performed in accordance with applicable laws and regulations; and, that internal controls are operating effectively.	3/11/2022
2.	IT Examinations Audit <i>Objective:</i> To determine whether DOB’s policies and procedures and internal controls in place over the IT Examinations area provide reasonable assurance that effective and timely IT examinations are performed; that they are performed in accordance with applicable laws and regulations; and, that internal controls are operating effectively.	5/2/2022
2.	Internal Audit Annual Report – Follow-Up of findings and recommendations that were presented in the Prior Year Internal Audit Report.	5/2/2022
-	Other Tasks Assigned by the Finance Commission or the Audit Committee	None

V. Executive Summary

IT Examinations

BACKGROUND

Organizational Structure

The Information Technology (IT) Examinations area (Area) is part of the Bank & Trust Supervision (B&T) Division, and is responsible for performing IT examinations for state-chartered banks, trust companies, and certain technology service providers (TSPs). The Area is comprised of a Director of IT Security Examinations (DITSE), a Chief IT Security Examiner (CITSE), 6 commissioned IT examiners, and 5 non-commissioned IT examiners. The DITSE reports to the B&T Director and is responsible for the Area's overall operations. The CITSE reports to the DITSE and is responsible for day-to-day managerial tasks; such as, scheduling and staff assignment; and, reviewing work papers and Reports of Examination (ROEs). Although each IT examiner is assigned to a primary regional office, they all report to the CITSE.

IT Examinations Type and Frequency

Since any weaknesses identified in an IT examination may have an effect on the results of a safety and soundness (S&S) examination, IT examinations generally follow the frequency of S&S examinations, which is based on the regulated entity's asset size, composite rating, capital category, and "new bank" status. In accordance with DOB Supervisory Memorandum (SM) 1020, a Full-Scope IT examination is scheduled within 120 days prior to the start date of the S&S examination. The IT examination may be delayed up to 60 days after the S&S examination start date, if the concurrence of the B&T Director is obtained. For entities with elevated IT-risks, an interim IT examination is conducted between Full-Scope IT examinations, with the examination scope and timing determined by the DITSE or the CITSE. For banks with an asset size of \$10 billion or greater, a Continuous Examination Program (CEP) is utilized, where targeted reviews are conducted over an examination cycle, which is generally a 12-month period, and the examination results are incorporated in the composite CAMELS rating, as reported in an ROE of the respective S&S examination.

The responsibility for performing IT examinations is shared amongst DOB, the Federal Deposit Insurance Corporation (FDIC), and the Federal Reserve Bank (FRB). Thus, the IT examination and subsequent issuance of the ROE may be performed jointly or independently by these agencies. Agencies generally alternate the performance of IT examinations, to the extent scheduling permits.

Various examination information is entered in DOB's *Examination Division Information System On the Network* (EDISON) database, which is used to track and facilitate the examination process; to include, scheduling, monitoring, and reporting. The CITSE is informed of entities due for an IT examination by receipt of automated notifications from EDISON; and, utilizes built-in reports from Edison for examination scheduling and staff assignment purposes.

IT Examination Process

Planning

During the planning phase, an Examiner in Charge (EIC) who is assigned to the respective examination, performs examination planning procedures outlined in the Planning and Control work paper. Such procedures include coordinating the examination with the entity's management, providing management with a Request Packet, reviewing prior ROEs, and ensuring all requested documents are received from the entity. One of the documents requested from the entity is the Information Technology Profile (ITP), which is a standardized form completed by the entity, and utilized by the Area to assess the entity's IT risks based on the complexity of its IT environment. The EIC reviews the ITP form and validates the entity's responses to derive an ITP score; which, along with the entity's asset size, determines the examination level. Once the examination level is determined, the EIC performs a risk analysis of the entity, plans the detailed scope of the examination, and makes staff assignments. A Scope Form is used to document the proposed examination procedures and personnel assignments; and, must be approved by the CITSE prior to commencement of the examination.

Examinations

The IT Examinations Handbook developed by the Federal Financial Institutions Examination Council (FFIEC), is the primary guidance used by IT examiners when conducting IT examinations. The Area utilizes FFIEC's examination work programs "Information Technology Risk Examination (InTREx)", which were jointly developed by the federal and state regulators, and/or, internally developed work programs that were tailored for modified examination procedures during the COVID-19 pandemic. These work programs are utilized to document the examination procedures performed, and support the examination conclusion included in the ROE. All examination procedures must be documented in work papers in accordance with DOB's internal work paper organization policy. The assigned examiner must complete all required steps included in the respective examination procedure, or document an explanation in the work paper when a required step is not performed. Upon completion of the examination and prior to the exit meeting with the entity, either the CITSE or one of the three senior IT examiners will perform an informal review of the examination.

The EIC is responsible for reviewing work papers to ensure all required procedures were completed, adequately documented, and properly organized. The EIC initials each applicable procedure on the Scope Form to indicate their review. Completed work papers are retained in DOB's document management system by importing them into Document Manager. The EIC is responsible for ensuring all work papers are imported, properly indexed, and accessible in Document Manager.

Rating System

DOB utilizes the Uniform Rating System for Information Technology (URSIT) to assess the entity's IT-related risks. The rating is based on a scale of 1 to 5, with 1 representing the least degree of concern. As part of an examination and during the ROE process, the entity is assigned a composite (overall) rating of 1 to 5 and a component rating of 1 to 5 for each of the four key components: Audit, Management, Development and Acquisition, and, Support and Delivery (AMDS).

ROE

Upon completion of an examination, findings, if applicable, and examination ratings are communicated to the entity in an ROE. IT examination results can be reported either in a stand-alone ROE or embedded within the S&S ROE. When a stand-alone ROE is prepared by the EIC, the ROE and work papers are first reviewed by an IT examiner who did not participate in the examination, and then by the CITSE. IT examinations conducted by the CITSE are always reviewed by a Review Examiner (RE) at the Austin headquarters location, to avoid self-review. ROEs for qualifying entities, i.e., lower risk as determined by DOB that were not prepared by the CITSE, are signed by the CITSE under the delegation of signature authority, and submitted directly to the entity. All other ROEs are submitted to the Austin headquarters, for additional review by an RE, and must be signed by authorized personnel under the delegation of authority before being sent to the entity. The ROE must be presented to the entity's governing board, as evidenced by each board member's signed acknowledgment attached to the report. DOB has established a processing schedule to ensure ROEs are completed and submitted to the entity in a timely manner. A Financial Analyst monitors the ROEs processing time on a weekly basis, and prepares a semi-annual analysis, for management's review. During the period from September 1, 2021 to January 31, 2022, DOB issued 44 IT examination ROEs, 3 of which were for examinations conducted jointly with a federal supervisory agency.

Work Paper Reviews

In addition to the reviews performed throughout the examination and the ROE processing schedule, DOB conducts, on a sample basis, comprehensive work paper reviews to ensure work papers are of high quality and comply with its established guidelines. DOB utilizes the Work Paper Examination Support Tool (WEST) application to document and communicate review results with management, regional offices, and examiners, in a uniform manner. DOB has established the following types of comprehensive work paper reviews:

- **Comprehensive Division Review** is performed by the CITSE and/or their designee to annually review work papers of 2 completed examinations for each commissioned IT examiner who served as the EIC. Compliance with this requirement is monitored by the Examiner Reference and Policy Coordinator. During the most recent monitoring period from September 1, 2020 to August 31, 2021, the Area performed the required 12 reviews.
- **Examiners' Council (EC) Review** is performed by members of the EC. The EC member serves a 2-year term and consists of an examiner from each RO, a trust examiner, and an IT examiner. Since EC Reviews aim to achieve uniformity among ROs, the EC member who performs an EC Review must be independent from the examination. DOB policy requires an annual review of at least 2 IT examinations. During the 12-month period from April 1, 2021 to March 31, 2022, the EC reviewed 2 IT examinations.

Examiners Training

DOB has established a Commissioning Process, or the Bank Examination Testing System (BETS), specifically for IT examiners. The Commissioning Process for IT examiners is divided into 3 phases, and passing of a lower phase is a prerequisite to progress to the next phase.

Entry level IT examiners (assistant IT examiners) must first pass the Certified Information Systems Auditor (CISA) test before being recommended for promotion to Senior Assistant IT examiner and continue the remaining commissioning process. For commissioned IT examiners to further advance, they must complete certain training courses required by DOB's training policy. Any exceptions to the training policy must be in writing, reviewed and approved by the Banking Commissioner, and retained by Human Resources. Upon being hired, a training plan is developed jointly by the assistant IT examiner and the CITSE, and updated annually.

TEXAS DEPARTMENT OF BANKING

Internal Audit Annual Report

Fiscal Year 2022

COVID-19

DOB continued conducting Full-Scope IT examinations during business disruptions caused by the COVID-19 pandemic. Safety protocols were implemented, which included temporary modifications to examination procedures, and transitioning from conducting onsite to primarily offsite examinations. The modifications allowed a risk-based approach for an examination of smaller, well-managed entities with a less complex IT environment, to ensure adherence to the examination schedule without compromising examination quality. The Area developed a new set of work papers with modified InTREx procedures, and a revised ROE template. These revised documents were made available to all IT examiners to ensure the modified procedures were implemented uniformly. The Area formally documented and informed all examiners of authorization for deviation from certain established procedures during the pandemic.

Performance Measures

The 86th Legislature adopted a recommendation made by the Sunset Advisory Commission and directed the Finance Commission to evaluate and update the agencies' key performance measures. The 3 Finance agencies now report comparable measures, to the extent possible. The Finance Commission approved DOB's fiscal year 2022 performance measures on August 20, 2021.

The Area's compliance with examination frequency requirements is reported at every Finance Commission meeting as the "Examination Priorities", or the percentage of examinations performed on time, which is part of the B&T division Activities agenda item. An IT examination is considered timely if the examination starts on or before the grace date, which is the S&S examination due date plus a 30-day grace period. Of the 35 DOB-led IT examinations performed with a grace date from September 1, 2021 to February 28, 2022, 32, or 91.4%, were performed timely, compared to the target of 95%; and, 3, or 8.6% were performed late by an average of 14.3 days.

AUDIT OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The objective of the audit was to determine whether DOB's policies and procedures and internal controls in place over the IT Examination area (Area) provide reasonable assurance that effective and timely IT examinations are performed; that they are performed in accordance with applicable laws and regulations; and, that internal controls are operating effectively.

Scope

The scope of this audit was to review and/or test the Area's selected functions and examinations performed, for the 7-month period from September 1, 2021 to March 31, 2022 (audit period).

Methodology

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

We obtained and/or reviewed the following internal and external documentation:

- A. Sections of the Texas Finance Code applicable to the Area.
- B. DOB's written policies and procedures, supervisory memorandums, administrative memorandums, a certain examiner bulletin, and internal memorandums related to the Area.
- C. IT Security Examinations area organizational chart, as part of the Bank & Trust Supervision Division organizational chart.
- D. A listing of IT examination ROEs issued during the audit period; and, the supporting examination work papers and reports for the 7 examinations selected for testing.
- E. A listing of EC Reviews performed during the 12-month period from April 1, 2021 to March 31, 2022; and, the supporting examination work papers and WEST reports for the 2 reviews selected for testing.
- F. Sample scheduling reports, planning documents, and work programs.
- G. Performance measures related to the Area as reported to the Finance Commission on April 22, 2022; and, the supporting performance measures report for Compliance with Examination Priorities - IT examinations.

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

- 1. Reviewed and obtained an understanding of the sections of the Texas Finance Code and policies outlined in supervisory memorandums (SM) applicable to the Area.
- 2. Obtained and reviewed the Area's written procedures, administrative memorandums, a certain examiner bulletin, and internal memorandums; collected other available documentation; and, conducted virtual interviews, to obtain an understanding of controls, processes, and current practices in place over the Area. Then, evaluated whether such controls adequately ensure compliance with applicable requirements identified in procedure 1 above.

TEXAS DEPARTMENT OF BANKING

Internal Audit Annual Report

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3. Reviewed the logic in EDISON used to derive at the IT examination due dates in relation to the corresponding S&S examinations for consistency with DOB's established Examination Frequency Schedule.
4. Obtained a list of IT examination ROEs issued during the period from September 1, 2021 to March 31, 2022, and selected 2 of 5 examinations that received a comprehensive division review, and, 5 of the remaining 36 independently-conducted examinations, to test for the following attributes:
 - a. The IT examination started on or within 120 days before the S&S examination start date; or, delayed up to 60 days with the B&T Director's concurrence, in accordance with SM1020.
 - b. The ROE was approved and signed at a proper level under DOB's delegation of signatory authority.
 - c. Scope Form was completed, approved by the CITSE; and, where applicable, initialed by an EIC for each procedure reviewed.
 - d. Examination level and scope were appropriate based on the entity's ITP score.
 - e. All required procedures, as documented in the approved Scope Form, were performed.
 - f. Documents attached to work papers were labeled correctly and accessible/legible.
 - g. The ROE was submitted to the entity timely in accordance with DOB's processing schedule.
 - h. The ROE included the modified statement that reflected the risk-focused examination, if applicable.
 - i. The weaknesses identified in the Risk Management section of the ROE was supported by the Summary of Findings (SOF) section of the applicable procedure, and further supported by the documented analysis within the procedure.
 - j. The weaknesses identified in the SOF were included in the ROE, or, excluded from the ROE with an explanation documented.
 - k. The component rating assigned in the ROE was supported by the strengths and weaknesses described in the applicable SOF.
5. For the 2 ROEs that received a comprehensive division review and selected for testing in Procedure 4 above, performed additional testing for the following attributes:
 - a. The WEST report and the EIC response to findings were imaged and retained with the examination work papers.
 - b. The EIC responded to each of the Critical and Important findings from the review.
 - c. Work papers were updated to reflect EIC's review responses.
6. Obtained a list of EC IT Examination Reviews conducted during the 12-month period from April 1, 2021 to March 31, 2022, and selected the 2 EC Reviews performed to determine whether the EC Review was performed by an EC member who was not associated with the examination being reviewed.
7. Obtained and reviewed an internal memorandum dated November 2, 2021 to verify that the annual compliance with the comprehensive division review is monitored, as required by DOB's procedure.
8. Selected 5 of 9 commissioned IT examiners and, using the Personal Training Profile report, determined whether the examiner completed the required core curriculum course needed for their classification.

TEXAS DEPARTMENT OF BANKING

Internal Audit Annual Report

Fiscal Year 2022

9. Obtained the performance measures report presented to the Finance Commission on April 22, 2022, and traced the fiscal year 2022 measures to supporting reports for the following:
 - a. Compliance with Examination Priorities: IT/Commercial Banks
 - b. Compliance with Examination Priorities: IT/Trust Companies
10. For each supporting reports used in procedure 9 above, performed the following procedures:
 - a. Ensured that filters used to generate the supporting reports are consistent with the respective performance measures definitions.
 - b. Recalculated item count and percentages in the report using the accompanying listing.
 - c. Ensured that the reports used as supporting documentation were generated for the correct time period.

TEXAS DEPARTMENT OF BANKING

Internal Audit Annual Report

Fiscal Year 2022

VI. Observations/Findings and Recommendations

SUMMARY and RELATED RATING of OBSERVATIONS/FINDINGS and RECOMMENDATIONS

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

Summary of Observations/Findings & Recommendations and Related Ratings		
Finding No.	Title	Rating
-	None	-
<p><u>Description of Rating</u></p> <p>A finding is rated <i>Priority</i> if the issues identified present risks or effects that if not addressed could critically affect the audited entity’s ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern and reduce risks to the audited entity.</p> <p>A finding is rated <i>High</i> if the issues identified present risks or effects that if not addressed could substantially affect the audited entity’s ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern and reduce risks to the audited entity.</p> <p>A finding is rated <i>Medium</i> if the issues identified present risks or effects that if not addressed could moderately affect the audited entity’s ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.</p> <p>A finding is rated <i>Low</i> if the audit identified strengths that support the audited entity’s ability to administer the program(s)/functions(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity’s ability to effectively administer the program(s)/function(s) audited.</p>		

TEXAS DEPARTMENT OF BANKING

Internal Audit Annual Report

Fiscal Year 2022

OBSERVATIONS/FINDINGS and RECOMMENDATIONS

Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Fiscal Impact/ Other Impact
2	5/2/2022	IT Examinations	None.	

TEXAS DEPARTMENT OF BANKING

Internal Audit Annual Report

Fiscal Year 2022

VII. External Audit Services Procured in Fiscal Year 2022

DOB procured the internal audit services documented in the approved Internal Audit Plan for fiscal year 2022. No other external audit services were performed.

VIII. Reporting Suspected Fraud and Abuse

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

IX. Proposed Internal Audit Plan for Fiscal Year 2023

The risk assessment performed during fiscal year 2022 was used to identify the following *proposed* areas that are recommended for internal audit and other tasks to be performed for fiscal year 2023. The Internal Audit Plan for Fiscal Year 2023 will be developed and presented to the Audit Committee and Finance Commission, for acceptance and approval, at a meeting to be determined at a later date.

- Corporate Activities
- Procurement/Contract Management/HUB
- Other Tasks Assigned by the Finance Commission or the Audit Committee

ATTACHMENT

TEXAS DEPARTMENT OF BANKING
History of Areas Audited
For Fiscal Year 2022

	POTENTIAL AUDIT TOPIC	Fiscal Year Audited/Reviewed										
		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
1	Bank Examinations	A/B*	B*				A/B*	E				A
2	Consumer Assistance							E			A	
3	Corporate Activities		A					E				
4	Financial Reporting						B	E*				
5	Fixed Asset Management			C*			A	C*			C*	
6	Imaging and Records Management					A			A			
7	IT Examinations					A		E				A
8	Management Information Systems [(MIS) Includes Disaster Recovery Plan]	D*	D/D*	A/D*	D*	D*	B/D*	E*	A1*/D	D*	A*/D/D*	
9	Money Service Businesses			A			B*	E	A1*	A*		
10	Payroll and Human Resources	F*		C*				C*/F*	F*		C*	
11	Perpetual Care Cemeteries				A		B*	E	A1*	A*		
12	Prepaid Funeral Contracts		A				B*	E	A1*	A*		
13	Prepaid Funeral Guaranty Fund	A						A/E	A1*	A*		
14	Procurement/Contract Management/HUB			C*			B*	C*			C*	
15	Revenue Accounting Process				A		B	E	A1*	A		
16	Travel			C*			B*	C*/E*			C*	
17	Trust Examinations							A/E				

Note: Performance Measures is included in the scope of the applicable audit area(s).

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

- A** Internal audit performed by Garza/Gonzalez & Associates, CPAs.
- A1** Internal audit performed by McConnell & Jones LLP.
- B** Audit performed by the State Auditor's Office (SAO).
- C** Post-Payment audit performed by the Comptroller of Public Accounts.
- D** IT assessment performed by the Department of Information Resources (DIR) or a third-party vendor procured through the DIR.
- E** Sunset Review performed by the Sunset Advisory Commission.
- F** Review performed by the Texas Workforce Commission.

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OFFICE OF CONSUMER CREDIT COMMISSIONER
Austin, Texas

INTERNAL AUDIT ANNUAL REPORT

Fiscal Year 2022



OFFICE OF CONSUMER CREDIT COMMISSIONER
Austin, Texas

Annual Internal Audit Report
Fiscal Year 2022

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Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

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

We performed procedures to determine the effectiveness and efficiency of the Office of Consumer Credit Commissioner's (OCCC) internal control structure over the Regulated Lenders Examinations Area (the Area); and, its compliance with applicable Texas Finance Code chapters, Texas Administrative Code rules, and the Area's established policies and procedures, for the 7 months ended March 31, 2022.

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

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

We have discussed the comments and recommendations from the audit of the Area; and, the implementation status from the follow-up procedures performed, with various OCCC personnel; and, will be pleased to discuss them in further detail.



May 20, 2022

OFFICE OF CONSUMER CREDIT COMMISSIONER

Internal Audit Annual Report
Fiscal Year 2022

INTRODUCTION

The Office of Consumer Credit Commissioner (OCCC) operates pursuant to Chapter 14 of the Texas Finance Code, and under the oversight of the Finance Commission of Texas, who appoints the Consumer Credit Commissioner. OCCC has authority to regulate consumer credit transactions and interest rates in Texas, offers protection to consumers, coordinates educational efforts aimed at consumers and industry alike, and advises lenders on compliance issues.

OCCC's primary task is to license and perform examination of licensed industries; such as, motor vehicle sales finance companies, regulated lenders, payday/title loan lenders, and pawnshops/pawn employees; and, oversee registered industries such as debt management and settlement providers and registered creditors.

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

2022 Internal Audit Plan

Following is the internal audit and other functions performed, as identified in OCCC's *Internal Audit Plan for Fiscal Year 2022*, dated November 19, 2021, and approved by the Audit Committee and Finance Commission on December 17, 2021:

- Fiscal Year 2022 Risk Assessment & Preparation of the 2022 Internal Audit Plan
- Regulated Lenders Examinations Area Audit
- Follow-up of Prior Year Internal Audits
- Preparation of the 2022 Internal Audit Annual Report
- Other Tasks

This report contains the results of our audit of the Regulated Lenders Examinations Area; reflects the results of the follow-up procedures performed in the current year of the findings that were presented in the prior year internal audit reports; and, meets the State of Texas Internal Audit Annual Report requirements.

OFFICE OF CONSUMER CREDIT COMMISSIONER

Internal Audit Annual Report

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INTERNAL AUDIT OBJECTIVES

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

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

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

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

- An approved fiscal year 2023 audit plan, as provided by Texas Government Code, Section 2102.008.
- A fiscal year 2022 internal audit annual report, as required by Texas Government Code, Section 2102.009.

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

II. Consulting and Nonaudit Services Completed

The internal auditor did not perform any consulting services, as defined in the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* or any non-audit services, as defined in the *Government Auditing Standards*, 2018 Revision, Technical Update April 2021, Sections 3.64-3.106.

III. External Quality Assurance Review

The internal audit department's most recent *Peer Review Report*, dated December 15, 2021, indicates that its system of quality control has been suitably designed and conforms to applicable professional standards in all material respects.

IV. Internal Audit Plan for Fiscal Year 2022

The approved Internal Audit Plan (Plan) included one audit to be performed during fiscal year 2022. The Plan also included a follow-up of the prior year internal audit recommendations that were not fully implemented as of fiscal year ended August 31, 2021; other tasks as may have been assigned by the Finance Commission or Audit Committee; and, preparation of the Internal Audit Annual Report for fiscal year 2022.

Risk Assessment

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

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

HIGH RISK	MODERATE RISK	LOW RISK
Fiscal Division (Includes Fixed Assets & Travel) Revenue Accounting Process	Procurement/Contract Management/HUB Regulated Lenders Examinations Legal and Enforcement Motor Vehicle Sales Finance Examinations Credit Access Business Examinations Pawn Examinations Management Information Systems [(MIS) Includes Disaster Recovery Plan] Payroll and Human Resources	Complaint Intake and Investigation Property Tax Lender Examinations TFEE Fund Grant Administration Business Licensing Business Registration Professional Licensing (Pawnshop Employees & RMLO) Records Management

In the prior 3 years, the following audits and functions were performed by the internal auditor:

Fiscal Year 2021:

- Risk Assessment & Preparation of the Internal Audit Plan
- TFEE Fund Investment Portfolio Administration Audit (*Required Periodic Audit*)
- Fiscal Division (Includes Fixed Assets & Travel) Audit
- Follow-up of the Prior Year Internal Audits
- Preparation of the Internal Audit Annual Report

Fiscal Year 2020:

- Risk Assessment & Preparation of the Internal Audit Plan
- Records Management Audit
- Follow-up of the Prior Year Internal Audits
- Preparation of the Internal Audit Annual Report

Fiscal Year 2019¹:

- Risk Assessment & Preparation of the Internal Audit Plan
- Investment Administration Controls Audit (*Required Periodic Audit*)
- Information Technology Change Management Program Audit
- Follow-up of the Prior Year Internal Audits
- Preparation of the Internal Audit Annual Report

¹ Performed by McConnell & Jones LLP.

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The internal audits and other tasks performed for fiscal year 2022 were as follows:

Report No.	Audits/Report Titles	Report Date
1.	Regulated Lenders Examinations Area <i>Objective:</i> To determine whether OCCC’s policies, procedures, processes, and internal controls in place over the Regulated Lenders Examinations Area (the Area), provide reasonable assurance that effective and timely examinations are performed; that they are performed in accordance with applicable state laws and regulations; and, that internal controls are operating effectively.	5/20/2022
	Internal Audit Annual Report	5/20/2022
1.	<i>Includes all reported audit results for Fiscal Year 2022 and a follow-up of findings and recommendations that were presented in the prior year internal audit reports.</i>	
-	Other Tasks Assigned by the Finance Commission or the Audit Committee	None

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V. Executive Summary

Regulated Lenders Examinations

Background

Non-depository lenders, who engage in the business of making, transacting, or negotiating consumer loans with a rate of interest greater than 10%, are required to be licensed by the Office of Consumer Credit Commissioner (OCCC) as *Regulated Lenders*. These lenders are regulated by Chapter 342 of the Texas Finance Code (TFC) and Chapter 83, Subchapter A of the Texas Administrative Code (TAC). TFC, Chapter 342 authorizes OCCC to conduct examinations of the licensees' transactions, records, and place of business. OCCC licenses and regulates lenders based on the type(s) of loans they operate. Following are the types of loans that lenders may engage in, along with the corresponding subchapter of TFC Chapter 342 that regulates them:

- Consumer installment loans (Subchapter E)
- Signature and small dollar loans (Subchapter F)
- Secondary mortgage loans (Subchapter G)

As of March 31, 2022, there were 3,504 licensed Regulated Lenders in the state of Texas.

Organizational Structure

The Director of Consumer Protection (the Director), who reports to the Commissioner, has oversight of the Examination and Enforcement Area, which is responsible for conducting regulated lenders examinations. The Examination and Enforcement Area, headquartered in Austin, is staffed with 2 Supervising Examiners, 5 Review Examiners, 1 Industry Submissions Financial Examiner, 1 Financial Analyst, 1 Administrative Support Supervisor, and 3 Administrative Support staff. The 3 regional offices, which are located in Dallas-Fort Worth, Houston, and San Antonio, are each managed by a Regional Supervisory Examiner, and staffed with 8 to 11 Financial Examiners.

ALECS

Regulated lenders examinations are completed using OCCC's Application, Licensing, Examination, and Compliance System (ALECS), an online examination module. ALECS equips Examiners with a personal dashboard upon log-in, using unique credentials. The personal dashboard provides Examiners with their assigned examinations, referred to as "work items". Examination workpapers in ALECS are divided into the following sections:

- Examination Details
- User Notes
- Examination Information and Rating
- Prepare Examination Report
- Action Section
- Document History

Pre-approved standard comments have been built into ALECS, which are utilized by Examiners when completing the work item, which must be completed in its entirety before the Examiner can prepare and finalize the Report of Examination (ROE). Once the ROE is finalized, the work items are automatically removed by ALECS from the Examiner's dashboard; and, the Examiner is required to upload all reports, attachments, and/or correspondence relating to the examination to OCCC's network, and delete them from their computer.

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Examination Process

Scheduling Examinations

The Regional Supervisory Examiners are responsible for scheduling monthly compliance examinations for their respective region using the Scheduling Module in ALECS. Exams are scheduled using a risk-based approach that includes consideration of attributes such as the following:

- Last examination date, or license date, if no previous examination;
- Last examination rating;
- Number of complaints received; and,
- Market share.

In addition to the risk score, other factors; such as, staff availability, budget/travel constraints, and geographic location of licensees, are also considered when scheduling an examination.

Conducting Examinations

During an examination, Examiners complete checklists in ALECS that address a licensee's compliance with applicable sections of the Texas Finance Code, Texas Administrative Code, and federal consumer lending laws. Each line of every checklist is required to be completed before ALECS will allow the Examiner to finalize the examination. As part of the examination process, Examiners will review a sample of transactions that occurred during the examination period, which begins from the date of the previous examination to the current examination date. For Subchapter E and F examinations, the minimum sampling size is 70 transactions; while, the minimum sampling size for Subchapter G examinations is 30. Thus, when a licensee's total transactions for the examination period is less than the minimum required sampling size, the Examiner is required to review all transactions. The 'Summary of Loans Reviewed' spreadsheet is used by Examiners to list the transactions reviewed. Any compliance violations identified during an examination are documented as comments; and, as special instructions if the licensee must take certain remedial action. Special instructions may relate to a monetary correction, which requires the licensee to either refund or credit the borrower's account; and, such correction amounts are listed in the "Monetary Correction Worksheet".

Upon completion of an examination, the Examiner assigns it an examination rating, using a scale of 1 to 5, based on the licensee's level of compliance. OCCC's current examination rating policy is as follows:

RATING	BASIS
1	No exceptions; no comment report.
2	Few exceptions; no significant examination issues.
3	Several exceptions; few significant issues requiring remedy; possible minimal refunding required; follow-up only required if there is a monetary issue that cannot be corrected during the examination.
4	Several significant issues requiring urgent remedy; moderate refunding required; prior examination issues not addressed by licensee; moderate procedural or systemic errors; follow-up is required.
5	Significant issues requiring immediate remedy; substantial refunding required; repeated examination issues; serious procedural or systemic errors; follow-up is required; monitored until unacceptable level of compliance is cleared and administrative action is taken.

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At the conclusion of an examination, the Examiner generates a Report of Examination (ROE) through ALECS, which he/she signs. The standardized report is populated with the licensee's general information, and the comments and special instructions documented by the Examiner during the examination. Upon completion of an examination, the Examiner finalizes all ROEs in ALECS, with ratings of 1 through 3; and, those rated 4 and 5 require further review and approval (of the assigned rating) by the Regional Supervising Examiner before they can be finalized. Examinations with an ROE rated a 1 or 2 do not require further review, and are automatically closed in ALECS after the ROE is finalized. Examinations with an ROE rated a 3 or higher require review by a Review Examiner (as further described below) before they can be closed.

The licensee is required to sign ROEs that include special instructions. If applicable, the licensee must complete the remedial action specified in the special instructions section of the ROE and submit evidence of remediation to OCCC within 60 days of the report date. For each monetary correction identified in the Monetary Correction Worksheet, the licensee must document either refund and/or adjustment, and return the completed worksheet to OCCC along with evidence of compliance; such as, an image of the refund check or the borrower's statement where the adjustment was made. Failure to correct the matter(s) may result in a follow-up examination and/or administrative action.

During the period from September 1, 2021 through March 31, 2022, OCCC conducted 451 regulated lenders examinations. The following table reflects the type of examination conducted along with the assigned rating:

TYPE OF EXAMINATION	RATING					TOTAL
	1	2	3	4	5	
Subchapter E	9	6	19	4	1	39
Subchapter F	178	141	76	8	-	403
Subchapter G	-	-	4	5	-	9
Total	187	147	99	17	1	451

Review of Examinations

ROEs rated 3 or higher are reviewed by a Review Examiner within ALECS. A review consists of reviewing the ROE comments and special instructions; making review comments regarding content, grammar, and structure; and, closing the examination. As of May 2022, ROEs rated a 3 or higher were in the following review statuses:

RATINGS	EXAMINATION REVIEW STATUS				TOTAL
	# OF CLOSED EXAMS	# OF EXAMS IN REVIEW	# OF EXAMS READY FOR REVIEW	# OF EXAMS PENDING OR EXPIRED	
3	55	16	25	3	99
4	5	6	4	2	17
5	1	-	-	-	1
Total	61	22	29	5	117

Training

All newly hired financial examiners are required to complete a 5-to-6-week training session, which includes a variety of topics; however, emphasis may be placed on specific license types depending on OCCC's need for the placement of the examiner. At the end of the training session, the trainees are required to pass a competency test, and complete on-the-job training for each license type. Upon completion of the on-the-job training, a senior staff member submits a Certification Report to the trainee's Regional Supervisor, Director of Consumer Protection, and the Training Coordinator, certifying that the trainee has the ability to, and may, conduct independent exams for the respective license type.

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OCCC also hosts an annual training session for all examiners; and, offers examiners the opportunity to attend external training classes held by NACCA, AARMR, and others.

Performance Measures

Since examinations are completed, processed, and tracked in ALECS, the data needed for performance measures is obtained from reports generated through ALECS. The Administrative Program Specialist is responsible for compiling all information needed for performance measures reporting and including them in the Consumer Protection Section of the Finance Commission Reports.

Audit Objective, Scope, and Methodology

Objective

The objective of the audit was to determine whether OCCC's policies, procedures, processes, and internal controls in place over the Regulated Lenders Examinations Area (the Area), provide reasonable assurance that effective and timely examinations are performed; that they are performed in accordance with applicable state laws and regulations; and, that internal controls are operating effectively.

Scope

The scope of this audit was to review and/or test the Area's selected functions and examinations performed, for the 7-month period from September 1, 2021 to March 31, 2022 (audit period).

Methodology

The audit methodology included a review of applicable laws and regulations, OCCC's established policies and procedures, and other internal and external documentation; and, remote interviews and correspondence with selected OCCC employees.

We obtained and/or reviewed the following internal and external documentation:

- a. Texas Finance Code Chapter 342 *Consumer Loans*.
- b. Texas Administrative Code Chapter 83, Subchapter A *Rules for Regulated Lenders*.
- c. OCCC Policies and Procedures related to the Area.
- d. OCCC's agency-wide organizational chart.
- e. Examples of examination templates, checklists, and logs, used by the Area.
- f. Screenshots of ALECS examination and scheduling modules.
- g. Fiscal year 2022 Actual Performance for Output Measure 2nd Quarter performance measure results reported to the Finance Commission on April 22, 2022 and supporting documentation.
- h. List of active regulated lenders as of March 31, 2022.
- i. List of ROEs prepared for regulated lenders during the audit period.

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- j. Training certification records for selected Financial Examiners.
- k. ROEs, related examination workpapers, and examination review documentation, as applicable, for selected examinations.
- l. Spreadsheet showing examination dates, previous examination dates, follow-up examination dates, and ratings for selected regulated lenders.

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

1. Reviewed and obtained an understanding of state laws and regulations applicable to the Area.
2. Obtained and reviewed OCCC's written policies and procedures; and, conducted virtual interviews, to obtain an understanding of controls, processes and current practices in place over the Area, and to evaluate whether such controls adequately ensure compliance with applicable requirements identified in procedure 1 above.
3. Selected 25 examinations conducted during the audit period to test the following attributes:
 - a. Proper sample size of transactions was reviewed and listed in the *Summary of Loans Reviewed Worksheet*.
 - b. Examination rating was assigned in accordance with the Examination Rating Policy.
 - c. Examinations with an ROE rated 4 or 5 were approved by the Regional Supervisor.
 - d. Examinations with an ROE rated 3 or higher were reviewed within a reasonable time (within 3 months).
 - e. Completion of *Monetary Correction Worksheet*, as applicable.
 - f. Licensee signature obtained for ROEs that included special instructions.
 - g. Follow-up procedures were performed, as applicable, for special instructions included in ROEs.
 - h. Examinations were closed within a reasonable number of days (within 90 days).
4. Reviewed the ROEs for the 25 selected examinations in procedure 3, for the following attributes:
 - a. Proper citation(s) of statutes and regulations.
 - b. Grammatically correct and easy to comprehend.
 - c. Inclusion of a due date within the special instructions section.
5. Obtained the last 2 examination dates and ratings for 25 selected active licensees to ensure examinations were conducted within a reasonable amount of time (within 24 months).

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6. Agreed the 2nd quarter performance measures submitted to the Finance Commission to the supporting documentation generated from ALECS.
7. Selected 5 financial examiners and obtained supporting documentation to ensure each Examiner completed the initial training, attended the annual training, and was certified for the license type of examinations conducted.

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VI. Observations/Findings and Recommendations

SUMMARY and RELATED RATING of OBSERVATIONS/FINDINGS and RECOMMENDATIONS

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

Summary of Observations/Findings & Recommendations and Related Ratings		
Finding No.	Title	Rating
1	Special Instructions – Licensees Signature	Low
2	Examination Frequency	Low
3	Examination Review Frequency	Low
Observation No.	<i>Observations</i>	
1	Training Certification Program	-
2	Report of Examination (ROE) – Quality Review	-
3	Examination Status Reports	-

Description of Rating

A finding is rated *Priority* if the issues identified present risks or effects that if not addressed could critically affect the audited entity’s ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern(s) and reduce risks to the audited entity.

A finding is rated *High* if the issues identified present risks or effects that if not addressed could substantially affect the audited entity’s ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern(s) and reduce risks to the audited entity.

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

A finding is rated *Low* if the audit identified strengths that support the audited entity’s ability to administer the program(s)/functions(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity’s ability to effectively administer the program(s)/function(s) audited.

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OBSERVATIONS/FINDINGS and RECOMMENDATIONS

Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Fiscal
1	5/20/2022	Regulated Lenders Examinations	<p>1. Special Instructions – Licensee’s Signature</p> <p><i>Section XII Examination Process</i> procedures manual states: “an examiner completing an examination report that requires the licensee to comply with special instructions should obtain an electronic signature from the licensee and should upload the signature into ALECS.”</p> <p>Of the 25 examinations reviewed, 3 Reports of Examination (ROE) included special instructions; however, in 1 instance, the licensee’s signature was not obtained.</p> <p>Recommendation</p> <p>We recommend that OCCC determine if ALECS has the capability of having a built-in safeguard that would prevent an examination from being closed without this procedure being performed.</p> <p>Management’s Response</p> <p>The OCCC agrees with the recommendation. The Change Management Committee will evaluate potential programming changes in ALECS that may implement a control to require signatures in exams with special instructions. The OCCC will also conduct training for all financial examiners regarding the requirement to obtain signatures on exam reports that include special instructions. The evaluation and training will be completed by September 30, 2022.</p> <p>2. Examination Frequency</p> <p>Texas Finance Code §342.552 states that the Commissioner or the Commissioner’s representative shall, at the times the Commissioner considers necessary, examine the licensee’s place of business and transactions. OCCC’s website states ‘Currently, the majority of loan companies in Texas are examined approximately once every 18 to 24 months.’</p> <p>Currently, a risk assessment is used to determine the frequency of examinations for each licensee. Our review of the examination dates for and rating assigned to the last 2 examinations for 25 licensees disclosed the following:</p> <ul style="list-style-type: none"> • In 3 instances, examinations rated a “3” were last conducted between 3 and 7 years from the 7-month audit period ended March 31, 2022; and, • In 1 instance, an examination rated a “4” in fiscal year 2020 was previously examined approximately 5 years from the previous examination in fiscal year 2015, where it was rated a “3”. <p>Recommendation</p> <p>We recommend that OCCC review the current weight assigned to the “last examination date” and “last examination rating” attributes used in the risk assessment to determine if adjustments are necessary to ensure licensees of higher risk are examined more frequently.</p>	<p>To ensure compliance with OCCC’s policies and procedures.</p> <p>To ensure reasonableness of examination frequency.</p>

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Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Fiscal Impact/ Other Impact
1	5/20/2022	Regulated Lenders Examinations	<p>Management’s Response</p> <p>The OCCC agrees with the recommendation to review current risk score weight attributes to ensure they are appropriate to ensure examination frequency remains reasonable and high-risk licensees are examined more frequently. The impact of COVID-19 limited the agency’s ability to travel to conduct examinations for parts of FY 2020 and FY 2021, resulting in some delays in the frequency of examinations. This review will be completed by September 30, 2022.</p> <p>3. Examination Review Frequency</p> <p>Our sample of 25 ROEs prepared during the audit period included a total of 8 ROEs that required a review based on their assigned rating: 7 rated “3”, and 1 rated “4”. As of March 31, 2022, only 3 examinations were reviewed; however, 2 of the 3 were reviewed 5 and 6 months after the examination was finalized; 4 have been finalized for 3 to 6 months, and have the exam status ‘Ready for Review’ but have not been reviewed; and, 1 is pending a response from the licensee for the special instructions; therefore, is not ready to be reviewed.</p> <p>Recommendation</p> <p>We recommend that OCCC establish guidelines or goals that will provide review of examinations in a timely manner to identify workpapers that require additional analysis or require further development, which will ensure workpapers contain sufficient information to support the basis for the conclusions reached in the examination and properly reported in the ROE.</p> <p>Management’s Response</p> <p>The OCCC agrees with this recommendation and will evaluate and update exam review policies and procedures to ensure the review of examinations are performed in a timely manner. The procedures will be updated by September 30, 2022.</p>	<p>To ensure examinations are being reviewed in a timely manner.</p>

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Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Fiscal Impact/ Other Impact
1	5/20/2022	Regulated Lenders Examinations	<p style="text-align: center;"><u>Observations</u></p> <p>1. Training Certification Program</p> <p>Our review for compliance with the training certification program indicated that 3 of the 5 selected examiners were exempt from completing the certification training process, based on their years of service with OCCC. It is OCCC’s practice to exempt employees who were hired before January 2017, the date the certification program was implemented; however, the exception is not documented in the training policies and procedures.</p> <p>Recommendation</p> <p>We recommend that OCCC include this exception in their training policies and procedures to ensure they are comprehensive and implemented in a uniform manner.</p> <p>Management’s Response</p> <p>The OCCC agrees with this recommendation and will update training policies and procedures to note that examiners who were already independently conducting examinations prior to January 2017 are exempt from certification. The policies and procedures will be updated by September 30, 2022.</p> <p>2. Report of Examination (ROE) – Quality Review</p> <p>Our review of 25 ROEs prepared during the audit period for adherence to OCCC’s internal quality control standards disclosed the following:</p> <ul style="list-style-type: none"> • In 1 instance, the special instructions section had 2 different response due dates (8/31/2021 & 1/15/2022); and, • In 1 instance the standardized ROE populated by ALECS reflected the phrase “INSERT LICENSEE NAME” since the licensee’s name was not entered. <p>Recommendation</p> <p>We recommend that OCCC re-enforce the importance of inserting complete and accurate information into ALECS since it is the system used to prepare ROEs; and, that these issues also be corrected during the review process.</p> <p>Management’s Response</p> <p>The OCCC agrees with this recommendation and will conduct training for all Financial Examiners to ensure staff are aware of the importance of including accurate information in ALECS prior to issuing examination reports. This training will be completed by September 30, 2022.</p>	<p>To ensure exceptions to OCCC’s training policies and procedures are documented.</p> <p>To ensure ROEs meet OCCC’s quality standards.</p>

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Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Fiscal Impact/ Other Impact
1	5/20/2022	Regulated Lenders Examination	<p>3. Examination Status Reports</p> <p>We were provided with a report generated from ALECS that documented the examinations' statuses as of March 31, 2022, which was used to review the Exam Status for 25 examinations. In 2 instances the exam status was listed as 'Ready for Review' and did not indicate a close date; however, based on our review of the examination review documentation, both examinations were reviewed and closed in March 2022. We were subsequently provided with weekly generated ALECS reports, which disclosed the correct statuses.</p> <p>Recommendation</p> <p>We recommend that OCCC continue investigating the cause of the conflicting information between the 2 reports to ensure reports generated from ALECS reflect correct data that may be relied upon by OCCC when reporting various information.</p> <p>Management's Response</p> <p>The OCCC agrees with the recommendation. The IT department will evaluate the report parameters and data environments to ensure reports are generated correctly and efficiently. Additionally, exam staff will also conduct a weekly sampling of exam status reports for a period of time to verify report accuracy. This will be completed by September 30, 2022.</p>	To ensure the accuracy of the information in ALECS being reported.

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Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Status (Fully Implemented, Substantially Implemented, Incomplete/Ongoing, or Not Implemented) with explanation if not yet fully implemented
1	5/20/2022	2022 Follow-Up	<p style="text-align: center;"><u>Follow-Up of Prior Year Internal Audits</u></p> <p>Following is the status of the recommendations made in prior years that had not been fully implemented.</p> <p>TFEE Fund Investment Portfolio Administration (Report date 3/19/2021)</p> <p>1. TFEE Cash Account Reconciliations</p> <p>OCCC should consider defining bank reconciliation completion dates within its TFEE Bank Reconciliation procedure manual to ensure any discrepancies or unusual items are identified and resolved in a timely manner.</p> <p>Fiscal Division (Report date 5/20/2021)</p> <p>1. Travel Policies & Procedures (P&P)</p> <p>OCCC should update its travel policies and procedures to be consistent with current requirements and practices.</p> <p><i><u>FY 2022 Status</u></i> <i>Travel policies and procedures have been updated; however, one policy is not consistent with OCCC's current practice. The corporate charge card policy was updated to state employees must utilize the issued card for official state business expenses; however, current practice allows an exception to this policy that is not included in the policy. Employees may elect not to use the issued card if an explanation is provided in the travel documentation. We recommend that the travel policy be revised to include this practice.</i></p> <p>2. Rental vs. Personal Vehicle Cost Analysis (Observation)</p> <p>OCCC should establish agency-wide guidance for justification of alternative travel methods, including those due to health concerns, to ensure employees perform this function in a uniform manner; to optimize a balance between conservation of state funds and employee impact; and, to promote a sense of fairness among travelers.</p> <p>Records Management (Report date 6/19/2020)</p> <p>1. Imaged Record Verification (Observation)</p> <p>The Licensing department should evaluate and revise, as considered necessary, the current imaging and verification logging procedures; and, ensure Licensing staff consistently follow the established procedures.</p>	<p>Fully Implemented</p> <p>Substantially Implemented –</p> <p>OCCC anticipates update to policies will be completed by September 30, 2022.</p> <p>Fully Implemented</p> <p>Fully Implemented</p>

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VII. External Audit Services Procured in Fiscal Year 2022

OCCC procured the internal audit services documented in the approved Internal Audit Plan for fiscal year 2022. No other external audit services were performed.

VIII. Reporting Suspected Fraud and Abuse

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

IX. Proposed Internal Audit Plan for Fiscal Year 2023

The risk assessment performed during fiscal year 2022 was used to identify the following *proposed* area that is recommended for internal audit and other tasks to be performed for fiscal year 2023. The Internal Audit Plan for Fiscal Year 2023 will be developed and presented to the Audit Committee and Finance Commission, for acceptance and approval, at a meeting to be determined at a later date.

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

ATTACHMENT

OFFICE OF CONSUMER CREDIT COMMISSIONER
History of Areas Audited
For Fiscal Year 2022

	POTENTIAL AUDIT TOPIC	Fiscal Year Audited/Reviewed										
		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
1	Business Licensing						B*	D				
2	Business Registration						A	D				
3	Complaint Intake and Investigation	A						D				
4	Credit Access Business Examinations		A					D				
5	Fiscal Division (Includes Fixed Assets & Travel)		C*				B	C*/D*		C1*	A*	
6	Legal and Enforcement						B*	D				
7	Management Information Systems [(MIS) Includes Disaster Recovery Plan]	E*	E*	E	E*	E*	B*/E	D*/E*	A1*/E		E/E*	
8	Motor Vehicle Sales Finance Examinations					A		D				
9	Pawn Examinations							D				
10	Payroll and Human Resources		C*/F*					C*	F*			
11	Procurement/Contract Management/HUB		C*				B	C*/D*				
12	Professional Licensing (Pawnshop Employees & RML0)			A			B*	D				
13	Property Tax Lender Examinations							A/D				
14	Records Management								A			
15	Regulated Lenders Examinations							D				A
16	Revenue Accounting Process						B	D				
17	TFEE Fund Grant Administration				A		A*	D				
18	TFEE Fund Investment Portfolio Administration						A	D	A1		A	

Required Periodic Audit

Note: Performance Measures is included in the scope of the applicable audit area(s).
 OCCC is currently undergoing an SDSI Audit conducted by the State Auditor's Office.

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

- A Internal audit performed by Garza/Gonzalez & Associates, CPAs.
- A1 Internal audit performed by McConnell & Jones LLP.
- B Audit performed by the State Auditor's Office.
- C Post-Payment audit performed by the Comptroller of Public Accounts (CPA).
- C1 Overpayment Recovery audit performed by the CPA.
- D Sunset Review performed by the Sunset Advisory Commission.
- E IT assessment performed by the Department of Information Resources (DIR) or a third-party vendor procured through the DIR.
- F Review performed by the Texas Workforce Commission.

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TFEE Report – June 24, 2022

Report on Activities Relating to the Texas Financial Education Endowment Fund

The 2022-2023 TFEE Grant Cycle will wrap up its first semi-annual reporting and reimbursement period on June 30, 2022. The deadline for grant recipients to submit activity reports is July 31, 2022. Staff will review and compile all grant data. The first 2022-2023 TFEE semi-annual report should be published early next fiscal year.

Future TFEE Funding Guideline Recommendations

Staff have evaluated the administration, policies, and procedures, including endowment forecasts, application packets, reimbursement documents, and similar grants offered by other states and organizations.

Currently, the maximum grant award available for TFEE Recipients for a two-year period is \$40,000. Grant recipients have the option to apply for a one-year funding period or a two-year funding period.

Given the limitations on the size of the grant award and the availability of TFEE funds, the following recommendation is submitted for consideration:

- Increase the maximum grant award to \$45,000 for a one-year grant; and
- Increase the maximum grant award to \$90,000 for a two-year grant.

Implementation of the new guidelines would be effective beginning with the 2024-2025 TFEE grant-cycle. Under current conditions, forecasts indicate that the endowment will support grants to between seven (7) to fourteen (14) organizations, per two-year grant cycle, at the recommended award amounts. Adopting this modification to the maximum grant award would provide the opportunity to increase grant funding over historical levels while also maintaining flexibility for the Finance Commission to allocate a portion of current contributions to the aggregate award.

RECOMMENDED MOTION: I move that we adopt a modification to the TFEE Grant Administration and Policy Manual to add a new subsection F, to section I., which would increase the maximum grant award not to exceed \$45,000 for a one-year grant and \$90,000 for a two-year grant.

3. Reimbursement requests will be executed pursuant to the grant agreement and are based upon satisfactory compliance and performance outcomes

F. Maximum Grant Awards

1. The total estimated program funding fluctuates based on endowment fund contributions, distributions, and performance. The aggregate award amount is determined by the Finance Commission prior to each grant cycle.
2. The maximum grant award per organization may not exceed \$45,000 for a one-year term and \$90,000 for a two-year term.

II. Process Overview

A. Intention

The TFEE fund may have one competitive grant cycle every two years. Announcements for grant proposals will be made in the fall of every odd number year.

B. Stage 1 – Administration

Grant Coordinator is responsible for the following:

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

C. Stage 2 – Policy Development and Implementation

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

D. Stage 3 – Grantee Selection