

FINANCE COMMISSION OF TEXAS AUDIT COMMITTEE MEETING

Friday, October 28, 2022
8:30 a.m.

Finance Commission Building
William F. Aldridge Hearing Room
2601 North Lamar Boulevard
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 August 19, 2022 Audit Committee Meeting
- B. Review of Agencies' Activities
 - 1. Texas Department of Banking
 - 2. Office of Consumer Credit Commissioner
 - 3. Department of Savings and Mortgage Lending
- C. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Agencies' 2022 Fourth Quarter Investment Officer Reports
 - 1. Texas Department of Banking
 - 2. Office of Consumer Credit Commissioner
 - 3. Department of Savings and Mortgage Lending
- D. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Agencies' 2022 Fourth Quarter Financial Statements
 - 1. Texas Department of Banking
 - 2. Office of Consumer Credit Commissioner
 - 3. Department of Savings and Mortgage Lending
- E. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Texas Department of Banking's 2022 Post Payment Audit Report as Prepared by the Texas Comptroller of Public Accounts
- F. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Activities of the Texas Financial Education Endowment Fund
- G. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Department of Savings and Mortgage Lending's Mortgage Grant Fund Administration Manual Pursuant to 7 TAC, Part 4, §51.402(c), Governing Administration of the Mortgage Grant Fund created under Finance Code, Chapter 156, Subchapter G
- 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, August 19, 2022

The Audit Committee of the Finance Commission of Texas convened at 8:30 a.m., on Friday, August 19, 2022, with the following members present:

Audit Committee Members in Attendance:

Debbie Scanlon, Chairman

Hector Cerna

Phillip Holt, Finance Commission of Texas, Chairman

Audit Committee Member(s) Absent:

Roslyn Morris

Chairman Scanlon announced there was a quorum of the Audit Committee of the Finance Commission of Texas with three (3) members present. (0:28 on audio file).

AGENDA ITEM	ACTION	LOCATION ON AUDIO FILE
A. Review and Approval of the Minutes of the June 24, 2022 Audit Committee Meeting	Hector Cerna made a motion to Approve the Minutes of the June 24, 2022 Audit Committee Meeting. Phillip Holt seconded and the motion passed.	0:45 start of discussion 0:59 Vote
B. Review of Agencies' Activities 1. Office of Consumer Credit Commissioner 2. Department of Savings and Mortgage Lending 3. Texas Department of Banking	No Action Required.	1:18 start of discussion
C. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Agencies' 2022 Third Quarter Investment Officer Reports 1. Office of Consumer Credit Commissioner 2. Department of Savings and Mortgage Lending 3. Texas Department of Banking	Hector Cerna made a motion to recommend that the Finance Commission Approve the Agencies' 2022 Third Quarter Investment Officer Reports. Phillip Holt seconded and the motion passed.	3:46 start of discussion 6:24 Vote
D. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Readoption of the Investment Policies for: 1. Office of Consumer Credit Commissioner 2. Department of Savings and Mortgage Lending 3. Texas Department of Banking	Phillip Holt made a motion to recommend that the Finance Commission Approve the Readoption of the Investment Policies for the Office of Consumer Credit Commissioner, Department of Savings and Mortgage Lending, and the Texas Department of Banking, as modified and attached. Hector Cerna seconded and the motion passed.	6:42 start of discussion 9:17 Vote

AGENDA ITEM	ACTION	LOCATION ON AUDIO FILE
<p>E. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Agencies' 2022 Third Quarter Financial Statements</p> <ol style="list-style-type: none"> 1. Office of Consumer Credit Commissioner 2. Department of Savings and Mortgage Lending 3. Texas Department of Banking 	<p>Hector Cerna made a motion to recommend that the Finance Commission Approve the Agencies' 2022 Third Quarter Financial Statements. Phillip Holt seconded and the motion passed.</p>	<p>9:48 start of discussion</p> <p>17:23 Vote</p>
<p>F. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Agencies' Fiscal Year 2023 Operating Budgets</p> <ol style="list-style-type: none"> 1. Office of Consumer Credit Commissioner 2. Department of Savings and Mortgage Lending 3. Texas Department of Banking 	<p>Phillip Holt made a motion to recommend that the Finance Commission Approve the Office of Consumer Credit Commissioner's Fiscal Year 2023 Operating Budgets. Hector Cerna seconded and the motion passed.</p> <p>Hector Cerna made a motion to recommend that the Finance Commission Approve the Department of Savings and Mortgage Lending's Fiscal Year 2023 Operating Budgets. Phillip Holt seconded and the motion passed.</p> <p>Hector Cerna made a motion to recommend that the Finance Commission Approve the Texas Department of Banking's Fiscal Year 2023 Operating Budgets. Phillip Holt seconded and the motion passed.</p>	<p>17:42 start of discussion</p> <p>56:07 Vote</p> <p>56:29 Vote</p> <p>56:50 Vote</p>
<p>G. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Activities of the Texas Financial Education Endowment Fund</p>	<p>Phillip Holt made a motion to recommend that the Finance Commission Approve the Activities of the Texas Financial Education Endowment Fund. Hector Cerna seconded and the motion passed.</p>	<p>57:09 start of discussion</p> <p>57:30 Vote</p>
<p>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</p>	<p>Deferred to Executive Session. No vote taken.</p>	<p>n/a</p>

Chairman Scanlon called for an Executive Session at 9:28 a.m. (57:58 on the audio file). The open meeting resumed at 9:56 a.m. (59:09 on the audio file).

There being no further business of the Audit Committee of the Finance Commission of Texas, Chairman Scanlon adjourned the meeting at 9:57 a.m. (59:23 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

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Texas Department of Banking
Audit Activities Report
as of September 30, 2022

Auditor:	<i>Texas Comptroller of Public Accounts</i>	Audit Report Date: <i>September 8, 2022</i>
Audit Area:	<i>Post Payment Audit</i>	
Findings:	Status Update:	
<i>Payroll Transactions</i>	<i>Implemented - Corrected during audit field work.</i>	
<i>Purchase Payment Card and Contract Transactions</i>	<i>Implemented – Various processes strengthened during audit field work.</i>	
<i>Travel Transactions</i>	<i>Implemented – Recovered funds during audit field work.</i>	
<i>Internal Control Structure</i>	<i>Implemented – Added a sixth control measure.</i>	

Auditor:	<i>DIR / AT&T</i>	Audit Report Date: <i>August 31, 2022</i>
Audit Area:	<i>Control Penetration Test (CPT)</i>	
Findings:	Status Update:	
<i>N/A</i>	<i>Results to be discussed in Audit Committee Executive Session.</i>	

Auditor:	<i>Garza/Gonzales & Associates</i>	Audit Report Date: <i>Pending</i>
Audit Area:	<i>Fiscal Year 2023 Risk Assessment</i>	
Findings:	Status Update:	
<i>N/A</i>	<i>Agency is working on risk assessment questionnaires.</i>	

Texas Office of Consumer Credit Commissioner
Audit Activities Report
As of September 30, 2022

Auditor: <i>Garza/Gonzalez</i>	Audit Report Date: <i>NA</i>
Audit Area: <i>Internal Audit – Risk Assessment</i>	
Findings: <i>NA</i>	Status Update: <i>In Progress</i>
Auditor: <i>Garza/Gonzalez</i>	Audit Report Date: <i>June 2022</i>
Audit Area: <i>Internal Audit – Regulated Lending Examinations</i>	
Findings: <i>Review special instruction signature requirement.</i> <i>Review risk scores for exam scheduling. Establish exam review frequency goals. Reinforce exam quality assurance. Review & evaluate exam flex reports. Update the travel policy regarding credit card usage.</i>	Status Update: <i>Complete</i>
Auditor: <i>State Auditor’s Office</i>	Audit Report Date: <i>March 2022</i>
Audit Area: <i>SDSI</i>	
Findings: <i>Evaluate and update Change Management Procedures.</i>	Status Update: <i>Complete</i>
Auditor: <i>DIR: AT&T Cybersecurity Consulting</i>	Audit Report Date: <i>April 2022</i>
Audit Area: <i>Controlled Penetration Test and Web Application Vulnerabilities Scan</i>	
Findings: <i>NA</i>	Status Update: <i>Remediation and rescan completed in August 2022.</i> <i>Report on results at Audit Committee on 10.28.2022</i>
Auditor: <i>Department of Public Safety</i>	Audit Report Date: <i>May 18, 2022</i>
Audit Area: <i>Non-Criminal Justice Audit – Licensing</i>	
Findings: <i>Evaluate IT Access. IT should be fingerprinted or access should be limited.</i>	Status Update: <i>In Progress. This will be completed by 12.31.2022.</i>
<i>Evaluate Access Control</i>	<i>Complete</i>

Department of Savings and Mortgage Lending

Audit Activities Report as of September 30, 2022

Auditor: <i>Garza/Gonzales</i>		Audit Report Date: <i>Jun 13, 2022</i>
Audit Area: <i>Legal and Enforcement</i>		
Recommendations:	Status Update:	
<i>Complete policies and procedures update.</i>	<i>Completed. Policies and procedures updated August 31, 2022.</i>	
<i>Assess existing quality control processes and identify areas that can be enhanced.</i>	<i>Completed. Assessment conducted and enhancements implemented in August 2022.</i>	

Texas Department of Banking Quarterly Investment Report
 June 1, 2022 to August 31, 2022

Seized Prepaid Funeral Funds Held in a Financial Institution	Book Value at May 31, 2022	Interest Income Received	Trustee Fees Paid	Other Deductions	Other Additions	Book Value at August 31, 2022	Financial Institution	Investment Type	Maturity Date	Interest Rate
None	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00			N/A	N/A

Total Seized Funds	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00				
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Notes:

<div> <div>/s/ Jesse Saucillo</div> <div>Investment Officer</div> </div>	<div> <div>9/26/2022</div> <div>Date</div> </div>
<div> <div>/s/ Sami Chadli</div> <div>Investment Officer</div> </div>	<div> <div>9/27/2022</div> <div>Date</div> </div>

Trust-Funded Prepaid Funeral Guaranty Fund Quarterly Investment Report
June 1, 2022 to August 31, 2022

<u>Book Value at May 31, 2022</u>	<u>Interest Income Received</u>	<u>Trustee Fees Paid</u>	<u>(1) Other Deduction(s)</u>	<u>(2) Other Addition(s)</u>	<u>Book/Market Value at August 31, 2022</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Accrued Interest on CDs</u>
\$1,403,810.41	\$4,047.91	\$208.53	\$10,985.66	\$6,381.26	\$1,403,045.39	--	--	\$160.04

Trust Account Balances at Trustee/Depositories

Texas Treasury Safekeeping Trust Company *	\$671,052.66	9/1/2022	2.21%	--
State Bank of Texas, Dallas, Texas (CD)	\$240,000.00	12/16/2022	0.85%	\$72.66
Texas Bank Financial, Weatherford, Texas (CD)	\$246,992.73	12/24/2022	0.50%	\$23.68
American Bank of Commerce, Wolfforth, Texas (CD)	\$245,000.00	11/18/2022	0.73%	\$63.70
Subtotal	\$1,403,045.39			

(1) Other deductions include: (a) \$6,404.40 paid to National Guardian Life Insurance Company (NGL), PFC Permit Number 1041, regarding re-write of an illegally sold PFC by Mr. Timothy Gaffney; (b) \$2,219.37 in consumer restitution escheated to the Texas Comptroller of Public Accounts (Comptroller's Office) as abandoned property related to Hernandez Funeral Home; (c) \$1,876.89 in consumer restitution escheated to the Comptroller's Office as abandoned property related to Mr. Marc Gonzalez and Gonzalez Funeral Home; and (d) \$485.00 in consumer restitution escheated to the Comptroller's Office as abandoned property related to Samaria Funeral Home.

(2) Other additions include: (a) \$1,500.00 restitution received from Mr. Kevin Keeney related to Howell-Doran Funeral Home; (b) \$300.00 restitution received from Mr. Marc Gonzalez related to Gonzalez Funeral Home; (c) \$2,219.37 stop payment of restitution checks related to Hernandez Funeral Home that were not negotiated by consumers; (d) \$1,876.89 stop payment of restitution checks related to Mr. Marc Gonzalez and Gonzalez Funeral Home that were not negotiated by consumers; and (e) \$485.00 stop payment of a restitution check related to Samaria Funeral Home that was not negotiated by the consumer.

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

<u>/s/ Jesse Saucillo</u>	<u>9/26/2022</u>
Investment Officer	Date
 <u>/s/ Sami Chadli</u>	 <u>9/27/2022</u>
Investment Officer	Date

Insurance-Funded Prepaid Funeral Guaranty Fund Quarterly Investment Report
June 1, 2022 to August 31, 2022

<u>Book Value at May 31, 2022</u>	<u>Interest Income Received</u>	<u>Trustee Fees Paid</u>	<u>Other Deduction(s)</u>	(1) <u>Other Addition(s)</u>	<u>Book/Market Value at August 31, 2022</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Accrued Interest on CDs</u>
\$871,799.58	\$2,954.16	\$ 185.21	\$ -	\$ 2,693.00	\$877,261.53	--	--	\$100.69

Account Balances at Trustee/Depositories

Texas Treasury Safekeeping Trust Company *	\$632,261.53	9/1/2022	2.21%	--
Spring Hill State Bank, Longview, Texas (CD)	<u>\$245,000.00</u>	5/12/2023	1.00%	\$100.69
Subtotal	\$877,261.53			

(1) Other addition includes assessment collected from the permit holder on new insurance-funded prepaid funeral contracts sold.

* These funds are held at the Texas Treasury Safekeeping Trust Company in overnight repurchase agreements.

The above investments are in compliance with the investment strategies of Administrative Memorandum 2016.

<u>/s/ Jesse Saucillo</u>	<u>9/26/2022</u>
Investment Officer	Date

<u>/s/ Sami Chadli</u>	<u>9/27/2022</u>
Investment Officer	Date

Office of Consumer Credit Commissioner
Fiscal Year 2022 - 4th Quarter

Residential Mortgage Loan Originator Recovery Trust Fund #3008

Beginning Balance at 06/01/2022	Additions / *(Deductions)	Interest Paid	Paid Bank Fees	Ending Balance at 8/31/2022	Current Interest Rate
\$ 176,702.78	\$ 2,850.00	\$ 723.81	\$ (110.28)	\$ 180,166.31	2.21%

Prepared By: /s/ William Collard

Date: 10/06/2022

Investment Officer: /s/ Mirand Diamond

Date: 10/06/2022

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

Office of Consumer Credit Commissioner
Fiscal Year 2022 - 4th Quarter

Texas Financial Education Endowment Fund #3071								
	Beginning Balance at 06/01/2022	Additions	Interest Paid	Transfers	Grant Disbursements	Paid Bank Fees	Ending Balance at 8/31/2022	Current Interest Rate
Cash	\$ 1,526,626.40	\$ 5,224.79	\$ 6,190.09	\$ (604,424.79)	\$ (75,556.48)	\$ -	\$ 858,060.01	2.21%
Invested Portfolio	Beginning Balance at 06/01/2022	Additions	*Change in Value	Transfers	Transfer Out	Paid Fees	Ending Balance at 08/31/2022	
Cash in Bank	\$ 32,002.56	\$ -	\$ (17,607.44)	\$ -	\$ -	\$ -	\$ 14,395.12	
Investments - STIF	1,048,299.84	-	574,437.12	-	-	-	1,622,736.96	
Interest & Dividends Receivable	496.82		2,502.31				2,999.13	
Trade Receivables	-		-				-	
Investments - Equities	6,760.03		367.22				7,127.25	
Investments - Alternatives	6,673,746.88		(164,808.27)				6,508,938.61	
Investments - Fixed Income	252,952.59		63,715.02				316,667.61	
Investments - Futures	-		-				-	
Investments - SWAPS, at Fair Value	(11,168.34)		(8,338.35)				(19,506.69)	
Total Assets-Invested Portfolio	\$ 8,003,090.38	\$ -	\$ 450,267.61	\$ -	\$ -	\$ -	\$ 8,453,357.99	
Liabilities								
Accounts Payable	\$ -	\$ (2,644.53)	\$ -	\$ -	\$ -	\$ -	\$ (2,644.53)	
Interest Payable	(1,598.95)	\$ (3,254.71)					(4,853.66)	
Trade Payables	-	-					-	
Futures Contracts, at Fair Value	-	-					-	
Swaps, at Fair Value	-	-					-	
Total Liabilities	\$ (1,598.95)	\$ (5,899.24)	\$ -	\$ -	\$ -	\$ -	\$ (7,498.19)	
Total Net Fiduciary Assets-Invested Portfolio	\$ 8,001,491.43						\$ 8,445,859.80	
Total Endowment Funds	<u>\$ 9,528,117.83</u>						<u>\$ 9,303,919.81</u>	

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

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

Prepared By: /s/ William Collard

Date: 10/06/2022

Investment Officer: /s/ Mirand Diamond

Date: 10/06/2022

Department of Savings and Mortgage Lending

Investment Officer Report as of August 31, 2022

Recovery Fund

	Beginning Balance 6/1/2022	Additions/ Reductions	Interest Received	Bank Fees	Ending Balance 8/31/2022
Cash & Cash Equivalents	\$4,903,286.28	\$68,920.00	\$16,774.52	(\$968.99)	\$4,988,011.81
Mortgage Grant Program Balance (12/31/2021)					1,235,489.78
Recovery Balance					\$3,752,522.03

Bank Name	Type	Maturity Date	Interest Rate	Book/Market Value	Accrued Interest
Tx Treasury Safekeeping Trust Co	Overnight Repurchase	9/1/2022	2.24%	\$3,488,011.81	\$214.13
Dalhart Federal Savings	CD - 24 months	10/18/2022	1.25%	250,000.00	5,920.14
First Fed Community Bank, SSB	CD - 18 months	12/23/2022	0.45%	250,000.00	1,356.25
Horizon Bank SSB	CD - 24 months	1/31/2023	0.60%	250,000.00	133.33
TBK Bank	CD - 12 months	4/7/2023	0.60%	250,000.00	229.17
South Star Bank SSB	CD - 12 months	4/26/2023	0.50%	250,000.00	125.00
Sunflower Bank	CD - 12 months	6/2/2023	0.60%	250,000.00	120.83
				\$4,988,011.81	\$8,098.85

Investment Position:

The Fund is capable of meeting all known obligations.

Investment Officer: /s/Antonia Antov

Investment Officer: /s/Anis Golshan

Investment Compliance:

The Department's Investment Policy has been followed.

Date: 9/28/2022

Date: 9/28/2022

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**Texas Department of Banking
Operating Statement and Budget Analysis
For the Quarter Ending August 31, 2022**

	FY 2021 ACTUAL	FY 2022 BUDGET	QUARTER PERFORMANCE				FY 2022 PERFORMANCE			
			4th Quarter BUDGET	4th Quarter ACTUAL	(Over)/Under BUDGET	Percent BUDGET	YTD BUDGET	YTD ACTUAL	(Over)/Under BUDGET	Percent BUDGET
REVENUES										
Bank & Trust Regulation	\$24,298,891	\$28,025,383	\$4,440,134	\$580,203	\$3,859,931	13.1%	\$28,025,383	\$23,622,042	\$4,403,342	84.3%
Penalties - Bank & Trust Regulation	15,000	0	0	0	0	0.0%	0	250,000	(250,000)	0.0%
Non-Depository Supervision	2,547,904	2,929,920	220,775	12,075	208,700	5.5%	2,929,920	2,609,768	320,152	89.1%
Penalties - Non-Depository Supervision	1,135,524	349,750	54,500	150,500	(96,000)	276.1%	349,750	716,705	(366,955)	204.9%
Miscellaneous Revenues	8,487	8,500	2,125	68,948	(66,823)	3244.6%	8,500	91,505	(83,005)	1076.5%
TOTAL REVENUES	\$28,005,806	\$31,313,553	\$4,717,534	\$811,727	\$3,905,808	17.2%	\$31,313,553	\$27,290,019	\$4,023,534	87.2%
EXPENDITURES										
Personnel Costs										
Employee Compensation	\$18,288,942	\$20,300,024	\$5,398,853	\$5,154,065	\$244,788	95.5%	\$20,300,024	\$18,330,063	\$1,969,961	90.3%
Employee Benefits	5,257,976	5,974,356	1,662,224	1,353,693	308,531	81.4%	5,974,356	5,152,387	821,969	86.2%
Add'l Health/Retirement	262,772	301,068	77,550	64,907	12,643	83.7%	301,068	253,643	47,424	84.2%
Other Personnel Costs	628,821	608,946	379,829	128,383	251,447	33.8%	608,946	520,138	88,808	85.4%
Subtotal Personnel Costs	\$24,438,511	\$27,184,394	\$7,518,456	\$6,701,048	\$817,409	89.1%	\$27,184,394	\$24,256,231	\$2,928,163	89.2%
Travel										
In-State	\$56,229	\$1,015,704	\$310,121	\$190,821	\$119,300	61.5%	\$1,015,704	\$475,391	\$540,313	46.8%
Out-of-State	4,065	504,755	331,840	67,993	263,847	20.5%	504,755	95,374	409,381	18.9%
Subtotal Travel	\$60,295	\$1,520,459	\$641,961	\$258,814	\$383,147	40.3%	\$1,520,459	\$570,766	\$949,694	37.5%
Operating Costs										
Professional Fees	\$136,197	\$461,005	\$171,014	\$115,379	\$55,635	67.5%	\$461,005	\$275,678	\$185,327	59.8%
Consumables	33,293	44,500	39,089	4,723	34,367	12.1%	88,928	48,668	40,261	54.7%
Office Utilities	28,604	38,838	3,403	981	2,422	28.8%	38,838	32,012	6,826	82.4%
Rent - Building/Space	401,134	434,544	85,993	71,106	14,887	82.7%	434,544	410,994	23,550	94.6%
Rent - Equipment/Other	23,656	30,504	10,126	7,170	2,956	70.8%	30,504	24,216	6,288	79.4%
Communications	274,364	269,576	65,525	51,180	14,345	78.1%	267,026	239,885	27,141	89.8%
Information Technology	394,470	515,377	213,119	148,558	64,561	69.7%	515,377	538,893	(23,516)	104.6%
Employee Training	109,377	260,548	129,563	117,401	12,162	90.6%	260,548	216,573	43,975	83.1%
Misc. Operating Costs	367,259	553,808	253,470	135,119	118,351	53.3%	511,931	441,992	69,939	86.3%
Subtotal Operating Costs	\$1,768,355	\$2,608,700	\$971,301	\$651,615	\$319,686	67.1%	\$2,608,700	\$2,228,911	\$379,789	85.4%
TOTAL EXPENDITURES	\$26,267,161	\$31,313,553	\$9,131,718	\$7,611,477	\$1,520,241	83.4%	\$31,313,553	\$27,055,908	\$4,257,646	86.4%
EXPENDITURES (OVER) / UNDER REVENUES	\$1,738,645	\$0	(\$4,414,184)	(\$6,799,751)	\$2,385,567		\$0	\$234,111	(\$234,111)	

Texas Department of Banking

Overview of Budget Variances for the Fourth Quarter of Fiscal Year 2022 - (Variances in excess of \$1,000 and 5% from budget are reported).

Bank & Trust Regulation – Actual revenues were less than budgeted due to the reduction in the fourth quarter bank assessments of approximately \$3.6 million. Year to date Bank & Trust Regulation revenue is at 84.3% of budget and was adequate to cover all direct and indirect costs of the Bank & Trust area.

Non-Depository Supervision – The variance for the quarter is related to no assessment collections due to the higher collection of penalties than were anticipated. Year to date Non-Depository Supervision revenue is at 89.1% of budget and was adequate to cover all direct and indirect costs of this area.

Penalties - Non-Depository Supervision – The variance is due to the higher than anticipated collected penalties primarily from unlicensed money services businesses.

Miscellaneous Revenue – The variance is due to a higher rate of return than anticipated.

Employee Compensation and Benefits – The positive variance relates to vacant staff positions. Vacancies in terms of FTEs as of August 31, 2022 are listed below:

Administrative	12
Examiners	27

Other Personnel Costs – The positive variance is mainly due to budgeted retirement lump sum payments that did not materialize.

Travel Breakdown

	In-State Travel	Out-of-State Travel
Regulatory Supervision	\$133,875	\$17,198
Development and Training	42,062	48,062
Other Regulatory Activities	8,809	2,733
Non-Employee	6,075	0
Total	\$190,821	\$67,993

In-State Travel – The positive variance is due to the pandemic and its effect on travel.

Out-of-State Travel – The positive variance is due to the pandemic and its effect on travel.

Professional Fees – The positive variance is due to: (1) lower expenditures than budgeted for investigator fees; (2) architectural services that were not used; and (3) lower expenditures than budgeted for building related outside counsel fees, contracted hearings officer fees, and Office of the Attorney General fees.

Consumables – The positive variance is due to budgeted expenditures that did not materialize as based on history.

Office Utilities – The positive variance is due to lower expenditures than estimated as based on a three-year history.

Rent - Building/Space – The positive variance is due to townhall meetings that did not take place and staff meetings that were held virtually.

Rent - Equipment/Other – The positive variance is due to audio/video equipment for townhall meetings that did not take place and lift rentals for Headquarters building management that were not needed.

Communications – The positive variance is due to lower expenditures than anticipated as based on historical trends.

Information Technology – The positive variance is due to lower than anticipated expenditures for licenses and computer supplies and accessories.

Employee Training – The positive variance is due to classes that were cancelled, delayed, or not attended as scheduled.

Misc. Operating Costs – The positive variance is due to: (1) lower than anticipated deferred maintenance expenditures; (2) fewer CSBS certifications than planned; and (3) other miscellaneous items that were not purchased as anticipated.

TEXAS DEPARTMENT OF BANKING
Liquidity Report
For the Period Ending August 31, 2022

	Actual
Cash at Beginning of Period	\$23,903,127
Revenues Over (Under) Expenditures	(6,714,762)
Increase (Decrease) in Payables/Encumbrances	966,530
(Increase) Decrease in Receivables	(138,339)
Cash at End of Period	<u><u>\$18,016,556</u></u>
Reserved Cash Balance:	
Bldg. maintenance/IT	\$0
Long-term facilities planning	6,307,987
Payables (net of receivables)	2,854,959
Lump Sums for Retirements	673,348
Program Funds	0
Other	0
Total Reserved Cash Balance	<u><u>\$9,836,293</u></u>
Unreserved Cash Balance:	
Future Operations	8,180,263
Total Unreserved Cash Balance	<u><u>\$8,180,263</u></u>
Total Cash Balance	<u><u>\$18,016,556</u></u>
Unreserved Cash/FY2023 Monthly Budget	2.89 months

Office of Consumer Credit Commissioner
Operating Statement and Budget Analysis
For the Quarter Ending August 31, 2022

	FY 2021 ACTUAL	FY 2022 BUDGET	QUARTER PERFORMANCE				FY 2022 PERFORMANCE			
			4th Quarter BUDGET	4th Quarter ACTUAL	(Over)/Under BUDGET	Percent BUDGET	YTD BUDGET	YTD ACTUAL	(Over)/Under BUDGET	Percent BUDGET
REVENUES										
Industry										
Consumer Lending Industry	\$ 2,101,206	\$ 2,029,648	\$ 27,469	\$ 59,655	\$ (32,186)	217.2%	\$ 1,995,448	\$ 1,672,949	\$ 322,499	83.8%
Credit Access Industry	1,044,545	998,574	36,852	2,175	34,677	5.9%	998,574	818,210	180,364	81.9%
MVSF Industry	4,141,299	3,684,013	264,052	214,193	49,859	81.1%	3,719,313	3,415,651	303,662	91.8%
Pawn	703,744	613,919	486,336	79,351	406,985	16.3%	601,818	471,353	130,465	78.3%
Registered Entities	359,250	308,813	48,871	14,435	34,436	29.5%	319,813	369,390	(49,577)	115.5%
Penalties	26,600	-	0	1,525	(1,525)	0.0%	0	114,600	(114,600)	0.0%
Miscellaneous Revenue	4,634	6,500	1,171	50,204	(49,033)	4287.3%	6,500	65,474	(58,974)	1007.3%
TOTAL REVENUES	\$ 8,381,278	\$ 7,641,467	\$ 864,751	\$ 421,538	\$ 443,213	48.7%	\$ 7,641,466	\$ 6,927,627	\$ 713,839	90.7%
EXPENDITURES										
Personnel Costs										
Employee Compensation	\$ 4,527,625	\$ 4,695,706	\$ 1,173,927	\$ 1,134,488	\$ 39,439	96.6%	\$ 4,695,706	\$ 4,435,662	\$ 260,044	94.5%
Employee Benefits	1,571,060	1,787,758	446,940	371,365	75,575	83.1%	1,787,758	1,524,245	263,513	85.3%
Add'l Health/Retirement	70,687	74,241	18,560	16,704	1,856	90.0%	74,241	68,443	5,798	92.2%
Other Personnel Costs	67,741	122,384	31,221	26,230	4,991	84.0%	124,884	120,175	4,709	96.2%
Subtotal Personnel Costs	\$ 6,237,113	\$ 6,680,090	\$ 1,670,648	\$ 1,548,788	\$ 121,860	92.7%	\$ 6,682,590	\$ 6,148,526	\$ 534,064	92.0%
Travel										
In-State Travel	\$ 245,526	\$ 671,750	\$ 167,938	\$ 106,636	\$ 61,302	63.5%	\$ 671,750	\$ 466,732	\$ 205,018	69.5%
Out of State - Travel	0	18,750	4,688	0	4,688	0.00%	18,750	0	18,750	0.00%
Subtotal Travel	\$ 245,526	\$ 690,500	\$ 172,626	\$ 106,636	\$ 65,989	61.8%	\$ 690,500	\$ 466,732	\$ 223,768	67.6%
Operating Costs										
Professional Services & Fees	\$ 104,545	\$ 57,466	\$ 14,367	\$ 20,303	\$ (5,937)	141.3%	\$ 57,466	\$ 91,283	\$ (33,816)	158.8%
Consumables	8,474	12,000	3,000	1,420	1,580	47.3%	12,000	7,083	4,917	59.0%
Office Utilities	14,012	17,800	4,450	4,960	(510)	111.5%	17,800	16,616	1,184	93.3%
Rent - Building/Space	26,389	27,700	6,925	6,071	854	87.7%	27,700	28,802	(1,102)	104.0%
Rent - Equipment/Other	2,882	3,000	750	450	300	60.0%	3,000	2,841	159	94.7%
Communications	73,650	78,455	19,614	20,218	(605)	103.1%	78,455	78,834	(379)	100.5%
Information Technology	206,170	489,153	122,288	187,700	(65,412)	153.5%	489,153	409,708	79,445	83.8%
Employee Training	4,253	14,000	3,500	5,348	(1,848)	152.8%	14,000	7,321	6,679	52.3%
Misc. Operating Costs	243,679	280,880	69,595	45,392	24,203	65.2%	278,380	291,666	(13,286)	104.8%
Subtotal Operating Costs	\$ 684,054	\$ 980,454	\$ 244,489	\$ 291,862	\$ (47,374)	119.4%	\$ 977,954	\$ 934,154	\$ 43,800	95.5%
TOTAL EXPENDITURES	\$ 7,166,692	\$ 8,351,044	\$ 2,087,763	\$ 1,947,287	\$ 140,474	93.3%	\$ 8,351,044	\$ 7,549,412	\$ 801,632	90.4%
EXPENDITURES (OVER) / UNDER REVENUES	\$ 1,214,586	\$ (709,577)	\$ (1,223,012)	\$ (1,525,749)	\$ 302,739		\$ (709,578)	\$ (621,785)	\$ (87,793)	

Office of Consumer Credit Commissioner

Budget Variance Analysis

For the Quarter Ending August 31, 2022

Revenues: Overall revenues are 91% of the budget.

Consumer Lending- The negative variance (-16%) is due to greater discount rates for regulated lenders than initially planned. Additionally, fewer regulated lenders and RMLOs renewed in Q2 than projected.

Credit access industry- The negative variance (-8%) is due to the 15% discount given to CABs on annual renewal that was not forecasted in the budget.

MVSF- Fewer applications were received in Q3 than projected.

Pawn- Less revenue was collected from this industry group (-21%) due to a greater discount rate than initially projected. A discount rate of 40% was planned and active pawn shops received a discount of 60%.

Registered entities- The positive variance (15% over budget) is due to increased registered creditor late filing fees.

Misc Revenue- This category is greater than budgeted due to significantly higher interest earned than anticipated.

Expenditures: Overall expenditures are 90% of the budget.

Personnel- These expenditures are ~8% under budget primarily due to delays in filling vacant positions.

Travel- These expenditures are under budget (-32%) due to planned out-of-state travel that did not occur, fewer trips with overnight travel, and diminished travel expenditures due to examiner vacancies.

	In-State	Out of State	
	FY22	FY22	Total
Regulatory Supervision	442,591		\$ 442,591
Development & Training	20,922		\$ 20,922
Other Reg Activities	3,219		\$ 3,219
	466,732	\$ -	\$ 466,732

Professional fees- This category is 59% over budget due to accounting services expenditures related to the audit completed by the State Auditor's Office.

Information Technology – This category is ~16% under budget. The website update project was completed, however, the maintenance costs, originally budgeted in FY22, will be scheduled into FY23. Updates to ALECS were lower than expected. Two smaller projects were deferred.

Employee Training – This category is ~47% under budget due to employees attending fewer training courses throughout the year coupled with lower costs for virtual trainings. The amount is expected to increase in the following year as more training opportunities are offered in person.

Office of Consumer Credit Commissioner
Liquidity Report
For the Quarter Ending August 31, 2022

	Actual
Cash at Beginning of Period	\$ 13,574,864
Revenues Over (Under) Expenditures	\$ (1,525,749)
Increase (Decrease) in Payables/Encumbrances	\$ 86,704
(Increase) Decrease in Receivables	\$ 12,113
Other source of funds (transfer)	\$ 725
Cash at End of Period	\$ 12,148,657

Reserved Cash Balance:	
Building Maintenance/IT	\$ -
Long-term facilities planning	\$ 6,304,808
Payables (net of receivables)	\$ 578,249
Lump sums for Retirements	\$ 237,276
Program Funds	\$ -
Other	\$ -
Total Reserved Cash Balance	\$ 7,120,333

Unreserved Cash Balance:	
Future Operations	\$ 5,028,323
Total Unreserved Cash Balance	\$ 5,028,323

Total Cash Balance	\$ 12,148,657
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Unreserved Cash / FY 2023 Monthly Budget	7.0
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Department of Savings and Mortgage Lending
Operating Statement and Budget Analysis
For the Quarter Ending August 31, 2022

	FY 2021 ACTUAL	FY 2022 BUDGET	QUARTER PERFORMANCE				FY 2022 PERFORMANCE			
			4th Quarter BUDGET	4th Quarter ACTUAL	(Over)/Under BUDGET	Percent BUDGET	YTD BUDGET	YTD ACTUAL	(Over)/Under BUDGET	Percent BUDGET
REVENUES										
Thrift Industry										
Assessments	\$ 2,047,590	\$ 3,977,825	\$ 1,015,626	\$ 1,004,233	\$ 11,393	98.9%	\$ 3,977,825	\$ 3,921,495	\$ 56,330	98.6%
Application Fees	38,100	20,000	1,500	950	550	63.3%	20,000	7,750	12,250	38.8%
Mortgage Industry										
Licensing Fees	3,985,594	3,574,250	510,600	322,634	187,966	63.2%	3,574,250	3,353,959	220,291	93.8%
Administrative Penalties	168,953	-	-	2,013	(2,013)	0.0%	-	154,567	(154,567)	0.0%
Misc. Revenues	10,629	5,000	5,000	43,954	(38,954)	879.1%	5,000	54,383	(49,383)	1087.7%
TOTAL REVENUES	\$ 6,250,866	\$ 7,577,075	\$ 1,532,726	\$ 1,373,784	\$ 158,942	89.6%	\$ 7,577,075	\$ 7,492,154	\$ 84,921	98.9%
EXPENDITURES										
Personnel Costs										
Employee Compensation	\$ 4,522,006	\$ 5,338,176	\$ 1,365,600	\$ 1,293,695	\$ 71,905	94.7%	\$ 5,338,176	\$ 4,984,611	\$ 353,565	93.4%
Employee Benefits	1,398,151	1,701,126	434,946	379,294	55,652	87.2%	1,701,126	1,474,164	226,962	86.7%
Add'l Health/Retirement	61,968	79,770	20,485	16,820	3,665	82.1%	79,770	64,658	15,112	81.1%
Other Personnel Costs	193,943	96,894	22,340	46,060	(23,720)	206.2%	96,894	126,928	(30,034)	131.0%
Subtotal Personnel Costs	\$ 6,176,068	\$ 7,215,966	\$ 1,843,371	\$ 1,735,869	\$ 107,502	94.2%	\$ 7,215,966	\$ 6,650,362	\$ 565,604	92.2%
Travel										
In-State	\$ 4,787	\$ 127,500	\$ 36,531	\$ 17,534	\$ 18,997	48.0%	\$ 127,500	\$ 50,547	\$ 76,953	39.6%
Out-of-State	-	34,000	9,809	11,361	(1,552)	115.8%	34,000	16,387	17,613	48.2%
Subtotal Travel	\$ 4,787	\$ 161,500	\$ 46,340	\$ 28,895	\$ 17,445	62.4%	\$ 161,500	\$ 66,934	\$ 94,566	41.4%
Operating Costs										
Professional Fees	\$ 38,607	\$ 87,940	\$ 42,300	\$ 14,800	\$ 27,500	35.0%	\$ 87,940	\$ 45,670	\$ 42,270	51.9%
Consumables	7,042	12,000	3,000	1,874	1,126	62.5%	12,000	7,163	4,837	59.7%
Office Utilities	11,589	14,975	4,213	3,646	567	86.5%	14,975	13,486	1,489	90.1%
Rent - Space & Equipment	1,434	2,490	50	168	(118)	336.0%	2,490	7,138	(4,648)	286.6%
Communications	87,088	82,890	11,243	16,244	(5,001)	144.5%	82,890	88,867	(5,977)	107.2%
Information Technology	288,556	263,449	88,850	46,086	42,764	51.9%	263,449	228,459	34,990	86.7%
Employee Training	44,175	69,600	13,400	14,820	(1,420)	110.6%	69,600	50,946	18,654	73.2%
Misc. Operating Costs	112,629	137,143	42,679	25,273	17,406	59.2%	137,143	106,096	31,047	77.4%
Subtotal Operating Costs	\$ 591,120	\$ 670,487	\$ 205,735	\$ 122,911	\$ 82,824	59.7%	\$ 670,487	\$ 547,824	\$ 122,663	81.7%
TOTAL EXPENDITURES	\$ 6,771,976	\$ 8,047,953	\$ 2,095,446	\$ 1,887,675	\$ 207,771	90.1%	\$ 8,047,953	\$ 7,265,120	\$ 782,833	90.3%
EXPENDITURES (OVER)/ UNDER REVENUES	\$ (521,110)	\$ (470,878)	\$ (562,720)	\$ (513,891)	\$ (48,829)		\$ (470,878)	\$ 227,034	\$ (697,912)	

Department of Savings and Mortgage Lending

Budget Variance Analysis

For the Quarter Ending August 31, 2022

Revenues: Overall revenues are at 98.9% of budget.

Licensing Fees – Amounts collected are 6.2% under budget. The Department received fewer renewal and new applications than budgeted.

Misc. Revenues – Actual amounts are significantly over budget, due to an increase of the collected depository interest.

Expenditures: Overall expenditures are at 9.7% under budget.

Personnel Costs – The category is 7.9% under budget due to unfilled vacancies.

Travel – Due to the travel restrictions imposed in response to COVID-19 pandemic, travel costs incurred were significantly under budget.

Travel Breakdown 4th Qtr FY22			
Category	In-State	Out-of-State	Total
Regulation and Supervision	\$33,046.79	\$0.00	\$33,046.79
Development and Training	14,934.69	16,387.00	31,321.69
Other Regulatory Activities	0.00	0.00	0.00
Non-Employee Travel	2,565.76	0.00	2,565.76
Total	\$50,547.24	\$16,387.00	\$66,934.24

Professional Fees – Fees for legal services paid to Office of the Attorney General were significantly below budgeted.

Rent – Space & Equipment – The category is significantly over budget, due to space and audio/video equipment rented for Department events held in-person and not virtual as budgeted.

Information Technology – The category is under budget due to a security work project, which was rescheduled for FY2023.

Employee Training – The category is impacted by unfilled vacancies and changes in the type of training offered taken - multiple training events are offered virtually for a reduced or at no cost.

Miscellaneous Operating Costs – The category is under budget due to unfilled vacancies, and lower than budgeted postage costs and fees for electronic payments.

Department of Savings and Mortgage Lending

Liquidity Report For the Quarter Ending August 31, 2022

	ACTUAL
Cash at Beginning of Period	\$ 11,763,549
Revenues Over (Under) Expenditures	\$ (503,081)
Increase (Decrease) in Payables	\$ 61,276
(Increase) Decrease in Receivables	\$ 3,244
Cash at End of Period	<u>\$ 11,324,988</u>
Reserved Cash Balance:	
Bldg. maintenance/IT	\$ -
Long-term facilities planning	6,314,987
Payables (net of receivables)	731,480
Lump Sums for Retirements	199,117
Program Funds	-
Other	-
Total Reserved Cash Balance	<u>\$ 7,245,584</u>
Unreserved Cash Balance:	
Future Operations	<u>\$ 4,079,404</u>
Total Unreserved Cash Balance	<u>\$ 4,079,404</u>
Total Cash Balance	<u>\$ 11,324,988</u>
Unreserved Cash/FY2023 Monthly Budget	5.66 months

September 8, 2022

Mr. Charles Cooper
Commissioner
Texas Department of Banking
2601 N. Lamar Blvd
Austin, Texas 78705

Dear Mr. Cooper:

We have completed a post-payment audit of certain payroll, purchase and travel transactions of the Texas Department of Banking (Department). We would like to thank you and your staff for your responsiveness and cooperation in assisting us with this audit. A draft of this audit report was sent to Deputy Commissioner Wendy Rodriguez on July 20, 2022. The Department's response to the draft is included in this report.

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

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

We noted other matters involving expenditure processing by the Department that we communicated to Ms. Rodriguez in an email dated July 20, 2022.

The Department may inquire about and register for training related to expenditures through the Fiscal Management [Training Center](#). Fiscal Management has converted several classes to instructor-led webinars. If you have immediate training needs, review our current [web-based training and tutorials](#) and [CAPPS training options](#) or contact your [Fiscal Management contacts](#) for assistance.

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



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Mr. Charles Cooper
September 8, 2022
Page Two

Thank you for your cooperation. If we can be of any further assistance, please contact Chris Taylor at chris.taylor@cpa.texas.gov or 512-463-4356.

Sincerely,



Jennifer Smith
Payment Operations Area Manager
Fiscal Management Division

Attachments

cc: Wendy Rodriguez, Deputy Commissioner, Texas Department of Banking
Sami Chadli, Chief Financial Officer, Texas Department of Banking
Chris Taylor, Auditor, Texas Comptroller of Public Accounts





An Audit of the Texas Department of Banking

Audit Report #451-21-01
September 8, 2022

Glenn Hegar
Texas Comptroller of Public Accounts



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Executive Summary

Purpose and Scope

The objectives of this audit were to determine whether Texas Department of Banking (Department):

- Procured contracts according to applicable state laws and Comptroller requirements.
- Processed payments according to applicable state laws, Comptroller requirements and statewide automated system guidelines.
- Maintained documentation to support those payments.
- Properly recorded capital and high-risk assets.
- Implemented appropriate security over payments.

This audit was conducted by the Texas Comptroller of Public Accounts (Comptroller's office), and covers the period from March 1, 2019 through Feb. 29, 2020.

Background

The Department's mission is to ensure Texas has a safe, sound and competitive financial services system. The major functions of the Department are to charter, license or register specific entities, which may include regulating and examining. The Department operates under the oversight of the Texas Finance Commission.

Texas Department of Banking
website


<https://www.dob.texas.gov/>

Audit Results

The Department generally complied with the General Appropriations Act (GAA), relevant statutes and Comptroller requirements. Auditors found no issues with fixed assets and security. However, the Department should make improvements to its payroll, travel, purchase, contracts, payment card and internal control processes. Auditors reissued two findings from the last post-payment audit related to purchase and internal control structure. The auditors originally issued these findings in June 2018. An overview of audit results is presented in the following table.




Table Summary

Area	Audit Question	Results	Rating
<u>Payroll Transactions</u>	Did payroll transactions comply with the GAA, pertinent statutes and Comptroller requirements?	Missing verification of prior state employment/incorrect state effective service date and longevity payment.	Compliant, Findings Issued
<u>Purchase, Payment Card and Contract Transactions</u>	Did purchase, payment card and contract transactions comply with the GAA, pertinent statutes and Comptroller requirements?	<ul style="list-style-type: none">• Missing Electronic State Business Daily Solicitation & Notice of Award.• Incorrect procurement method used.• Missing Statewide Procurement Division delegation of purchasing authority.• Missing documentation to support payments for contracted services.•  Missing Centralized Master Bidders List solicitation.• Missing written approval to supplement the Centralized Master Bidders List.• Missing nondisclosure agreements and conflict of interest statements.• Missing written acknowledgement of compliance with Procurement and Contract Management Guide.• Missing required contract clauses.• Missing vendor compliance verifications.• Missing pre-award Vendor Performance Tracking System (VPTS) check and untimely VPTS reporting.	Noncompliant
<u>Travel Transactions</u>	Did travel transactions comply with the GAA, pertinent statutes and Comptroller requirements?	Improper payment of non-overnight meals.	Compliant, Findings Issued
Fixed Assets	Were tested assets in their intended location and properly reported in the State Property Accounting system?	No issues	Fully Compliant



Repeat Finding



Area	Audit Question	Results	Rating
<u>Internal Control Structure</u>	Are duties segregated to the extent possible to help prevent errors or detect them in a timely manner and help prevent fraud?	 Control weakness over expenditure processing.	Control Weakness Issues Exist
Security	Are Department employees who are no longer employed or whose security was revoked properly communicated to the Comptroller's office?	No issues	Fully Compliant



Repeat Finding

Key Recommendations

Auditors made several recommendations to help mitigate risk arising from control weaknesses. Key recommendations include:

- Ensure the review of employment applications, including research of previous Texas state agency employment listed in the application.
- Ensure relevant procurement information valued at more than \$25,000 is posted to the Electronic State Business Daily (ESBD).
- Maintain documentation justifying the selection of a professional services provider based upon Texas Government Code, Section 2254.003.
- Ensure that purchases are made from set aside programs, statewide term contracts, Department of Information Resources contracts, etc., when available.
- Maintain record in the procurement file of any relevant waiver, exception or Statewide Procurement Division (SPD) approval/certification.
- Obtain a delegation of authority from SPD before purchasing goods or services that fall outside the pre-approved class of procurements delegated to agencies based on procurement type or amount.
- Maintain sufficient documentation to support the legality and fiscal responsibility of each payment.
- Ensure the Centralized Master Bidders List (CMBL) is used, retain a dated copy of the CMBL solicitation results in the contract file, and ensure that an appropriate justification regarding the addition of non-CMBL vendors to the final bid list is documented, approved by the executive director, and maintained in the procurement file.



- Ensure all agency employees or officers involved in procurement or contract management sign nondisclosure agreements and complete conflict of interest statements. These items should be maintained in agency files.
- Ensure the contract manager or procurement director acknowledges in writing that the Department (at the time of purchase) complied with its contract management guide and with the [*State of Texas Procurement and Contract Management Guide*](#).
- Ensure that all required clauses from the *State of Texas Procurement and Contract Management Guide* are included in the Department's contracts and solicitations; omitted required clauses or substantially altered text should include written justification in the contract file.
- Ensure all required vendor compliance verifications are conducted prior to any purchase and contract award, extension, or renewal; maintain evidence to support these were performed.
- Ensure that the Vendor Performance Tracking System (VPTS) is used prior to determining whether to award a contract to a vendor, and that a vendor's performance is assessed and reported to VPTS at required intervals or once a contract is completed or otherwise terminated.
- Include procurement process instructions and related documentation in staff training to ensure all requirements are met.
- Increase training for staff that reviews travel vouchers to ensure only eligible expenses are reimbursed.
- Segregate expenditure processing tasks to the maximum extent possible to ensure no individual can process payments without oversight.



Detailed Findings

Payroll Transactions

Auditors developed a sample totaling \$429,907.28 from a group of 21 employees and 78 payroll transactions to ensure the Department complied with the GAA, [Texas Payroll/Personnel Resource \(FPP F.027\)](#) and pertinent statutes. Audit tests revealed the following exception in this group of transactions.

Additionally, auditors reviewed a limited sample of 12 voluntary contribution transactions; no exceptions were identified.

Missing Verification of Prior State Employment/Incorrect State Effective Service Date and Longevity Payment

Auditors identified one instance in the sample where the Department did not verify prior state employment. Specifically, the employee disclosed prior employment with another agency on the job application. However, during the hiring and onboarding process, the Department did not contact the other agency to verify the reported employment.

The Department stated that prior service verification is performed as part of new employee orientation. A Verification of Prior State Employment form is given to the new employee, who is expected to complete and sign the top section of the form to indicate and "claim" prior state service. The form is then sent to the indicated agency, who completes and signs the remainder of the form, including the hire and termination dates. In this case, the employee did not return the verification form to the personnel office.

According to [Texas Payroll/Personnel Resource, Non-Salary Payments – Longevity Pay \(FPP F.027\)](#), when an agency hires an employee, the agency must research if the employee has previous state employment. If there is prior state employment, the agency must:

- Confirm the amount of lifetime service credit, and
- Compute the correct amount of longevity pay entitlement.

If the agency fails to do this, the lifetime service credit for longevity will be based on the employment date at the new agency and the eligible employee may be underpaid longevity pay. It is the hiring agency's responsibility to research prior state service when the new employee discloses the prior state service on the employment application. The fact that the employee failed to fill out a verification form does not relieve the hiring agency of this responsibility.



Once informed of this provision, the Department contacted the agency listed on the employment application and verified prior state service. In a report generated outside the sample, auditors noted that the Department paid this employee \$600 total in longevity since his Sept. 1, 2015 hire date. However, based on the confirmed prior service, auditors calculated that this employee should have received \$1000 in longevity pay. The Department underpaid by \$400.

In a separate report used to perform targeted analysis on prior state service, auditors also noted an additional employee who had prior state service reported by another state agency through the Human Resource Information System (HRIS). Auditors requested that Department staff contact the state agency and verify the prior state service. That agency confirmed prior service, which had not been accounted for at the time of hire. However, even with this prior service, the employee in question did not have at least two years of state service at the time of audit. Therefore, there was no under-payment or over-payment of longevity pay in this instance.

Recommendation/Requirement

The Department should modify its policies and procedures to ensure the review of employment applications, including researching and contacting previous state agencies listed in the application to obtain the necessary information.

The Department should also ensure staff verify prior state service even if the newly hired employee does not complete another required verification form. As part of its research, the Department should also review the Comptroller's State of Texas Employment History online application; see [Texas Payroll/Personnel Resource, State of Texas Employment History Application](#). In addition, the Department should make an additional payment to the affected employee for the underpaid longevity.

Department Response

The Department revised its procedures as part of the on-boarding process to ensure Human Resources appropriately verifies state service for new employees.

For the one employee in question for whom funds were owed, the Department made all required payments related to the underpaid longevity.

Purchase/Procurement, Payment Card and Contract Transactions

Auditors developed a sample of 25 purchase/procurement transactions totaling \$151,258.21 and 15 payment card transactions totaling \$8,782. Two contracts with values of \$280,000 and \$172,200 were also selected along with a sample of 13 payment transactions totaling \$38,070. All of these items were audited to ensure the Department



complied with the GAA, [eXpendit \(FPP I.005\)](#), [State of Texas Procurement and Contract Management Guide](#), and pertinent statutes. Audit tests revealed the following exceptions for these groups of transactions.

Contract	Amount	Type of Service	Procurement Cycle				
			Planning	Procurement Method Determination	Vendor Selection	Contract Formation/Award	Contract Management
Contract A	\$280,000	Investigative Services	No exceptions	<ul style="list-style-type: none">Missing ESDB solicitation and notice of award.	<ul style="list-style-type: none">Missing nondisclosure agreements and conflict of interest statements.Missing pre-award VPTS check & untimely VPTS reporting.	<ul style="list-style-type: none">Missing required contract clauses.Missing vendor compliance verifications.	Missing documentation to support payments for contracted services.
Contract B	\$172,200	Training Services	No exceptions	<ul style="list-style-type: none">Missing Statewide Procurement Division delegation of purchasing authority.Missing written approval to supplement the Centralized Master Bidders List.	<ul style="list-style-type: none">Missing nondisclosure agreements and conflict of interest statements.Missing pre-award VPTS check and untimely VPTS reporting.	<ul style="list-style-type: none">Missing written acknowledgement of compliance with the State of Texas Procurement and Contract Management Guide.Missing required contract clauses.Missing vendor compliance verifications.	No exceptions

Missing Electronic State Business Daily Solicitation and Notice of Award

Auditors identified one transaction in the purchase sample where the Department did not publicly post the solicitation and award on ESDB for the related procurement valued at \$98,400. According to the Department, this error was due to internal miscommunication and oversight.

In one of the contracts reviewed, auditors found that the Department awarded a professional services contract valued at \$280,000 to the same provider after a previous contract for the same services expired. The Department failed to publicly post this procurement opportunity and information related to awarding the contract on ESDB.

The Department stated that provisions in [Texas Government Code, Section 2254.003](#) allowed it to award a new contract directly to the service provider without posting the solicitation publicly. In addition, there was no documentation in the procurement file



showing the chosen service provider's price was fair and reasonable. In this instance, the Department has executed a contract with the same provider for the same services for several consecutive contracts (with terms and options of 10+ years) without re-soliciting to other eligible providers. While Texas Government Code, Section 2254.003 does allow selecting a vendor based on factors other than competitive bidding, it does not waive the requirement to publicly post the procurement opportunity. Section 2254.003(a) further states that an agency may not select a service provider or award a contract on the basis of competitive bids, but rather make the selection or award on the basis of demonstrated competence, qualifications, and for a fair and reasonable price.

See [Texas Government Code, Section 2155.083](#) for additional information regarding ESDB posting requirements and procurements exceeding \$25,000 in value.

Specific provisions pertinent to ESBD postings include:

- [Section 2155.083\(g\)](#) addressing minimum time frames for an agency to post an entire bid or proposal solicitation package or a notice that includes relevant information to make a contract bid.
- [Section 2155.083\(m\)](#) clarification that this section does not affect whether an agency is required to award a procurement contract through competitive bidding, competitive sealed proposals, or another method.

According to the Procurement Method-Professional Services section of the [State of Texas Procurement and Contract Management Guide](#), procurement of services is subject to ESBD posting requirements and these procurements are usually advertised as either a Request for Qualifications or Request for Proposals.

When agencies do not follow the correct procurement process, the resulting contract may not provide the best value to the state. In addition, there may be an appearance of unfairness in vendor selection and the contract ultimately may be void.

Recommendation/Requirement

The Department must ensure it posts on ESBD all procurements exceeding \$25,000, including those for professional services. The posting must remain at least for the minimum timeframe to allow interested providers to participate. In addition, a notification of award must be posted to ESBD after the contract is awarded, or a notice of non-award in the event no contract is awarded.

For professional services contracts where a provider is selected based on Texas Government Code, Section 2254.003, the Department must obtain and maintain evidence that the chosen provider's fees are fair and reasonable and do not exceed the maximum provided by law.



In addition, staff training programs and related documentation should include information on ESD requirements. Using a procurement checklist could help ensure all requirements are completed; a template checklist is available in the [State of Texas Procurement and Contract Management Guide](#).

Department Response

Two instances were identified. In one of those, the Department respectfully disagrees as the vendor is a CPA, a previous FBI agent, and has unique expertise and experience in financial and white-collar crime investigations. Furthermore, the vendor provides a very specialized level of expertise and skill that is unique to the financial services industry. A memorandum from the Department's General Counsel has been provided to audit staff and offers more details related to this vendor's work with the Department.

Going forward, the Department will publish this solicitation in the ESD and determine which vendor offers the best value to the Department and state.

In addition, procurement staff implemented the use of available checklists in the Texas procurement and contract management guide.

Comptroller Response

While Texas Government Code, Section 2254.003 allows vendor selection based on factors other than competitive bidding, such as demonstrated competence, qualifications, and for a fair and reasonable price, it does not waive the requirement to publicly post the procurement opportunity. The Comptroller's office appreciates that in the future, the Department intends to publish solicitations for this work in the ESD and determine which vendor offers the best value to the Department and state.

Incorrect Procurement Method Used

Auditors identified two purchase transactions where the Department failed to select the correct procurement method when purchasing goods and did not provide proper justification or waivers/exceptions for the purchases. According to the Department, this was due to internal oversight and miscommunication.

- For one purchase, the Department procured office supplies (printer ink/toner) from a vendor outside the state's set aside program. These types of products are available from WorkQuest (formerly TIBH Industries) and through various applicable statewide contracts. The procurement file did not contain documentation to justify not using WorkQuest or a statewide contract. In addition, there is a Department of Information Resources (DIR) contract with the chosen vendor, but the DIR contract was not used. The Department stated that the procurement was based on best value.



- For another purchase, the Department procured office equipment (a standing desk and mat) from a vendor. The purchase order stated "Item not available through state sources;" however, auditors did not find documentation to support this statement.

According to the [*State of Texas Procurement and Contract Management Guide*](#) – Procurement Method Identification Process, selecting an incorrect procurement method results in a purchase that does not provide the best value to the state and is likely to be more expensive and less efficient than the correct method. In a worst case scenario, the incorrect method may result in a voided contract.

Set aside programs do not require competitive procurement and are comprised of:

- Prison Made Goods governed by [*Texas Government Code, Chapter 497*](#).
- The State Use Program authorized by [*Texas Human Resources Code, Chapter 122*](#).

The Prison Made Goods Act requires that agencies purchase goods and services from Texas Correctional Industries (TCI). An agency may decline to procure goods or services from TCI if:

- TCI grants a waiver.
- SPD determines that the good or service produced by TCI does not meet the requirements of the agency.
- SPD certifies that the good or service can be purchased elsewhere at a lower price after the agency gives TCI final opportunity to negotiate on price.

The Texas Workforce Commission (TWC) oversees the Purchasing from People with Disabilities Program, commonly referred to as the State Use Program. TWC contracts with WorkQuest to administer the program. Agencies must purchase products and services offered through WorkQuest that meet the applicable specifications of the agency and that are available within the time specified. If a WorkQuest-offered product or service is obtained from another source, the agency must document which of the four authorized exceptions is applicable and report the reason through SPD's State Use Program exception reporting tool each month.

SPD establishes term contracts for the purchase or lease of goods and services used in large quantities. SPD term contracts establish best value; therefore, competitive bidding is not required for items purchased from term contracts. All agencies are encouraged to use term contracts whenever possible. Agencies are not allowed to use delegated authority to purchase goods or services that are available through a statewide term contract unless the quantity required is less than the minimum order quantity specified in the relevant term contract.



DIR establishes and maintains a catalog of active contracts on its website that contain IT commodity items available for purchase by state agencies. The DIR Cooperative Contracts Program leverages the volume buying power of the state to negotiate competitive pricing, which translates into savings for agencies.

See [State of Texas Procurement and Contract Management Guide](#) – Procurement Method Determination section.

Recommendation/Requirement

The Department must ensure that purchases are made according to SPD and DIR designated procurement methods and consider offerings from set aside programs, statewide term contracts, DIR contracts, etc. before procuring items from other sources. If the Department uses a different method to purchase goods or services, it must retain appropriate documentation in the procurement file to justify the purchase.

In addition, staff training programs and related documentation must include instructions to determine the most appropriate procurement method. Using a procurement checklist could help ensure all requirements are completed; a template checklist is available in the [State of Texas Procurement and Contract Management Guide](#).

Department Response

An internal meeting was held between the CFO and purchasing staff when this issue was first brought forward during audit field work. Procurement staff will ensure existing state contracts and set aside programs are used for such procurements.

Missing Statewide Procurement Division Delegation of Purchasing Authority

Auditors identified one contract for non-delegated services where the Department did not obtain a delegation letter from SPD. According to the Department, this was due to internal oversight and miscommunication. Agencies that do not obtain applicable delegation of purchasing authority from SPD run the risk of operating outside of the authority granted to them by the state.

The purchasing functions for certain types of goods or services are delegated to state agencies, one being the purchase of services when the estimated cost does not exceed \$100,000. However, for purchases of services with an estimated value of more than \$100,000, the agency must request a delegation of purchase authority by submitting a procurement specific delegation request to SPD through the Procurement Oversight & Delegation portal. Once an agency has submitted a solicitation for review, the procurement is analyzed from a contract management and business perspective. If the delegation request is denied, SPD will procure the services on behalf of the agency. See [State of Texas Procurement and Contract Management Guide](#) – Delegation Request for Services Exceeding \$100,000.



Recommendation/Requirement

The Department must ensure its staff obtains SPD delegation of authority prior to purchasing goods or services that fall outside of the pre-approved class of procurements delegated to agencies based on procurement type or amount. Contract values include the estimated dollar amount that the agency may be obligated to pay pursuant to the contract and all executed and proposed amendments, extensions and renewals of the contract.

In addition, staff training programs and related documentation should include instructions to request SPD delegation of authority. Using a procurement checklist could help ensure all requirements are completed; a template checklist is available in the [State of Texas Procurement and Contract Management Guide](#).

Department Response

An internal meeting was held between the CFO and purchasing staff when this issue was first brought forward during audit field work. Procurement staff will ensure delegation of purchasing authority requests are submitted for relevant contracts. In addition, procurement staff implemented the use of available checklists in the Texas procurement and contract management guide.

Missing Documentation to Support Payments for Contracted Services

For one of the contracts reviewed, auditors determined the seven payments included adequate approval from Department staff to pay the contractor for services performed; however, there was no written documentation where the Department authorized the contractor to perform specific services. The contract was for a provider to perform services on an as-needed basis throughout the contract term. Contracts of this type must include terms explaining the process to initiate work. The contract did contain language requiring specific written authorization (work orders). These work orders describe the scope of services, set a time schedule, and request applicable reports or deliverables.

Without written work orders authorizing the contractor to perform services, auditors could not compare anything to the invoices and confirm whether the payments were appropriate and related to specific services authorized in advance by the Department.

To support the legality and fiscal responsibility of payments for purchased goods and services, agencies must keep and provide sufficient documentation so that auditors can determine what was purchased, the price agreed upon before purchase, that the goods and services were received, and whether the coding for the expenditure was correct. Examples of required documentation include requisitions, contracts, purchase orders, contracts, invoices, receiving reports and receipts. Documentation must support a three-way match among the purchase agreement, invoice and receiving report to ensure information on them matches. See [34 Texas Administrative Code Section 5.51](#).



Contracts for services performed on an as-need basis without defined deliverables include additional terms for how work is to be requested; these terms are necessary to ensure contractors only perform services authorized by the agency, services are delivered as expected and in a timely manner, and that the financial interests of the agency are protected.

Recommendation/Requirement

The Department must ensure sufficient documentation is maintained to support the legality and fiscal responsibility of each payment that results from a purchase document if the payment is made from the agency's funds. At a minimum, evidence is needed to perform a three-way match among the purchase agreement/work orders, invoice/receipt, and receiving report.

Department Response

This is related to the investigative services contract. The Department again respectfully disagrees with this finding. The focus was on the need for "work orders" as stated in the contract before work is performed. The Legal division, which is responsible for work related to this contract, initiates communication before any work is performed. The nature of this work is complex and requires detailed and in-depth communication so that the work to be performed is understood. Therefore, communication as stated above is the "work order" for the purposes of this contract.

In order to eliminate any future confusion, we will amend the future contract, after ESBD solicitation posting and award, to include clear verbiage.

Comptroller Response

The contract correctly included language requiring specific written authorizations ("work orders") that include a scope of services, a time schedule, and applicable reports/deliverables. Although the contract specifically mentions "work orders", other documented communications from the Department to the contractor which authorized the services and included necessary details would have been acceptable in lieu of official "work orders." However, written documentation of these communications where the Department described and authorized the performance of specific services was not provided for the transactions tested. Documentation of these details is necessary to ensure payments are appropriate and only made for goods or services that were authorized in advance by the Department. The Comptroller's office appreciates that the Department intends to include clear verbiage in future contracts. Communications used to describe and authorize the initiation of work should be documented and maintained in agency records.



Missing Centralized Master Bidders List Solicitation

Auditors identified two purchases valued at \$98,400.00 and \$6,000.16 where the Department failed to perform a CMBL search for all eligible suppliers. According to the Department, this error occurred due to internal oversight and miscommunication.

The CMBL is a database of registered vendors, their contact information, and a list of their goods and services. Unless exempted by law, agencies must use the CMBL to select vendors for competitive bids or proposals and to the fullest extent possible for purchases exempt from SPD's purchasing authority. If agencies are required to use the CMBL, they must send a copy of the solicitation to all vendors on the CMBL bid list for the advertised NIGP commodity code(s). A copy of the bid list (with date the list was generated) and evidence of sending the solicitation must be maintained in the procurement file. See [State of Texas Procurement and Contract Management Guide – Centralized Master Bidders List](#) section.

Recommendation/Requirement

The Department must use the CMBL to ensure compliance with the rules and laws that govern Texas state government procurement and contract management practices. A dated copy of the CMBL solicitation results must be retained as evidence of the vendor search and included in the contract file.

In addition, staff training programs and related documentation must include CMBL instructions. Using a procurement checklist could help ensure all requirements are completed; a template checklist is available in the [State of Texas Procurement and Contract Management Guide](#).

Department Response

An internal meeting was held between the CFO and purchasing staff when this issue was first brought forward during audit field work. Procurement staff will ensure timely CMBL documentation is included in each related procurement file. In addition, procurement staff implemented the use of available checklists in the Texas procurement and contract management guide.

Missing Written Approval to Supplement the Centralized Master Bidders List

Auditors identified one contract where the Department did not follow the proper CMBL solicitation process. The Department did not document the reason for soliciting from non-CMBL vendors and did not obtain written approval from its agency head or designee authorizing the addition of a non-CMBL vendor. According to the Department, this was due to internal oversight and miscommunication.



When an agency fails to document the reason to supplement a procurement with non-CMBL vendors and does not obtain written approval from the agency head or designee, there is an increased risk of reputational damage to the state and the agency since the reason for using non-CMBL vendors remains unknown.

The CMBL is an online directory of vendors registered to receive bidding opportunities from Texas purchasing entities. Agencies must use the CMBL to select vendors for competitive bids or proposals and, to the fullest extent possible, for purchases exempt from SPD's purchasing authority. An agency may supplement the CMBL with state certified historically underutilized businesses (HUBs) at any time if the agency determines that it may enhance competition or increase the number of HUBs that submit bids. However, an agency must obtain approval from its agency head or designee in order to solicit from non-CMBL vendors. Documentation regarding the additions to the CMBL bid list, including the written approval from the agency head or designee of the supplemented CMBL bid list, must be maintained in the procurement file. See [*State of Texas Procurement and Contract Management Guide*](#) – *Centralized Master Bidder List*.

Recommendation/Requirement

The Department must ensure it documents instances where non-CMBL vendors are included in procurements that otherwise require the use of CMBL vendors. This justification must include the executive director's approval and be included in the procurement file.

In addition, staff training programs and related documentation should include instructions for supplementing the final bid list with non-CMBL vendors. Using a procurement checklist could help ensure all requirements are completed; a template checklist is available in the [*State of Texas Procurement and Contract Management Guide*](#).

Department Response

An internal meeting was held between the CFO and purchasing staff when this issue was first brought forward during audit field work. Procurement staff will ensure proper written approval is included in the procurement file for non-CMBL vendors included in procurements. In addition, procurement staff implemented the use of available checklists in the Texas procurement and contract management guide.

Missing Nondisclosure Agreements and Conflict of Interest Statements

One contract was missing the required conflict of interest statement for the contract manager and purchasing staff involved in the procurement. Another contract was missing nondisclosure agreements for all members of the evaluation team. Conflict



of interest statements for this team were completed after the contract award and execution. In addition, these conflict of interest statements only listed the awarded vendor's name.

According to the Department, members of the evaluation team do not complete nondisclosure agreements prior to engaging in discussions or accessing proposal documents. The conflict of interest statements were not available for review. The Department stated both of these findings resulted from internal oversight and miscommunication.

When agency staff who are involved in the procurement process or contract management fail to complete nondisclosure agreements and conflict of interest statements, there is a risk of disrupting the integrity of the vendor selection as well as a risk of actual or potential conflicts of interest related to the purchased goods or services.

To safeguard the integrity of the evaluation process, individuals serving on an evaluation committee or as technical advisors must sign a nondisclosure agreement prior to receiving the responses or participating in evaluation committee activities. The agency must also conduct a due diligence inquiry as to the evaluation committee members' and technical advisors' actual and potential conflicts of interest related to the submitted responses. See [State of Texas Procurement and Contract Management Guide](#) – Non-Disclosure Agreements and Conflict of Interest Disclosures.

In addition, each state agency employee or official who is involved in procurement or contract management shall disclose any potential known conflict of interest with respect to any contract with a private vendor or bid for the purchase of goods or services from a private vendor. A state agency employee or official is also required to disclose any potential conflict of interest at any time during the procurement process (from the initial request for bids for the purchase of goods or services until the completed final delivery of the goods or services) or term of a contract. See [Texas Government Code, Section 2261.252\(a\) and \(a-1\)](#) and [State of Texas Procurement and Contract Management Guide](#) – Non-Disclosure Agreements and Conflict of Interest Disclosures.

Recommendation/Requirement

The Department must ensure all agency employees or officers involved in procurement or contract management (including evaluation committee members and technical advisors):

- Sign nondisclosure agreements before engaging in evaluation committee activities.
- Complete conflict of interest statement before initiating purchases and at any time during the procurement process or term of a contract.

These documents should be maintained as part of the agency's procurement records according to record retention requirements.



In addition, staff training programs and related documentation should include instructions for completing nondisclosure agreements and conflict of interest statements. Using a procurement checklist could help ensure all requirements are completed; a template checklist is available in the [State of Texas Procurement and Contract Management Guide](#).

Department Response

An internal meeting was held between the CFO and purchasing staff when this issue was first brought forward during audit field work. Procurement staff will ensure proper nondisclosure agreements and conflict of interest statements are included in the appropriate procurement files. In addition, procurement staff implemented the use of available checklists in the Texas procurement and contract management guide.

Missing Written Acknowledgement of Compliance with Procurement and Contract Management Guide

Auditors identified one contract missing written acknowledgment that the Department complied with its own and the Comptroller's contract management guide. The Department stated it was not aware of this requirement. Without a written compliance acknowledgment, there is no assurance the purchase was made according to the best value standard.

The contract manager or procurement director must acknowledge in writing that the Department complied with its contract management guide and the State of Texas Procurement and Contract Management Guide. See [State of Texas Procurement and Contract Management Guide](#) – Pre-Award Contract and Contract Amendment Compliance Checks – Agency Reviews and Approvals.

Recommendation/Requirement

The Department must ensure the contract manager or procurement director acknowledge in writing that the Department complied with its contract management guide and with the *State of Texas Procurement and Contract Management Guide*. The acknowledgement should be maintained in the procurement file according to record retention requirements.

In addition, staff training programs and related documentation should include instructions for documenting the use of best value standards and other required agency reviews and approvals. Using a procurement checklist could help ensure all requirements are completed; a template checklist is available in the [State of Texas Procurement and Contract Management Guide](#).



Department Response

An internal meeting was held between the CFO and purchasing staff when this issue was first brought forward during audit field work. The CFO, with procurement staff verification, will include such documentation in the appropriate procurement files. In addition, procurement staff implemented the use of available checklists in the Texas procurement and contract management guide.

Missing Required Contract Clauses

Auditors identified two contracts missing contract clauses required by the state's contract manual in effect at the time the contract was initiated. The following clauses were not fully included:

- Dispute Resolution – one contract included wording from the required clause related to the [Texas Government Code, Chapter 2260](#) dispute resolution process; however, it lacked wording regarding the:
 - mediation for all other specific breach of contract claims or disputes.
 - continuation/suspension of contract performance during breach of contract claims or disputes.
- Ownership/ Intellectual Property, including Rights to Data, Documents and Computer Software – both contracts were missing wording from the required clause regarding the requirement to keep relevant contract documents and records for seven years.

When required clauses are not included in a contract, there is an increased risk that contracts will be in violation of federal or state statutes and rules, which in turn increases the risk that the contracts and the Department will be subject to legal challenge or regulatory action.

The Texas Procurement and Contract Management Guide lists various contract clauses that protect the interests of the state. Contract language and wording must conform to the text of the required contract clauses and any additional language must not conflict with or weaken a required contract clause. Procurement staff should seek assistance from agency legal counsel prior to modifying the contract language since slight variations may result in non-compliance with applicable statutes and rules. See [State of Texas Procurement and Contract Management Guide](#) – Contract Terms.

Recommendation/Requirement

The Department must ensure all required clauses listed in the *Texas Procurement and Contract Management Guide* are included in its contracts and solicitations. Omitted required clauses or substantially altered language must be approved by the Department's legal counsel and the justification must be documented in the contract file.



Department Response

The Department's General Counsel reviews agency contracts for terms and conditions updates and revisions. We will update our terms and conditions to reflect the inclusion of the Ownership/Intellectual Property clause and revision of the Dispute Resolution clause.

Missing Vendor Compliance Verifications

Auditors identified 10 transactions from the purchase sample, four transactions from the payment card sample, and two contracts containing errors related to the Department's duty to perform vendor compliance verifications. When vendors are not checked prior to purchase or contract award, there is a risk of conducting business with unauthorized vendors or issuing payments to vendors who owe money to the state.

Warrant Hold Check

The Department was unable to provide evidence it conducted a warrant hold check for four payment card purchases (over \$500 each) and two contracts. One additional purchase transaction listed an incorrect vendor name. As a result, no warrant hold check was conducted for the contracted vendor. According to the Department, these errors were due to internal miscommunication and oversight.

Agencies must verify warrant hold status for:

- Transactions involving a written contract.
- Payments made with local funds.
- Payment card purchases over \$500.

For transactions involving a written contract, agencies must verify the warrant hold status no earlier than the seventh day before and no later than the day of contract execution. If the vendor is on warrant hold, the agency may not enter into a written contract unless the contract requires the agency's payments under the contract to be applied directly toward eliminating the person's debt or delinquency. This requirement described above specifically applies to any debt or delinquency, regardless of when it arises.

Agencies must not proceed with purchases made with local funds or payment card purchases over \$500 until the warrant hold is released. Emergency payments are not subject to this requirement. Although payments made through the Uniform Statewide Accounting System (USAS) are automatically checked for holds and the system identifies payments issued to persons with outstanding state debt, this does not relieve an agency from conducting the warrant hold check. See [eXpendit – Restricted Expenditures - Persons Indebted to the State](#).



System for Award Management Check

The Department conducted delayed System for Award Management (SAM) checks for eight purchase transactions and one contract. These checks were conducted after the purchases were completed and the contract was awarded. One additional purchase transaction listed an incorrect vendor name. As a result, no SAM check was conducted for the contracted vendor. According to the Department, these issues were the result of internal oversight.

Agencies must check the SAM database to verify the vendor is not excluded from grant or contract participation at the federal level. A contract cannot be awarded to a vendor named on the U.S. Treasury Department, Office of Foreign Assets Control's master list of specially designated nationals & blocked persons (with limited exceptions). See [executive order 13224](#).

Iran, Sudan, and Foreign Terrorist Organization Check

The Department was unable to provide proof staff conducted the Iran, Sudan and foreign terrorist organization checks for four purchase transactions. According to the Department, this error was due to an internal oversight.

Agencies may not contract with a company doing business with Iran, Sudan, or a foreign terrorist organization. Prior to award, agencies must check the divestment lists posted on the Comptroller's website to determine if the potential awardee is in violation of this requirement. If the potential awardee is on the list, an agency cannot award the contract to the that vendor. See [Texas Government Code, Sections 2252.152, 2252.153, and 2270.0201](#)

Boycott Israel Check

The Department was unable to provide proof staff conducted boycott Israel checks for four purchase transactions. According to the Department, this error was due to an internal oversight.

Agencies may not contract with a company for goods or services unless the contract contains a written verification from the company that it does not boycott Israel and will not boycott Israel during the term of the contract.

Before awarding the contract, agencies must check the divestment lists posted on the Comptroller's website to determine if the potential awardee is in violation of this requirement. If the potential awardee is on the list, an agency cannot award the contract to that vendor. See the [State of Texas Procurement and Contract Management Guide – Boycott Israel Check](#).



Recommendation/Requirement

The Department must ensure all required vendor compliance verifications are conducted prior to any purchase and contract award, extension or renewal. Staff must retain records of these review results in the procurement file to show the verification requirements were met.

In addition, staff training programs and related documentation should include instructions for performing vendor compliance verifications. Using a procurement checklist could help ensure all requirements are completed; a template checklist is available in the [*State of Texas Procurement and Contract Management Guide*](#).

Department Response

An internal meeting was held between the CFO and purchasing staff when this issue was first brought forward during audit field work. Procurement staff will ensure proper inclusion of such documentation in the appropriate procurement files. In addition, procurement staff implemented the use of available checklists in the Texas Procurement and Contract Management Guide.

Missing Pre-Award VPTS Check and Untimely VPTS Reporting

Auditors identified one instance where the Department failed to conduct VPTS check before awarding the contract. Auditors also noted the Department failed to report on time two purchases and two contracts over \$25,000 to VPTS. The two contracts were reported four months and five months after the contract expired. The two purchase transactions were reported eight months and 19 months after receiving the goods/ services. According to the Department, these errors resulted from internal oversight and miscommunication.

Agencies must review vendor performance reports in VPTS before awarding a contract in order to identify vendors with a history of poor performance and/or unethical business practices. In addition, when agencies do not report vendor performance on time, procurement staff in other agencies do not have the means to properly evaluate vendor performance and practices.

VPTS provides state agencies with a comprehensive tool to evaluating vendor performance and reduce risk in the contract awarding process. Agencies are required to use VPTS to determine whether to award a contract to a vendor. A vendor's performance must be reported to VPTS once a contract valued at more than \$25,000 is completed or otherwise terminated. If the value of the contract exceeds \$5 million, the agency must review the contractor's performance at least once each year during the term of the contract and at each key milestone identified for the contract. See [*State of Texas Procurement and Contract Management Guide – Vendor Performance Tracking System Check and Vendor Performance Reporting*](#).



Recommendation/Requirement

The Department must ensure procurement staff use VPTS before determining whether to award a contract to a vendor. Staff must retain records in the procurement file of the VPTS review results dated prior to contract award. When the total value exceeds \$25,000, the Department must also ensure the vendor's performance is assessed and reported to VPTS once a contract is completed or otherwise terminated. Similarly, if the contract value exceeds \$5 million, reports must be done at other required intervals.

In addition, staff training programs and related documentation should include instructions on using and reporting to VPTS. Using a procurement checklist could help ensure all requirements are completed; a template checklist is available in the [State of Texas Procurement and Contract Management Guide](#).

Department Response

An internal meeting was held between the CFO and purchasing staff when this issue was first brought forward during audit field work. Procurement staff will ensure such verifications and reporting are performed for the relevant contracts. In addition, procurement staff implemented the use of available checklists in the Texas procurement and contract management guide.

Travel Transactions

Auditors developed a sample of 35 travel transactions totaling \$19,705.63 to ensure the Department complied with the GAA, [Textravel \(FPP G.005\)](#) and pertinent statutes. Audit tests revealed the following exception in this group of transactions.

Improper Payment of Non-Overnight Meals

Auditors identified one instance of improper payment where an employee traveled for less than six consecutive hours outside designated headquarters and was paid for meal expenses. According to the Department, this error was due to an internal oversight.

The meal expense is only reimbursable if the employee is outside the designated headquarters for at least six consecutive hours, unless the employee is a chief administrator of a state agency or the travel provisions of the GAA authorize the reimbursement. See [Texas Government Code, Section 660.113\(b\)](#).

Recommendation/Requirement

The Department must provide increased training for staff who review travel vouchers to ensure that only eligible expenses are reimbursed. The Department must not reimburse employees for meal expenses when the travel is less than six hours outside of the designated headquarters.



Department Response

In the one instance of a \$14.00 ineligible reimbursement, the Department contacted the employee and received reimbursement. Confirmation of this action was provided to the Comptroller's audit staff.

The Department has provided additional training to all staff, stressing that the correct departure and arrival times be noted on all vouchers. In addition, we have strengthened our review process in regards to non-overnight meal reimbursements.

Fixed Assets

The audit included a review of a limited number of fixed assets acquired by expenditures during the audit period to test for accurate reporting and to verify the existence of the assets. All assets tested were in their intended locations and properly recorded in the State Property Accounting (SPA) system. Audit tests revealed no exceptions.

Internal Control Structure

Control Weakness Over Expenditure Processing

As part of the planning for the post-payment audit, auditors reviewed certain limitations the Department placed on its accounting staff's ability to process expenditures. Auditors reviewed the Department's security in USAS, the Uniform Statewide Payroll/Personnel System (USPS), the Texas Identification Number System (TINS) and voucher signature cards in effect on Dec. 11, 2020. Auditors did not review or test any internal or compensating controls that the Department may have relating to USAS, USPS, or TINS security or internal transaction approvals.

The Department had two employees with multiple security capabilities. These employees had security access to:

- Enter/edit and release/approve payment vouchers and payroll in USAS.
- Process/edit and release payment vouchers and payroll in USPS.
- Enter/edit and release/approve a payment voucher in USAS and create/edit a vendor profile/direct deposit information in TINS.
- Edit/update a vendor or employee profile/direct deposit information and approve paper vouchers.
- Hire an employee in USPS, edit the employee direct deposit information, and process/release payrolls in USPS.
- Enter/edit payment vouchers in USAS, approve paper vouchers, and change the warrant hold status of a vendor in TINS.



Additionally, one of the employees had the security access to enter/edit and release payment vouchers in the Department's internal accounting system.

Auditors generated a report to determine whether any of the Department's payment documents processed through USAS during the audit period due to the action of only one individual. The report did not identify any expenditures processed without oversight. Auditors also verified that no documents were released by unauthorized users during the audit period.

As a small agency with limited accounting staff, the Department has provided certain key staff with the ability to perform multiple functions in case of an emergency. Although the Department regularly monitors activity for irregularities, the risk of non-segregated system access still exists and remains regardless of any monitoring measures in effect.

Recommendation/Requirement

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

Auditors recognize that the Department converted to CAPPs in fiscal 2022, so there are no recommendations regarding USPS access.

The Department should consider implementing the following recommendations:

- Limit user access to enter/change vouchers or release/approve batches in USAS.
- Work with the Comptroller's office Statewide Fiscal Systems security staff to set up user profiles that separate the entry and approval of payroll transactions.
- Limit users with access to enter/change vouchers or release/approve batches in USAS to view only access in TINS (PTINS02). An individual must not be able to create or approve a payment and create or change a vendor profile/direct deposit information.
- Limit users with access to approve paper vouchers (being on the signature card) to view only access in TINS (PTINS02). An individual must not be able to create or change a vendor/employee profile or direct deposit information and approve a payment.
- Ensure that employees who can process a payment voucher in USAS/approve a paper voucher (are on signature card), do not have the ability to change the warrant hold status of a vendor in TINS.



- Ensure that employees with voucher/payment entry/change/delete status in the Department's internal system are not be able to approve/release payments in the internal system or in USAS. A supervisor or another employee should approve the vouchers in the internal system.

Department Response

Although this is a repeat finding from the 2018 Post-Payment Audit, we respectfully disagree with the recommendations. As has been stated previously, the Department makes every effort to ensure one individual does not process expenditure payments without oversight. However, as a small agency with a limited accounting staff, it is necessary for certain key staff to have this ability in emergency situations. We believe our current robust internal controls are appropriate and reliable to ensure only proper expenditures are processed by the Department. In addition to the above, the following controls are in place with special attention to item 3:

- 1. Based on a recommendation from the 2016 State Auditor's Office audit, a MUSL (our internal payment processing system) monthly report is run and compared to USAS reports (DAFR2901 and USAS screen 37) to document if any entry and release by the same employee in the internal accounting system and USAS has occurred. This report is presented to the CFO for review monthly. Since implementation, there have been no such instances identified.*
- 2. In the event an individual must process and release a payment, the related transactions are required to be reviewed the following day by the CFO, the Chief Accountant, or the Deputy Commissioner.*
- 3. In fiscal year 2022, we changed the agency's D02 profile from Warning to Fatal. This change was not recommended by Comptroller staff as this change could negatively affect our agency's operations due to its size. Regardless, this change was made.*
- 4. We reconcile our internal accounting system to USAS monthly. This reconciliation is prepared by the Chief Accountant and reviewed by the CFO.*
- 5. Monthly financial statements (by division) are prepared by Accounting staff and are reviewed by the Banking Commissioner, Deputy Commissioner, and Division Directors.*
- 6. Each Division Director participates in the preparation of the budget for their area. Quarterly, divisional financial statements with budget to actual comparisons both for the quarter and year to date are provided to the Commissioner, Deputy Commissioner and Division Directors. Each Director must explain any budget deviation for their division that is in excess of \$1,000 and 5% of the budget.*



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

Comptroller Response

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

Security

The audit included a security review to identify Department employees with security in USAS or on the voucher signature cards who were no longer employed or whose security had been revoked. Upon termination or revocation, certain deadlines must be met so security can be revoked in a timely manner. Audit tests revealed no exceptions.



Appendices

Appendix 1 — Objectives, Scope, Methodology, Authority and Team

Audit Objectives

The objectives of this audit were to:

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

Audit Scope

Auditors reviewed a sample of the Texas Department of Banking (Department) payroll, purchase, procurement and travel transactions that processed through USAS and USPS from March 1, 2019, through Feb. 29, 2020, to determine compliance with applicable state laws.

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

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

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



Audit Methodology

The Expenditure Audit section uses limited sampling to conduct a post-payment audit, and relies on professional judgment to select areas the auditor considers high risk.

Fieldwork

Each auditor in the Expenditure Audit section approaches each audit with an appropriate level of professional skepticism based on the results of the initial planning procedures.

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

Audit Authority

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

- Texas Government Code, Sections 403.071(a), 403.078, 2103.004(a)(3).

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

- Texas Government Code, Section 403.071(g)-(h).

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

- Texas Government Code, Sections 403.011(a)(13), 403.079, 2155.324.

Audit Team

Chris Taylor, CIA, CISA, Lead Auditor

Melissa A. Hernandez, CTCD, CTCM

Jack Lee, CPA



Appendix 2 — Definition of Ratings

Compliance Areas

Definition	Rating
Agency complied with applicable state requirements and no significant control issues existed.	Fully Compliant
Agency generally complied with applicable state requirements; however, control issues existed that impact the agency's compliance, or minor compliance issues existed.	Compliant, Findings Issued
Agency failed to comply with applicable state requirements.	Noncompliant
Restrictions on auditor's ability to obtain sufficient evidence to complete all aspects of the audit process. Causes of restriction include but are not limited to: <ul style="list-style-type: none">• Lack of appropriate and sufficient evidentiary matter.• Restrictions on information provided to auditor.• Destruction of records.	Scope Limitation

Internal Control Structure/Security Areas

Definition	Rating
Agency maintained effective controls over payments.	Fully Compliant
Agency generally maintained effective controls over payments; however, some controls were ineffective or not implemented. These issues are unlikely to interfere with preventing, detecting, or correcting errors or mitigating fraudulent transactions.	Control Weakness Issues Exist
Agency failed to effectively create or implement controls over payments.	Noncompliant

Repeat Finding Icon Definition



This issue was identified during the previous post-payment audit of the agency.



Charles G. Cooper
Commissioner

TEXAS DEPARTMENT OF BANKING

2601 North Lamar Blvd., Austin, Texas 78705

512-475-1300 / 877-276-5554

www.dob.texas.gov

August 10, 2022

Mr. Chris Taylor
Auditor, Statewide Fiscal Oversight

Dear Mr. Taylor,

Thank you for the preliminary post-payment audit (audit) report of the Texas Department of Banking (Department). We appreciate the cooperation of the audit team and the provided information related to this audit.

We are submitting a corrective action plan as requested and would like to add that we have taken the following proactive measures during the audit field work timeframe to mitigate future audit concerns:

- We met virtually with the Comptroller's Statewide Procurement Division staff on December 15, 2021, to go over questions and needed clarification about the Texas Procurement and Contract Management Guide (Guide) that was in place at that time. We received feedback and consulted with our General Counsel on items that SPD staff recommended we follow up on internally.
- We strengthened our procurement processes by using available resources from the guide, routinely conducting internal procurement meetings, and ensuring the Department's Chief Financial Officer and senior purchaser maintain their procurement certifications (CTCD/CTCM).
- We are also looking forward to taking the audit training that the statewide fiscal oversight division is preparing to assist agencies with future audits.

We do, however, disagree with one management issue related to the incorrect overtime payment. We have communicated numerous times with USPS staff and audit team members regarding this issue. We believe we are correct, as indicated by USPS staff, in our calculation and payment related to this overtime issue.

The Department has experienced continuous procurement staff turnover, which is directly tied to purchase/procurement findings. We understand that this audit included an expanded procurement audit that many agencies have gone through for the first time, including ours. We will use this audit as a learning and process improvement opportunity, especially for the procurement area.

Sincerely,

Sami Chadli
Chief Financial Officer

Mr. Chris Taylor
August 10, 2021
Page Two

cc: Charles G. Cooper, Commissioner, Texas Department of Banking
Wendy Rodriguez, Deputy Commissioner, Texas Department of Banking
Lori Wright, Human Resources Director, Texas Department of Banking
Jennifer Smith, Payment Operations Area Manager, Texas Comptroller of Public Accounts
Clarisse Roquemoire, Assistant Director of Fiscal Management, Texas Comptroller of Public Accounts

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Texas Financial Education Endowment (TFEE)

TFEE Report – October 28, 2022

ACTIVITIES RELATING TO THE TEXAS FINANCIAL ENDOWMENT FUND

The Grant Advisory Committee (GAC) welcomes Finance Commission member Dr. Roselyn Morris as its newest member. The OCCC, along with the GAC, is excited to work with Dr. Morris to oversee, promote, and enhance the TFEE grant program to support financial capability throughout Texas.

Semi-annual grant reports and reimbursement requests for the 2022-2023 TFEE Grant cycle have all been processed. During the first semi-annual reporting period a total of \$138,801.08 was reimbursed to grant recipients. The first period semi-annual report is available at www.tfee.texas.gov.

Included in this packet is the 2020-2021 TFEE Grant Impact Report. The Impact Report is a summary report of the programs, outreach, and outcomes grant recipient organizations reported over the entirety of the 2020-2021 grant cycle.



TEXAS FINANCIAL EDUCATION ENDOWMENT IMPACT REPORT 2020 – 2021

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ABOUT THE ENDOWMENT

The Texas Financial Education Endowment (TFEE) was developed under the authority of Chapter 393 of the Texas Finance Code during the 82nd Legislature. Section 393.628 of the Texas Finance Code provides that TFEE will be administered by the Finance Commission of Texas (FC) to support statewide financial capability and consumer credit building activities and programs. Financial capability is a set of consumer behaviors that lead to long-term, tangible improvements in financial health. The TFEE Grant Program funds organizations that strive to increase and promote the financial capability of individuals, encouraging personal financial education and responsibility within the state of Texas.

Sec. 393.628. TEXAS FINANCIAL EDUCATION ENDOWMENT. (a) As part of the licensing fee and procedures described under this subchapter, each credit access business or license holder shall pay to the commissioner an annual assessment to improve consumer credit, financial education, and asset-building opportunities in this state.

The TFEE Grant Program was launched on September 3, 2013. The first grant cycle was from January 2014 to December 2015, with a new cycle occurring every two years. This report encompasses information for the fourth grant cycle, beginning in January 2020 and culminating in December 2021.

ADMINISTRATION

TFEE is administered by the FC, along with assistance from the Audit Committee, a Grant Advisory Committee, and a Grant Coordinator. The Audit Committee oversees program development and is responsible for recommending policy amendments and grant funding. The Grant Advisory Committee (GAC) also assists with development, while making program recommendations and evaluating grant proposals. The GAC consists of six individuals, and all committee appointments are subject to FC approval.



Roselyn "Rosie" Morris, Ph.D.
Finance Commission
Representative



Laura Nassri Warren
Finance Commission
Representative



Linda Davis-Demas
Vice President of Housing with
BALANCE



Deborah Reyes
VP Government Affairs of CURO
Financial Technologies Corp



Laura Rosen
Consumer Advocate
Representative



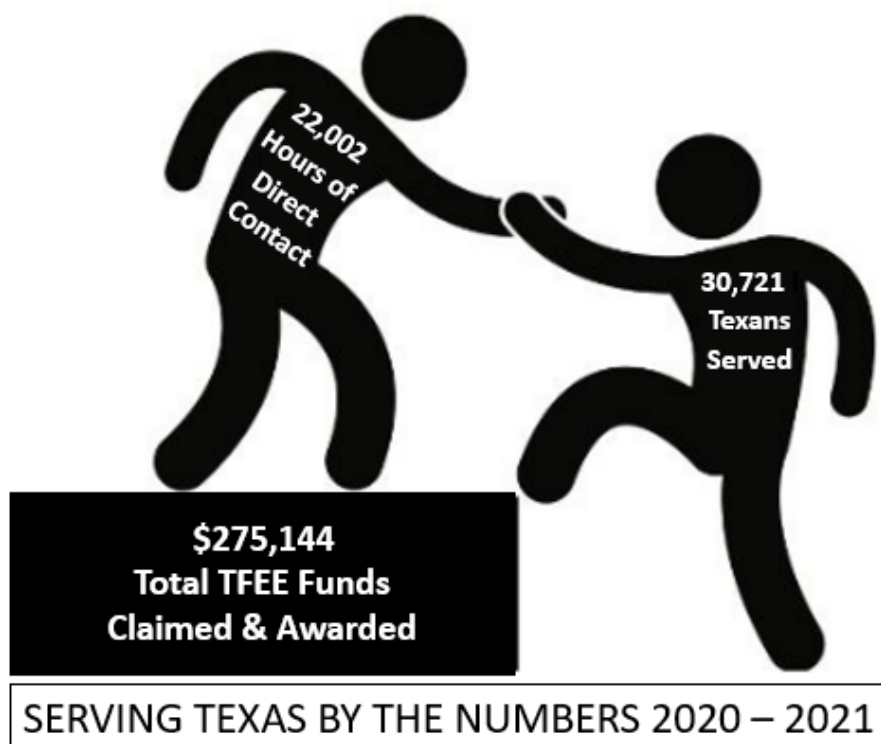
Justin Accola
Supervisory Compliance
Examiner, Texas Department of
Savings and Mortgage Lending

GRANT PRIORITIES & REPORTING

During the 2020-2021 grant cycle, \$300,000 was awarded in amounts ranging from \$13,000 to \$35,000 amongst 10 organizations that best supported TFEЕ priorities. All grantee organizations, except the recipient of the smallest grant award, requested funding over the entire two-year grant term. Due to COVID, FirstLight Community Foundation was unable to conduct any TFEЕ-related activities for their one-year grant award, and thus did not request any reimbursements. Therefore, only limited report information will be included for that organization.

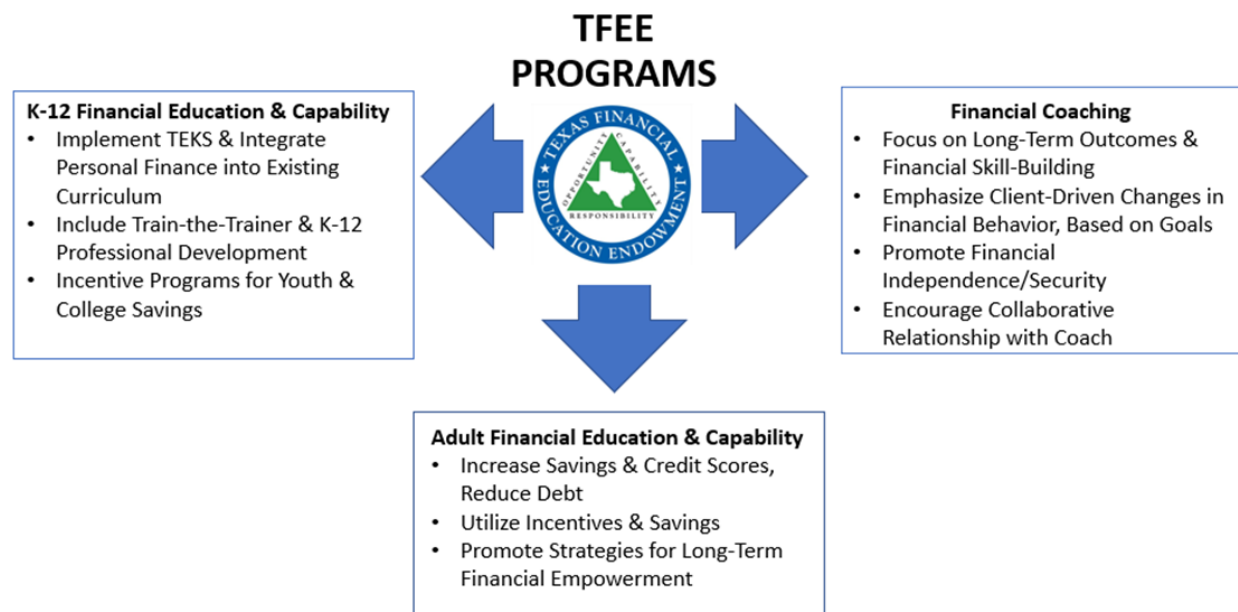


All grantees were required to submit semi-annual program reports every six months for the term of the grant cycle, demonstrating their participation, performance outcomes, and financial information. (See below for 2020 – 2021 TFEЕ program totals.)



PROGRAMS & CURRENT RECIPIENTS

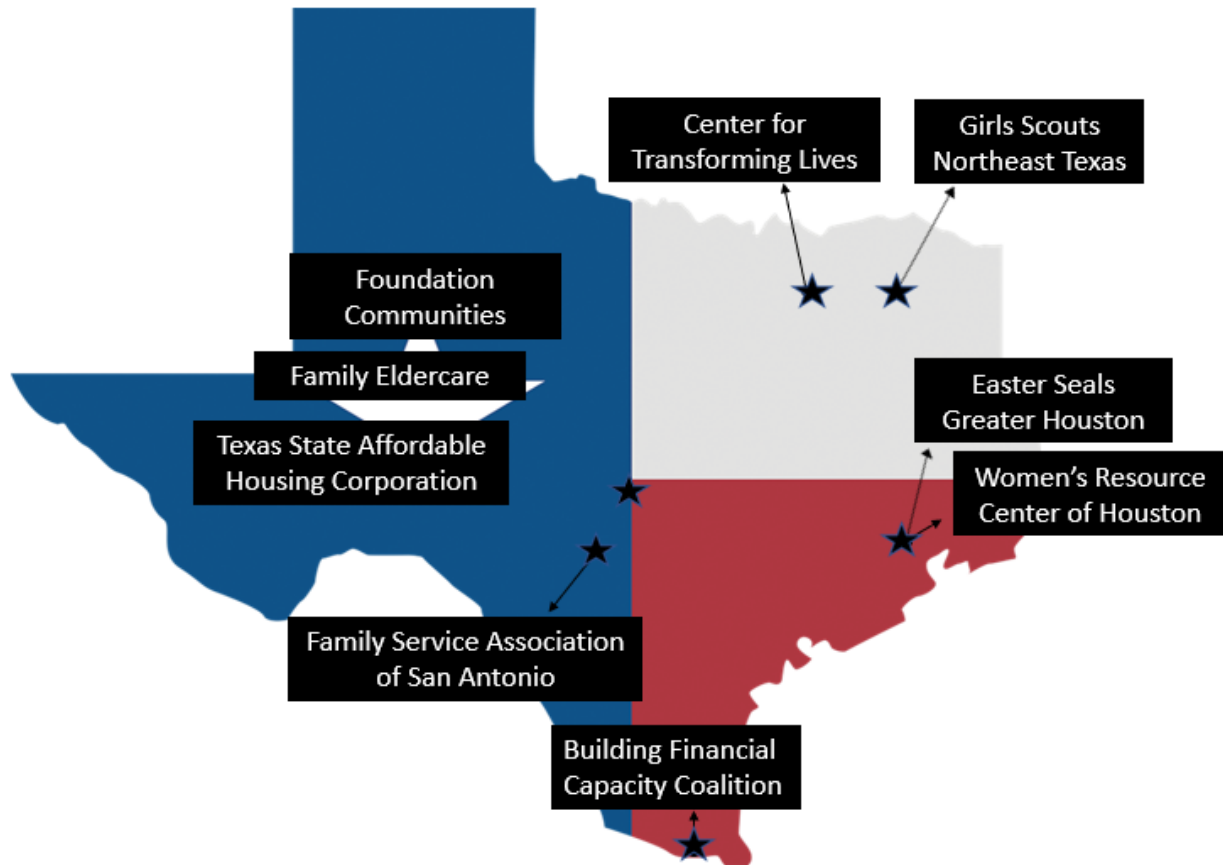
Grantees used funds and provided services across three different program categories: K-12 Financial Education and Capability, Adult Financial Education and Capability, or Financial Coaching.



SERVICE AREA

Communities throughout Texas received financial education and coaching from TTEE-funded programs via one-on-one sessions, classroom instruction, small groups workshops, online training, professional development, and train-the-trainer clinics.

TFEE SUPPORTS FINANCIAL EDUCATION STATEWIDE



2020-2021 SERVICE AREA:

Austin | Fort Worth | Dallas | Houston | Rio Grande Valley | San Antonio

On the following pages, each grantee organization will be highlighted with specific details about their financial education programs, including: who they served, how they met the financial education needs of that population, how much they were reimbursed by TFEE, and what results they witnessed.

COVID-19

It is important to note that the 2020-2021 grant cycle occurred during the COVID-19 pandemic. This had a dramatic effect on all of the programs. However, several grantees were able to use this crisis as an opportunity to reformat their methods of delivering financial education and not only continued to provide services throughout the epidemic, but in some cases were able to go above and beyond their original, pre-pandemic goals.

K-12 FINANCIAL EDUCATION & CAPABILITY

BUILDING FINANCIAL CAPACITY COALITION



TERM: 2 YEARS

SPENT: \$27,000.00

SERVED: 15,000+

PROFILE

Building Financial Capacity Coalition (BFCC) champions effective financial education for families in the Rio Grande Valley (RGV). Training covers topics such as the basics of borrowing money wisely, using a spending plan to achieve financial goals, and how to use banking products effectively. BFCC's Money Smart Ambassador (MSA) Program is a collaboration with school districts in the RGV which enables high school students to complete the FDIC's Money Smart training and work closely with teacher-mentors to design presentations to be showcased at an annual Congressional Financial Literacy Summit.

ACHIEVEMENTS

Program participation grew during the grant cycle from four to 10 contributing high schools, a big accomplishment in an academically strained, post-COVID era. Summits made the news, as students competed for cash prizes while presenting on financial education topics ranging from an introduction to personal finance to more complex issues, like investment strategies. BFCC also conducted a series of informational and train-the-trainer sessions via Zoom, promoting financial education for students and their families.

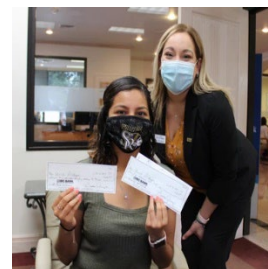
BFCC realized that it could reach a wider audience of high schoolers by leveraging technology to share its student-created presentations. Additionally, these presentations were all made available in the Career and Technical Education (CTE) courses at participating high schools. Thus, over 15,000 students in the Rio Grande Valley had opportunities to learn about important financial topics from their peers. Participating MSA teacher-mentors and students received stipends for their work with BFCC, and local businesses continued to provide (reduced) financial support in spite of COVID-related challenges.



Above: Lopez Early College High School students present their COVID-19 Vs. The World: The Financial Situation During COVID-19 slideshow presentation at Porter Early College High School. (Miguel Roberts/The Brownsville Herald)

Right: Mentors and students received stipends for participating

Below: Student presentations can be viewed on BFCC's website at bfccrgv.com



2020 Money Smart Ambassador Presentation Winners

WINNERS OF THE LOWER VALLEY MONEY SMART PROGRAM:



1ST PRIZE WINNER
GLADYS PORTER ECHS

Ms. Diana Garcia, Teacher & Mentor
Presentation: [A Closer Look on Student Loans](#)

Money Smart Ambassadors
Marianna Salazar - 12th Grade
Evelyn Melendez-Huerta - 12th Grade
Angelica K. Vargas - 12th Grade



K-12 FINANCIAL EDUCATION & CAPABILITY

GIRL SCOUTS OF NORTHEAST TEXAS



TERM: 2 YEARS

SPENT: \$34,689.00

SERVED: 3,350

PROFILE

Girl Scouts of Northeast Texas (GSNETX) provides educational workshops that build a framework for girls in grades K-8 to develop personal financial literacy skills. The curriculum aligns with the Girl Scout processes of girl-led, hands-on and collaborative, thus building girls of courage, confidence, and character who make the world a better place. This model is also designed to create a "train the teacher/Girl Scout leader" opportunity for engaging adult mentors and volunteers.

ACHIEVEMENTS

The program was originally designed for delivery through a series of in-person workshops either through in-school or after school settings. Due to the changes in school formats during COVID, GSNETX instituted virtual classroom settings as well. They also bolstered the programming by aligning the



Above and Left: Girl Scouts interact with financial education curriculum

curriculum for personal financial education with the National Girl Scout Entrepreneurship programming (Girl Scout cookie sales).



Early in the grant cycle, GSNETX staff created age-appropriate curriculum focused on financial literacy in alignment with Texas Essential Knowledge and Skills (TEKS) standards to help girls develop knowledge and skills to make sound, informed financial decisions that will allow them to lead financially secure lifestyles and understand personal financial responsibility. The curriculum was completed and reviewed internally by program managers. It received great feedback from presenters, teachers, parents, and students. Many of the girls reported taking the information home to their families and having discussions

about family finances and goals. By the end of June 2021, the program exceeded the planned number of girls to be served, through an expansion to the East Texas partners in Tyler and Longview.

ADULT FINANCIAL EDUCATION & CAPABILITY

FAMILY ELDERCARE



TERM: 2 YEARS

SPENT: \$30,000.00

SERVED: 2

PROFILE

Family Eldercare (FEC) was founded in 1982 by a group of professionals concerned with supporting the family's role as caregiver for frail elders through training and information. The agency then expanded to include services to prevent abuse, neglect, and financial exploitation of elders and adults with disabilities. Through FEC's TFEF-funded program, staff planned to develop and pilot a curriculum to support the capacity of Family Eldercare's case managers and promote the financial capability of aging Texans, especially those who had experienced homelessness. (During the grant cycle, the target audience was expanded to include formerly homeless individuals who were residents at Community First! Village, with the expectation of reduced evictions and late rental payments.) FEC originally applied for a one-year funding term, but this was amended to two years due to some unforeseen effects brought on by the pandemic.

ACHIEVEMENTS

FEC was challenged to create a personalized, experiential curriculum which could be easily accessed by their client base: low-income individuals with disparate education, varying cognitive levels, and a wide range of reading and mathematical abilities. They identified the

"Making Every Dollar Count" curriculum developed by the University of California Cooperative Extension to be the primary source material for their financial literacy programming. Despite challenges related to both COVID and staffing, the financial education curriculum was completed, peer-reviewed, and approved for implementation.

FEC was unable to pilot the program to the 20 individuals as it had anticipated due to staffing and location restrictions, as well as pandemic-related issues. FEC did provide services to two individuals through one-on-one sessions. One participant shared that the curriculum and meetings were helpful in reducing her unnecessary expenses and tracking her money. Participants were initially engaged and active when meeting with the program coordinator but became less engaged halfway through program. FEC will evaluate whether or not the 12-lesson curriculum is too long for its clientele. More participation is projected in the future.



FEC serves older adults and adults with disabilities through financial and housing stability programs.

ADULT FINANCIAL EDUCATION & CAPABILITY

FOUNDATION COMMUNITIES



TERM: 2 YEARS

SPENT: \$30,000.00

SERVED: 685

PROFILE

Foundation Communities (FCOM) provides affordable, attractive homes and free on-site support services for thousands of families with children, as well as veterans, seniors, and individuals with disabilities by offering an innovative, proven model that empowers clients to achieve educational success, financial stability, and healthier lifestyles. FCOM owns and operates 23 communities all over Austin and in North Texas, with programs made possible in large part by more than 2,500 volunteers each year. FCOM requested funding to support debt management and credit-building opportunities for its clients through assistance from Financial Coaches. They also planned to help clients pay off costly, predatory loans to reduce their debt burdens and build credit.

ACHIEVEMENTS

The focus of FCOM's Financial Wellness program shifted from future-oriented goal-setting to emergency intervention during COVID, as they guided clients through the process of finding rent assistance, receiving stimulus payments, and accessing pandemic unemployment benefits. Fortunately, by the second reporting



FIN

217 -> Set

15 -> Took out mortgage/loan

37 -> Paid off debt/debt counseling

pandemic levels. Sessions addressed a client's financial concern or helped reach a financial goal, specific to the individual's circumstances. Programs were available both virtually and in-person in order to best serve FCOM's community.

BLIND MAN SAVED FROM FINANCIAL DEVASTATION

Felix has a modest income from a part-time job and Social Security Disability Income, which allows him a little extra to pay living expenses and child support. Felix is also legally blind.

COVID & TECHNOLOGY DILEMMA: When COVID hit, Felix faced the challenge of safely depositing stimulus checks without risking exposure to COVID by going into a bank. With help from his Financial Coach and a co-worker, he set up mobile banking and was able to stay on top of his bills during an uncertain time.

SURGERY ENDANGERS FINANCES: Felix needed eye surgery and time off work to recover, but he worried about the monetary consequences. The Financial Coach helped him calculate his income and required expenses, temporarily reduce non-essential expenses, and find financial assistance to fill in the gaps. He recovered from surgery and returned to work; thanks to his FCOM Financial Coach, Felix was able to stay afloat instead of becoming financially devastated.



ADULT FINANCIAL EDUCATION & CAPABILITY

WOMEN'S RESOURCE OF GREATER HOUSTON



TERM: 2 YEARS

SPENT: \$35,000.00

SERVED: 3,848

PROFILE

The mission of Women's Resource of Greater Houston (WRGH) is to help women and girls make choices toward becoming independent, productive, and financially stable through YourLife Finance programs. These programs strive to increase knowledge and self-efficacy, decrease debt, increase emergency savings and credit scores, and connect clients to community resources through coaching, groups, and classes.

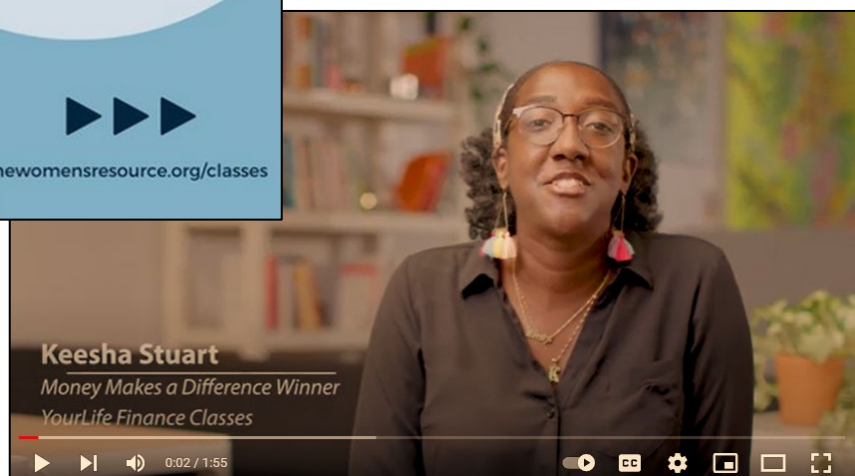
ACHIEVEMENTS

One of the organization's greatest achievements during this grant cycle was its ability to reach individuals outside of partner agencies and its capability to provide public classes through virtual avenues, with an extensive use of social media to drive registration numbers. WRGH's most successful online class is a two-day "Brunch & Budgets" class which occurs on the weekends. Program participants made the following progress: 588 individuals set up savings or investments, 579 checked their credit scores, and 471 paid off debt. Additionally, WRGH has been selected by United Way of Greater Houston to serve as the lead facilitator for its Financial Coaching certification program.



LEFT: WRGH offers a host of online classes, webinars, and financial tools at TheWomen'sResource.org

BELOW: WRGH's clients share their experiences with YourLife Finance programs through YouTube videos



FINANCIAL COACHING

CENTER FOR TRANSFORMING LIVES



TERM: 2 YEARS

SPENT: \$35,000.00

SERVED: 93

PROFILE

Center for Transforming Lives (CTL) helps homeless and impoverished women, children, and families move from poverty to independence through homeless services, Early Childhood Development, and Financial Empowerment Services. The goal for their financial coaching program is to empower participants to develop financial self-sufficiency, credit improvement, and asset building through one-on-one, long term financial coaching.

ACHIEVEMENTS

CTL's Economic Mobility Services program provided workshops on the core competencies of money management and individual financial coaching to 93 clients whose annual incomes ranged from \$0 (unemployed) to \$39,000. Economic Mobility Coaches (who were partially funded by TFEE) built effective relationships through trauma-informed care and encouragement. They taught clients how to build new behaviors, develop skills, and utilize financial tools to grow savings, decrease debt, increase income, and increase credit scores over time. CTL's two-generation approach to ending poverty emphasized participant changes in thinking about finances and encouraged changes in financial behavior. Coaches encouraged participants to share these changes with their children, through age-appropriate financial literacy tools.

CTL also worked with participants to improve credit scores through a matched credit improvement loan, whereby participants would make monthly payments to a lender; in exchange, they would receive a loan dispersed to a

locked savings account, have all on-time loan payments reported to credit bureaus, and receive up to a \$300 match, based on successful loan completion and attendance at Asset Builders' Clinics.

"CTL's two-generation family services disrupt the poverty cycle by supporting the whole family in achieving immediate stability, followed by services that lead to long-term independence." – CTL website

Currently, CTL is seeking accreditation with the Council on Accreditation to improve the agency's uniform standards and is collaborating with the City of Fort Worth to expand its online footprint. It uses the City of Fort Worth's new financial education website to announce monthly workshops.



Arnulfo & his 12 year-old son:
no home, no income, no car,
no driver's license



CTL Financial Coach helps Arnulfo:
information & encouragement



Lives are transformed:
has a home, a job, bank
accounts, & \$1,200 savings

FINANCIAL COACHING

EASTER SEALS GREATER HOUSTON



TERM: 2 YEARS

SPENT: \$35,000.00

SERVED: 420

PROFILE

Through therapy, training education, and support services, Easter Seals of Greater Houston (ESGH) creates life-changing solutions so that people with disabilities can live, learn, work, and play in their communities. The goal of the organization's adult financial education and capability program is to provide financial coaching to low income families, especially veterans and people with disabilities, to help them meet the goals of creating a budget, reducing debt, increasing savings, improving credit scores, becoming banked and saving for a specific purpose (such as the purchase of a new home).

ACHIEVEMENTS

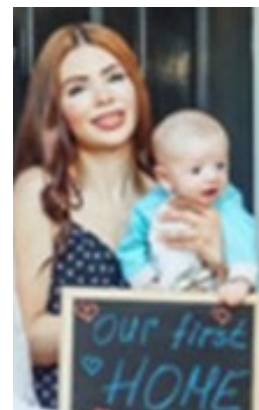
During COVID, the organization quickly transitioned to online services in order to continue to reach its clients, harnessing virtual coaching sessions to help people achieve their financial goals. The shift to online coaching caused an increase in counseling hours, and counselors were able to use multiple computer applications to monitor client progress. One-on-one counseling continued through the grant cycle, wherein credit reports were pulled and reviewed throughout the various sessions. Debt payoff schedules were used to help clients balance budgets in order to allow for an affordable housing payment.

Through over 500 hours of direct contact, ESGH provided group financial coaching to 290 low income families (over 1,000 estimated beneficiaries with the average household having approximately 3.5 members), one-on-one financial counseling to 63 families, and assistance to 28 low-income families in purchasing their first home.

A TFEF-supported housing counselor recently worked with a **newly widowed mother with three children under age 6**, who lived in a mobile home with sagging floors.

She needed a safe, stable home for her children, but **homeownership seemed out-of-reach** due to income, credit, and debt issues. She entered counseling services and began looking for a safe, affordable home.

With down-payment assistance through the Montgomery County HOME fund program, **she was able to close on a new 3-bedroom home.**



FINANCIAL COACHING

FAMILY SERVICE ASSOCIATION OF SAN ANTONIO



TERM: 2 YEARS

SPENT: \$18,454.81

SERVED: 2,050

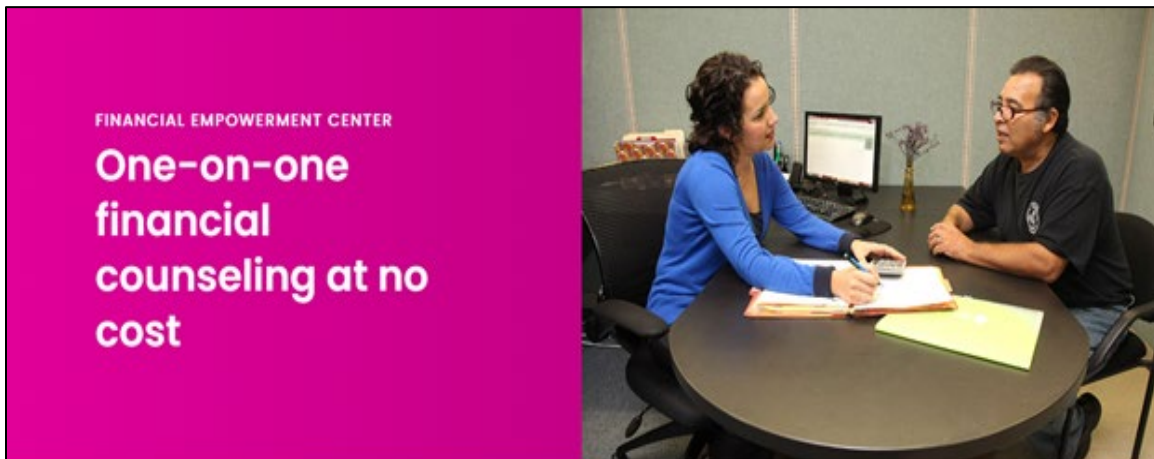
PROFILE

Family Service Association of San Antonio's (FSASA) Financial Empowerment Services are aimed at improving both the economic condition of the community and quality of life for low-income participants and their families. By pairing financial counseling and coaching with other social services to achieve goals more quickly, effectively, and efficiently, FSASA creates a sustainable "Super Vitamin Effect" as defined by Cities for Financial Empowerment. Through financial counseling, they focus on reducing debt, increasing credit scores and savings, as well as mainstream banking outcomes. An education/job-training component supports the achievement of outcomes such as enrollment in job training programs, and FSASA is currently the recipient of a grant designed to reduce foreclosures.

ACHIEVEMENTS

During the grant cycle, FSASA developed a train-the-trainer model to assist other non-profits in growing their internal capacity around asset-building activities. Although FSASA did increase funding to add an additional financial counselor, the greatest challenge continued to be the fact that there was more demand for services than what available staff could provide. (Additionally, FSASA did not fully complete its grant activities because it was required to use COVID funds first.) FSASA continued to have strong programmatic achievements and participants achieved high outcomes in a relatively short timeframe.

FSASA helped its clients in numerous ways through the TFEF grant. One hundred seventy-one individuals were able to establish savings or invest, and 5 individuals obtained mortgages or loans. Over 2,000 program participants checked their credit and more than 660 paid off debt of some type.



FINANCIAL COACHING

TEXAS STATE AFFORDABLE HOUSING CORPORATION



TERM: 2 YEARS

SPENT: \$30,000.00

SERVED: 5,273

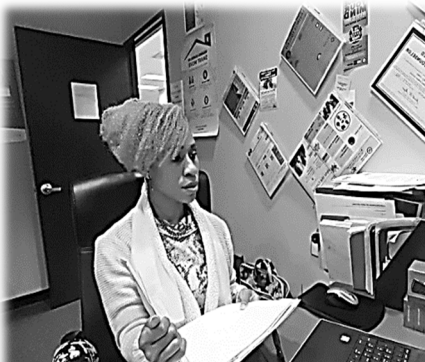
PROFILE

The Texas State Affordable Housing Corporation (TSAHC) is driven by a shared belief that every Texan deserves the opportunity to live in safe, decent and affordable housing. TSAHC's programs focus on three core activities: helping developers build affordable housing, helping low and moderate-income households buy a home, and helping both homeowners and renters access resources to maintain and improve their housing and financial stability. TSAHC's Housing Connection program provides helpful resources and affordable, high quality training workshops to housing and financial counselors and non-profit staff.

ACHIEVEMENTS

Grant funding from TFEF supported a four-week foreclosure prevention counseling course in Fall 2020 called "Foreclosure Basics for Homeownership Counselors". This instructor-led course focused on counseling homeowners in a financial crisis. It covered topics such as the reasons for default, ways to maximize income and reduce expenses, loss mitigation strategies, and legal information about foreclosure laws and timelines. TSAHC also offered a variety of webinars in 2020 to supplement the course. Due to the COVID-19 pandemic, TSAHC held its 2021 Housing Connection trainings virtually.

Grant funding from TFEF also supported two instructor-led courses held over a 4-week period between July and August 2021. "Homeownership Counseling Certification" taught counselors how to prepare consumers for homeownership through one-on-one counseling sessions that address savings, credit, and debt barriers to homeownership. "Best Practices to Improve Your Foreclosure Intervention Counseling Program" taught nonprofit staff how to develop a customized action plan for integrating effective foreclosure intervention practices into their organizations. TSAHC also again offered its "Foreclosure Basics for Homeownership Counselors" in the fall of 2021, along with another interactive webinar: "Rental Counseling & Eviction Prevention in Times of Crisis".



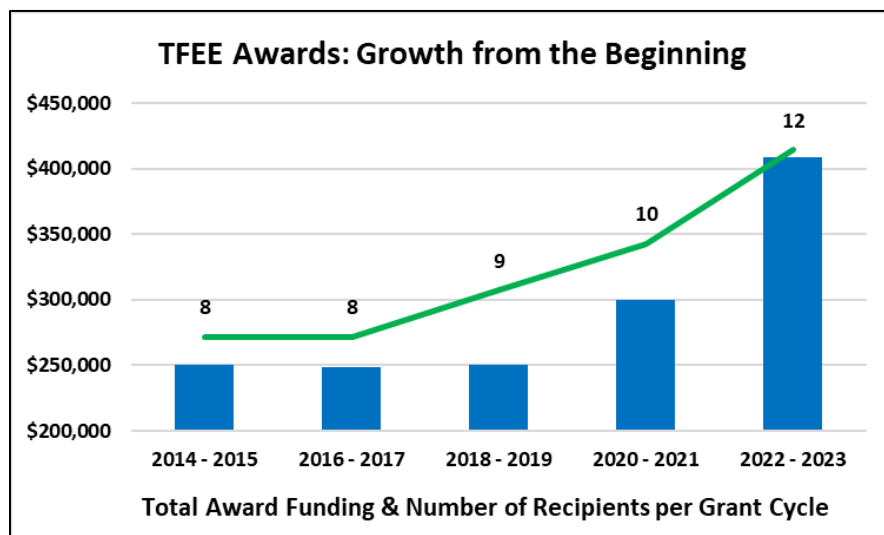
“HAUL has attended TSAHC's housing counselor trainings since 2013, and we rely on the scholarships they offer to access NeighborWorks courses here in Texas. We really appreciate that when COVID hit, they worked with NeighborWorks America to offer the trainings virtually so we could continue to participate.

—Franchell Jones, Houston Area Urban League

Certified Housing Counselor, Franchell Jones attended the “Homeownership Counseling Certification” course offered at the 2021 Housing Connection training, funded by the TFEF grant.

ENDOWMENT FINANCIAL SUMMARY

The endowment is funded by assessments from credit access businesses licensed with the Office of Consumer Credit Commissioner as well as other contributions. Each credit access business must pay an annual assessment of \$200 to the endowment fund. Since its inception in 2012, the endowment fund has grown exponentially, giving more opportunity for organizations to apply for and receive grant funds. Each year the Finance Commission determines the amount to be disbursed.

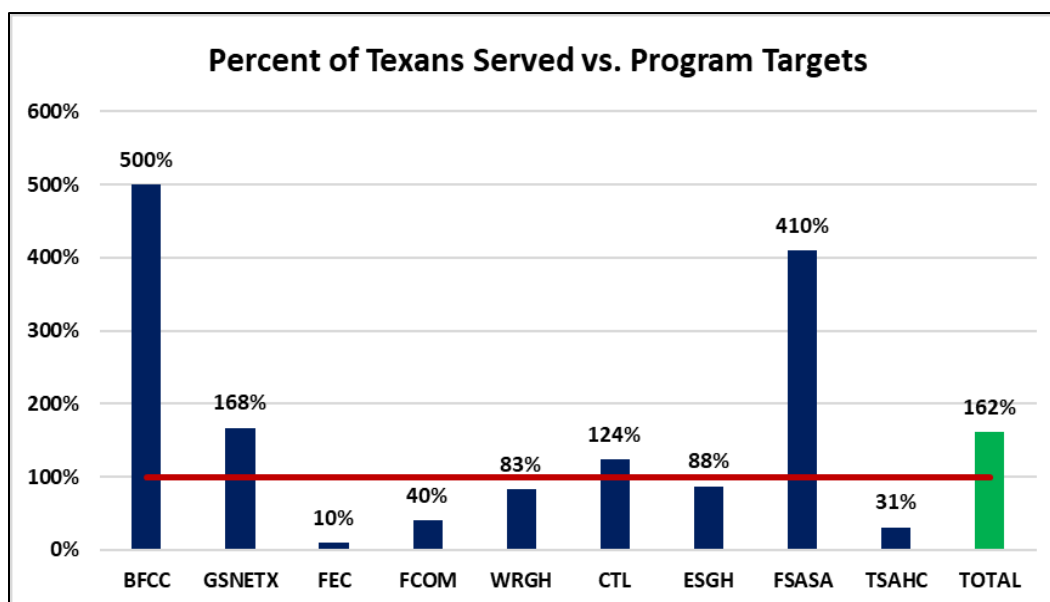


The TFEF endowment fund is managed by the Texas Treasury Safekeeping Trust Company. Texas Treasury Safekeeping Trust Company is a special purpose trust company whose mission is to preserve and grow the State's financial resources by competitively managing and investing them in a prudent, ethical, innovative and cost-effective manner while focusing on client

needs. The TFEF endowment fund has two primary components: cash equivalents, typically invested in overnight repurchase agreements, and an invested portfolio.

MOVING FORWARD

The 2022-2023 Grant Cycle began in January 2022 and will end on December 31, 2023. A cumulative total of \$409,000 in grant funding was awarded to 12 organizations. Award amounts range from \$20,000 to \$40,000, over either one- or two-year periods. Several previous grant recipients submitted applications and some received awards for the 2022-2023 grant cycle. The Grant Coordinator will continue to seek outreach opportunities and work with organizations to further financial education across Texas.



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Mortgage Grant Administration Manual

To be Effective: 10/28/2022

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I. Purpose

The purpose of this document is to establish a guide for the administration of the Mortgage Grant Fund grant program (MGF) by the Commissioner of the Department of Savings and Mortgage Lending (SML or Department). This manual lays out the parameters for executing the administrative and management components of the MGF.

A. Background

The MGF was established by the 87th Texas Legislature by enactment of Texas Finance Code Chapter 156, Subchapter G (the MGF is also governed by the Department's administrative rules (regulations) contained in 7 Texas Administrative Code Chapter 51, Subchapter E). The MGF is funded primarily by excess amounts transferred from the Recovery Fund (Texas Finance Code Chapter 156, Subchapter F). The MGF provides funding for financial education to consumers relating to mortgage loans. Funds are held in a permanent account entitled the Mortgage Grant Fund. Funds distributed from the MGF shall only be used for the purposes set forth in Texas Finance Code Section 156.554.

B. Administration, Investment, Payout, and Reinvestment

The MGF shall be subject to the written Investment Policy adopted by the Department.

In connection with administration and management of the MGF, the Department may charge certain expenses against the MGF for administration, management, and similar charges, as determined by the administration agreement with the trust administrator. Assets in the fund are restricted until authorized for payout by the Commissioner. Funds distributed from the MGF in a year may be retained and expended for the purposes of the MGF in subsequent years, or may be reinvested, at the discretion of the Commissioner, as a permanent addition to the principal of the MGF.

C. Roles and Responsibilities

1. Finance Commission (FC)
 - a) On behalf of the Department, adopts rules to administer the MGF.
 - b) When requested by the FC, receives reports from the Commissioner regarding the status and activities of the MGF and makes recommendations to the Commissioner as appropriate.
2. Finance Commission Audit Committee (AC)
 - a) Proposes program amendments to the Commissioner, including amendments to the Mortgage Grant Administration Manual (MGAM).
 - b) Approves the MGAM, and any amendments to the MGAM.

- c) Receives periodic reports from the Commissioner regarding the status and activities of the MGF and makes recommendations to the Commissioner as appropriate.

3. Department of Savings and Mortgage Lending Commissioner
(Commissioner)

- a) Deposits and transfers amounts into the MGF.
- b) Invests and reinvests the assets of the MGF.
- c) Reports to the AC regarding the status and activities of the MGF at each regularly called meeting.
- d) At the request of the FC, reports to the FC regarding the status and activities of the MGF.
- e) Maintains financial records of revenue and expenditures.
- f) Appears at hearings or judicial proceedings related to the fund.
- g) Allocates funds to the MGF each grant cycle.
- h) Reviews and approves recommendations from the AC regarding program improvements.
- i) Develops program objectives and identifies methods to support mortgage financial education to consumers regarding mortgage loans.
- j) Approves and appoints members to the Mortgage Grant Advisory Committee (MGAC) based on recommendations from the MGAC.
- k) Determines the final selection of grant recipients and amounts based on recommendations from the MGAC.

4. Grant Coordinator

- a) The Grant Coordinator works under the direction and oversight of the Commissioner. The Grant Coordinator makes presentations to the MGAC and may make presentations to the AC regarding grant activity and acts as liaison between grantees and the MGAC.
- b) The Grant Coordinator is responsible for monitoring the following regarding program development.
 - (1) Program objectives and goals
 - (2) Grant administration and oversight practices
 - (3) Recommendations for program needs to the MGAC and the Commissioner

- c) The Grant Coordinator is responsible for developing procedures to provide evidence of timely submission for required documents, including, but not limited to, applications and grant reports.
 - d) The Grant Coordinator maintains the records of all documentation submitted by grantees in accordance with the Department's records retention policies.
 - e) The Grant Coordinator recommends policy and procedure amendments to ensure successful and effective implementation of the grant program. The Grant Coordinator advises and assists in the maintenance of the following areas:
 - (1) Tracking, evaluating, and monitoring progress at each phase of the grant cycle
 - (2) Revising grant documentation, policies and procedures
 - (3) Establishing and maintaining systems for tracking Grant Applications, awards, and major project management decisions associated with awarded grants
 - (4) Adhering to processes for dispute resolution with grantees
 - (5) Implementing awarded grant funds according to terms and conditions of the grant program
 - (6) Ensuring program objectives and goals are being met
 - (7) Monitoring MGAC processes and procedures
 - f) As liaison for the MGAC, makes recommendations concerning MGAC membership.
 - g) Publicizes and promotes MGF grant application opportunities.
 - h) Ensure consistency with the Texas Grant Management Standards (TxGMS) adopted by the Texas Comptroller of Public Accounts.
5. Mortgage Grant Advisory Committee (MGAC)
- a) The MGAC serves in an advisory role to the Commissioner and Grant Coordinator. The MGAC:
 - (1) recommends program improvements to the Commissioner and Grant Coordinator;
 - (2) considers potential amendments to the MGAM;

- (3) evaluates Grant Applications and provides recommendations for award amounts;
 - (4) evaluates potential candidates for appointment to MGAC;
 - (5) monitors ongoing grant awards to determine compliance; and
 - (6) advises on the development of the grant program.
- b) Prospective MGAC members are evaluated by the MGAC and approved and appointed by the Commissioner.
- c) The MGAC is comprised of six members appointed by the Commissioner based on recommendations from the MGAC.
- d) Each MGAC member is appointed for a specific term. The members serve four-year terms that correspond with grant cycles (however, the Commissioner may establish shorter or longer terms at inception of the MGAC in order to establish staggered terms). Members will serve staggered terms to balance continuity with new perspective. MGAC members may be reappointed to serve more than a four-year term. MGAC members take office immediately following their appointment.
- e) In the event of a MGAC vacancy due to a regularly expired term, the Commissioner will appoint new members to coincide with the beginning of the next grant cycle. In the event a MGAC vacancy occurs during an unexpired term, the Commissioner may appoint a new MGAC member.
- f) The MGAC shall consist of no more than six members with varied experience in mortgage lending, mortgage financial education (note the emphasis in mortgage loans), or grant administration. The list below is not all-inclusive and the Commissioner reserves the right to include other appropriate backgrounds.
 - (1) Mortgage Loan Financial Education Consultant – informs the group of existing programs and advocates for the needs of the mortgage financial education community.
 - (2) Educational Consultant – understands best practices for impacting education. Assesses the program proposals for effective measures of knowledge gained.
 - (3) Office of Consumer Credit Commissioner (OCCC) Representative – Recommended by OCCC to advocate

for programs that include mortgage loan education concerning loans or transactions regulated by the OCCC (secondary mortgage loans, home equity loans, residential property tax loans, and manufactured housing loans).

- (4) Grant Administrator – Objectively assesses, evaluates, and makes recommendations regarding the grant administration process.
- (5) Consumer Advocate – Advocates for consumers based on community engagement and needs assessment.
- g) The MGAC meets during the grant cycle for the following purposes.
 - (1) Providing consultation and technical assistance to the Grant Coordinator.
 - (2) Assisting with major project management decisions associated with awarded grants, including:
 - (a) evaluating Grant Applications and providing recommendations to the Commissioner and Grant Coordinator;
 - (b) monitoring grantee project's unspent funds and associated funding; and
 - (c) offering input, interviewing, and recommending new MGAC members to the Commissioner and Grant Coordinator.
 - (3) The MGAC makes recommendations to the Commissioner and Grant Coordinator for consideration of specific award allocations, termination of grant agreements for noncompliance, and amendments to program policies and procedures.

D. Conflict of Interest

- 1. MGAC Members
 - a) May not derive any personal profit or gain, directly or indirectly, by participating with the MGF.
 - b) Must sign a Conflict of Interest Policy prior to participating in the grantee selection process.
 - c) Must disclose to the Grant Coordinator any personal or professional interests that may pose a potential conflict and

must refrain from participating in any discussion related to the conflict of interest or funding decisions.

- d) Must refrain from obtaining applicant or Grantee information for personal or private solicitation purposes at any time during the term of their appointment.

E. Mortgage Grant Fund Oversight

- 1. Audits
 - a) The Commissioner, AC, or FC may request an internal or external audit to examine compliance and when deemed necessary.
- 2. Reimbursement Requests
 - a) Will be executed pursuant to the grant agreement.
 - b) Will be based upon satisfactory compliance and performance outcomes.

II. Process Overview

A. Intention

The MGF may have one competitive grant cycle every two years.

B. Stage 1 – Administration

The 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. Develops and revises forms for the Grant Application; Grant Agreement; grant reports; and evaluation and tracking tools;
- 4. Establishes the timeline for the grant cycle;
- 5. Identifies and invites qualified professionals to apply for appointment to the MGAC (should existing member(s) need to be replaced); and
- 6. Publicizes opportunities to apply for a grant from the MGF.

C. Stage 2 – Policy Development and Implementation

- 1. The MGAC oversees and advises the Commissioner on program development.
- 2. The MGAC makes recommendations to the Commissioner to approve program development and to approve program modifications.
- 3. The Grant 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 Grant Coordinator updates MGF webpage (located on the SML website) with program information and materials.

D. **Stage 3 – Grantee Selection**

1. The Grant Coordinator receives and prepares applications for first phase of screening by: confirming eligibility, ensuring applications are complete and have been timely submitted, logging applicant information, and submitting to the MGAC for evaluation.
2. The MGAC evaluates applications and provides recommendations to the Commissioner upon review of the MGF budget; grant structure; number of awards and amounts to be funded; method of funding, and reporting requirements.
3. The Commissioner reviews recommendations from the MGAC and selects award recipients.
4. After selections have been made, each applicant will be sent an award letter or letter of regret. Grant recipients will receive a grant agreement for review and signature. The grant agreement must be fully executed by the Commissioner, or designee, and the grantee, before grant activities can begin.

E. **Stage 4 – Manage Grant and Measure Progress**

1. In collaboration with the MGAC, the Grant Coordinator will develop a strategy for ongoing grant management and ensure reports are timely submitted.
2. Funding is dependent on program impact and compliance.
3. The grantee is responsible for tracking and reporting program progress, as well as assessing and communicating program success, challenges, and impact.
4. The Grant Coordinator provides technical assistance to grantees and offers opportunities for regular consultation.
5. The grantees submit a final report summarizing the impact, results, and consumer follow-up surveys (six months after program completion).
6. Program evaluation addresses issues of non-compliance, identifies risks, and recommends specific deliverables.
7. The Grant Coordinator manages conflict honestly and directly with the grantee.

8. The MGAC makes recommendations to remedy issues of non-compliance.

III. Pre-award Requirements

A. Organizational Eligibility

Non-profit organizations and auxiliary mortgage loan activity companies licensed by the Department are eligible to apply for grant funding. Eligibility is not open to any entities regulated by the Department other than auxiliary mortgage loan activity companies.

B. Program Criteria and Grant Application

1. The Program Guidelines and Instructions for application submission will be posted on the MGF webpage, located on the SML website.
2. Applicants may submit applications via mail or email. Documents submitted by email receive an automatic date stamp upon receipt; this “digital” date stamp provides sufficient and accurate evidence of timely submission. Documents received by regular mail will be stamped with a date received on day the document is physically received.
3. Applicant’s program must accomplish the following goals.
 - a) Align with MGF goals or strategies
 - b) Demonstrate effective evaluative tools and metrics
 - c) Predict or provide evidence of program impact
 - d) Provide longitudinal evidence of performance and outcomes
 - (1) Demonstrate adequate return on investment
 - (2) Document strategic goals
 - (3) Demonstrate capacity to collect and report the following data: number of people served, training hours, pre-and post-program survey data, demographic information, and sign-in sheets to justify amount of funds requested
 - e) Provide evidence that programming will begin when the grant is awarded
4. Applicants must read and follow all application instructions and guidelines. Applications that do not comply with these instructions may be delayed or not accepted for review. Meeting eligibility criteria and timely submission of a Grant Application does not guarantee award of a grant in any amount.

C. **Application Submission**

1. A new grant programming cycle may open on January 1 of every odd-numbered year. The application submission period occurs in the even-numbered year preceding the grant programming cycle.
2. Applicants may apply for a grant programming cycle of 1) one year, beginning on January 1 and ending December 31 of every odd-numbered year, or 2) two years, beginning on January 1 of the odd-numbered year and ending December 31 of the following even-numbered year.
3. The Grant Coordinator confirms receipt of Grant Applications by email or postal mail. Applications will only be accepted on or before the due date. Late or incomplete applications will not be considered.

D. **Application Review and Selection Process**

1. Funding consideration will be given to organizations that promote, provide, or support financial education as it relates to mortgage loans for consumers. Successful applicants must demonstrate evidence-based programming that increases financial education, literacy, and capability that leads to long-term, tangible improvements in financial health that would enable the consumer to obtain and maintain a mortgage loan.
2. The application review and selection process consists of four steps.
 - a) The Grant Coordinator will collect and review each application for eligibility. Eligible applications will be submitted to the MGAC for evaluation.
 - b) The MGAC will evaluate each application and recommend programs for funding consideration to the Commissioner.
 - (1) The MGAC will determine recommended award amounts based on the Grantee's application and demonstration to meet program eligibility criteria.
 - (2) The MGAC will consider the following factors in evaluating applications: (1) ability to impact the most consumers, (2) stability of funding sources other than the MGF, and (3) the needs based on the target population.
 - c) The Commissioner will make the final selections of award recipients and award amounts.
3. Upon completion of the competitive application and review process, successful grant recipients will be notified, in writing, no later than December of the year preceding the grant cycle year.

E. **Public Records**

Texas Public Information Act: All information, documentation, and other materials submitted are subject to public disclosure under the Texas Public Information Act (Texas Government Code Chapter 552).

1. A full list of individuals and organizations selected for an award will be published on the MGF webpage, located on the SML website.
2. Information may be publicly available and published online (MGF webpage, SML website, or Finance Commission website).

IV. **Post-award Requirements**

A. **Definitions**

1. "Grant Agreement" means the written contract between the Grantor and Grantee governing the terms and conditions of the grant award.
2. "Grantee" means recipient.
3. "Grantor" means the Department of Savings and Mortgage Lending and the Mortgage Grant Fund. The Commissioner may authorize one or more persons, including the Grant Coordinator, to perform any action that the Commissioner is authorized to perform as Grantor under the Grant Agreement.

B. **Grant Agreements**

1. Once a Grantee has been selected, and prior to initiating any grant-funded activities, Grantee and the Commissioner or the Commissioner's designee, must sign the Grant Agreement.
2. The terms of the grant award will be defined in the Grant Agreement and terminate either one or two years after the grant has been awarded, unless it is terminated earlier in accordance with another provision.
3. Expenses that were incurred before the beginning or after the termination of the Grant Agreement are not eligible for reimbursement.
4. Grantees are expected to continue to report grant-funded activities until the end of the term of the Grant Agreement.

C. **Mortgage Grant Fund's (Grantor) Obligation**

1. Grantor will reimburse Grantee for actual, allowable, and allocable costs incurred by Grantee pursuant to Grant Agreement up to the maximum amount of the grant award.
2. Grantor is not obligated to pay unauthorized costs. Prior written approval from Grantor is required if Grantee anticipates any of the following:
 - a) altering the scope of the Grant;

- b) adding funds to previously unapproved budget categories;
 - c) changing funds in any awarded budget category by more than 10% of the total amount awarded; or
 - d) adding new line items to any awarded budget category.
- 3. Grantor's maximum liability under the Grant Agreement is the "Amount Awarded."
 - 4. Reimbursement of awarded funds is not an entitlement or right. Reimbursement depends on, among other things, strict compliance with all terms, conditions, and provisions of the Grant Agreement.
 - 5. Grantor will monitor a grantee's performance and expenditures. Possible review methods include desk review and site visits.

D. Grantee's Obligation

- 1. Grantee may use the Grant only to create, deliver, or expand Grantee's financial education programs within the State of Texas.
- 2. Grantee must use the Grant in accordance with all of the following:
 - a) all applicable federal and state laws and regulations;
 - b) Grantee's application;
 - c) the terms of the Grant Agreement;
 - d) the MGAM; and
 - e) any other guidelines and instructions as posted on the MGF webpage for the applicable grant cycle.
- 3. Grantee must cooperate fully with Grantor.
- 4. Grantee must notify Grantor within 30 days of significant changes or events occurring during the term of Grant Agreement that could potentially impact the progress or outcome of the Grant, including, but not limited to, the following changes.
 - a) Grantee's management personnel
 - b) Physical or mailing address
 - c) Loss of funding
 - d) Changes to Grantee's non-profit status with the Internal Revenue Service, if applicable
- 5. Failure to submit the required 30-day notice of significant change or events will be grounds for termination of the Grant Agreement.

6. The fiscal and programmatic management of the Grantee will include accountability for all funds and materials received from Grantor; compliance with Grantor's rules, policies, and procedures, as well as applicable federal and state laws and regulations; and correction of fiscal and program deficiencies identified through self-evaluation or Grantor's monitoring processes.
7. Grantee must develop, implement, and maintain all of the following:
 - a) financial management and control systems that include appropriate financial planning, including the development of budgets that adequately reflect all functions and resources necessary to carry out authorized activities and the adequate determination of costs;
 - b) financial management systems, including accurate and complete payroll, accounting, and financial reporting records;
 - c) cost source documentation;
 - d) effective internal and budgetary controls;
 - e) documentation regarding determination of reasonableness, allocation of costs, and timely and appropriate audits and resolution of any findings; and
 - f) annual financial statements, including statements of financial position, activities, and cash flows, prepared on an accrual basis in accordance with Generally Accepted Accounting Principles (GAAP) or other recognized accounting principles deemed acceptable to Grantor.
8. The format for submitting reimbursement requests will be provided in the grant report. Each reimbursement request must contain supporting documentation or back-up documentation for all amounts shown on the request, including receipts for all materials and supplies, all Grantee staff time shown by number of hours worked and hourly rate, and all contractor or sub-contractor services, which can be identifiable to reconcile expenditures.
9. Grantees must comply with all laws, regulations, requirements, and guidelines applicable to a Grantee providing services to the State of Texas, as these laws, regulations, requirements, and guidelines currently exist and as they are amended throughout the term of the Agreement.
10. If a Grantee fails to use grant funds to create, deliver, or expand financial education, literacy, and capability building programs as

described in Grantee's application, then Grantor may do one or more of the following:

- a) terminate the Grant Agreement;
- b) withhold the grant funds;
- c) require that Grantee refund grant funds received;
- d) submit an amended report to the Coordinator; and
- e) determine that Grantee is ineligible for future awards from the MGF.

11. If the Texas Comptroller of Public Accounts or Texas Secretary of State forfeits a Grantee's right to transact business in Texas due to failure to pay a franchise tax or for any other reason, then Grantor may do one or more of the following:

- a) terminate the Grant Agreement;
- b) suspend the Grant Agreement until Grantee restores its right to transact business in Texas; and
- c) take any other action provided for in the Grant Agreement.

E. [Grantee's Reporting Requirements](#)

1. As part of a Grantee's proposed application, Grantee will identify, track, and report on the detailed measurable outcomes that Grantee expects to achieve through use of the grant funds during the term of the Grant Agreement.
2. Grantee must submit to Grantor a report on or before each due date specified, and must use the current MGF grant report form prescribed by the Commissioner.
3. Grantee must track and report participant demographic information.
4. Grantee also agrees to submit a longitudinal report to assess changes in consumer behavior and program impact six months upon program completion.
5. For mortgage financial education programs, Reimbursement Reports will be considered incomplete if they do not include participant sign-in sheets and aggregate pre-and post-program survey data. Grantee must retain copies of the Pre-and Post-Program Surveys for a period of three years after the end of the grant cycle.
6. Grantee must provide a written explanation to Grantor for any variances on the periodic reports for any performance by Grantee that varies from projected performance. In addition to the written explanation, Grantee must promptly answer any questions by Grantor,

whether in writing or otherwise, in connection with the periodic reports presented to Grantor.

7. If Grantee exhausts all funds prior to the completion of the grant term the Grantee is obligated to continue to track and report grant related activities for the remaining duration of the term outlined in the Grant Agreement.
8. If Grantee fails to comply with any of the reporting requirements, then Grantor may do one or more of the following:
 - a) terminate the Grant Agreement;
 - b) withhold grant funds;
 - c) require that Grantee refund grant funds received;
 - d) submit an amended report to the Coordinator; and
 - e) determine that Grantee is ineligible for future awards from the MGF.
9. Grantee shall request disbursement of grant funds by submitting a Reimbursement Report to Grantor for work performed on the project. Disbursement is contingent upon approval of the disbursement request by Grantor.

V. Recordkeeping and Monitoring

A. Duty to Maintain Records

Grantee must maintain adequate records to support its charges, procedures, and performances for all work related to the Grant Agreement. Grantee must also maintain records that are deemed necessary by Grantor, the State Auditor's Office, other auditors of the State of Texas, or any other persons designated by Grantor, to ensure proper accounting for all costs and performances related to the Grant Agreement.

B. Record Retention

For a period of three years after the end of the grant cycle, or until full and final resolution of all audit or litigation matters that arise after the expiration of the term, whichever is later, Grantee must maintain any records that are necessary to fully disclose the extent of services provided under the Grant Agreement, including but not limited to any daily activity reports; time distribution and attendance records; and other records that may show the basis of the charges made or performances delivered.

C. Access by Grantor and State Auditor's Office

1. During the term of the Grant Agreement and for at least three years thereafter, Grantee must allow Grantor and the State Auditor's Office access to and the right to examine the organization, program,

premises, books, accounts, records, files, and other papers or property belonging to or in use by Grantee and pertaining to the Grant Agreement or the use of funds pursuant to the Grant Agreement, in order to ascertain complete compliance with the provisions of the Grant Agreement and with Mortgage Grant Fund program guidelines.

2. Grantee must maintain these records at a location that is readily accessible to Grantor.
3. Grantor has the right to make a visual inspection of any assets, goods, or products purchased with grant funds.

D. **Audits or Investigations**

Acceptance of grant funds under the Grant Agreement acts as acceptance of the authority of the Grantor to conduct an audit or investigation in connection with grant funds. Grantee further agrees to cooperate fully with the Grantor and the State Auditor's Office, or their successors, in the conduct of any audit or investigation, including providing all records requested. Grantee will ensure that this clause concerning the authority to audit the funds received by Grantee is included in any subcontract it awards.

E. **Location**

Any audit of records may be conducted at Grantee's principal place of business or a location of Grantee's operations during Grantee's normal business hours.

F. **Risk Assessment**

The MGF Risk Assessment is a risk-based monitoring system used to analyze the potential risk levels of MGF Grantees and establish effective monitoring practices. The Grant Coordinator will perform the risk analysis for each Grantee at the beginning of each grant cycle in order to identify potential risk to the grant program. Additionally, the Grant Coordinator may reanalyze Grantees after each reporting period to ensure compliance. Monitoring actions will be taken based on the *low-risk*, *moderate-risk*, or *high-risk* assessment provided by the risk assessment.

G. **Disallowance of Grant Funds**

Grantee will be liable to the Grantor for any costs disallowed as a result of any audit or investigations, and must, upon demand, immediately reimburse the Grantor for disallowed costs.

VI. **Use of Grant Funds and Property**

A. **Allowable Expenditures**

1. Grantee may use the grant funds only for allowable expenditures as identified in Grantee's application and authorized agreement pursuant to the Texas Grant Management Standards (TxGMS) adopted by the Texas Comptroller of Public Accounts pursuant to Chapter 783 of the Texas Government Code.

2. Grant funds may not be used for capital expenditures (e.g., real estate, or any item with a useful life of more than one year and valued over \$5,000).
3. Grantee must produce proof of payment (stamped paid invoices or receipts) of all allowable expenditures.
4. All costs must be directly attributable to the project that is the subject of the Grant Agreement.
5. Grantee may not use grant funds for any of the following:
 - a) entertainment or alcoholic beverages;
 - b) to directly fund class action suits or lawsuits against governmental entities;
 - c) to engage lobbying services for any reason, including for or against any candidate or issue;
 - d) to sue or otherwise support a cause of action, claim, or defense against Grantor or the State of Texas.

B. Salaries

Salary costs will be reimbursed for direct program activity only. Any salary expenses sought for reimbursement must be accurately recorded. Grantee must submit timesheets with specific duties performed in relation to grant activity in order for salary to be considered for reimbursement. This documentation must be submitted via the Reimbursement Report.

C. Consultant Services

1. Grantees normally are expected to utilize the services of their own officers or employees to the maximum extent in managing and performing the activities supported by the MGF grant award. Where it is necessary for a Grantee to contract for the services of persons who are not its officers or employees, it is expected to do so in accordance with its own written organizational standards.
2. If the need for consultant services is anticipated, the proposal narrative should provide appropriate rationale, and the summary proposal budget should estimate the amount of funds that may be required for this purpose. To the extent possible, consultant rates should show separate amounts for actual services and each of the components of the rate (such as fringe benefits, indirect costs, and other expenses).
3. Costs of professional and consultant services rendered by persons who are members of a particular profession or possess a special skill and who are not officers or employees of the performing organization are allowable when reasonable in relation to the services rendered.

However, payment for a consultant's services may not exceed more than 20% of actual award.

4. In determining the allowable costs in a particular case, no single factor or any special combination of factors is necessarily determinative. However, the following factors, among others, are relevant.
 - a) The nature and scope of the service rendered in relation to the service required
 - b) The necessity of issuing a sub-award for the service considering the organization's capability in the particular area
 - c) The past pattern of such costs, particularly in the years prior to the grant award
 - d) The impact of government contracts and grants on the organization's total activity (e.g., what new problems have arisen)
 - e) The service can be performed more economically by employment rather than by consulting
 - f) The qualifications of the person rendering the service and the normal/customary fees charged and received by the person for comparable services
 - g) The adequacy of the contractual agreement for the service (e.g., description of the service, estimate of time required, rate of compensation and termination provisions)
 - h) The extent to which the costs would be allowable if performed directly by the Grantee

D. Allowable Travel Expenditures

1. Travel costs will be reimbursed for certain expenses at the rates authorized by the Grant Agreement and limited by rules and rates promulgated by the Texas Comptroller of Public Accounts (Comptroller).
2. All travel must be performed in conjunction with official MGF related business. It is the responsibility of each Grantee to track and submit (with grant reports) the completed Mileage Log for travel reimbursement. Failure to comply with the travel guidelines will result in delay of payment or rejection of travel reimbursement. When tracking mileage, Grantees must use the Mileage Log included with the grant report.
3. Grantees should use online mapping tools to compare and compute point-to-point mileage. The allowable reimbursement is determined

using the lower of the actual miles driven or the mileage calculated, point to point. The Grantor is not required to reimburse Grantees at the maximum rate. The Grantor's maximum mileage reimbursement rate for travel by Grantees is in accordance with the Comptroller. Mileage to and from ordinary in-town errands will not be reimbursed.

4. Mileage will be consistent with state reimbursement rates set by the Comptroller and is subject to change. Refer to TxGMS for conditions related to all travel, lodging, and food related reimbursement expenses. Refer to the Comptroller for specific travel allowances, definitions, and restrictions.
5. Parking is eligible for reimbursement as long as it is incurred in connection with official MGF related business.
6. Grantees are encouraged to compare airline costs and use the least costly option available, also considering the efficiency of such travel and employee compensation. To be reimbursed for airline travel a Grantee must submit receipts that contain the following information: Grantee (employee) name, airline, cost of airfare, travel dates, destinations, ticket number, and seating class. Grantees must also show proof of payment for airfare.

E. Disbursement of Grant Funds

1. Payments are made on a reimbursement basis after Grantor receives Grantee's Reimbursement Report, including receipts and invoices for all expenditures and accompanying reports.
2. Receipts and invoices must match the funds requested on Grantee's initial budget, unless otherwise approved in writing by the Grantor.

F. Misuse of Grant Funds

1. Grantor may require a refund of grant funds already disbursed to Grantee if one or more of the following events occur.
 - a) Grant funds are misused
 - b) Grant funds are used in an illegal manner
 - c) Grant funds are used for non-allowable expenses
 - d) Grantee violates the terms or conditions of the Grant Agreement
 - e) Grantor discovers that Grantee made any misrepresentations to Grantor in obtaining the grant award.
2. This provision is not exclusive of other grounds for withholding or requiring the refunding of funds, or any other remedy, civil or criminal, which may be available to Grantor.

G. **Use of Property**

During the term of Grant Agreement, any property acquired with grant funds must be used in accordance with the Grant Agreement, to accomplish the purposes of the MGF and the grant program.

H. **Records of Property**

Grantee must maintain appropriate records of goods or property purchased with grant funds and must develop a control system to ensure adequate safeguards to prevent loss, damage, or theft of these goods or property.

I. **Purchase of Equipment; Title Upon Termination**

1. Grantee may not give any security interest, lien or otherwise encumber any item of equipment purchased with funds.
2. Grantee must permanently identify all equipment purchased under this contract by appropriate tags or labels affixed to the equipment.
3. Grantee must maintain a current inventory of all equipment or assets, which is available to Grantor at all times upon request. Grantee must administer a program of maintenance, repair, and protection of equipment or assets so as to ensure the full availability and usefulness of the equipment or assets.
4. If Grantee is indemnified, reimbursed, or otherwise compensated for any loss of, destruction of, or damage to the assets obtained using grant funds, it must use the proceeds to repair or replace such equipment or assets. To the extent that Grantor reimburses Grantee for its purchase of equipment and supplies using grant funds, upon termination of the Grant Agreement, title to or ownership of all purchased equipment and supplies, at the sole option of Grantor, will remain with Grantor.

J. **Intellectual Property**

1. Where funds obtained under the Grant Agreement may be used to produce original books, manuals, films, or other original material and intellectual property, Grantee may copyright such material subject to a royalty-free, non-exclusive, fully-paid-up, and irrevocable license that is reserved by Grantor.
2. Grantor has the unrestricted right to use, copy, modify, prepare derivative works, publish, and distribute, at no additional cost to Grantor, in any manner that Grantor deems appropriate in its sole discretion, any component of intellectual property developed or created within the scope of the Grant Agreement.

VII. Grant Agreement Termination

A. Termination for Convenience

1. The Grantor or Grantee may terminate a Grant Agreement before the end of the term of the agreement, without cause, by delivering a written notice of termination to the other party at least 30 days before the termination.
2. Early termination of the Grant Agreement will not relieve Grantee from reporting requirements, recordkeeping requirements, or liability to refund Grant funds in the event of misuse.
3. If Grantee terminates the Grant Agreement after receiving reimbursements in an amount that exceeds a pro rata portion of the total awarded amount over the elapsed term of the Grant Agreement, then Grantee must refund the portion of the reimbursement that exceeds the pro rata portion of the total awarded amount.

B. Termination for Cause

In the event that Grantee fails to perform or comply with an obligation of the terms, conditions, and provisions of the Grant Agreement, Grantor may, upon written notice of the breach to Grantee, immediately terminate all or any part of the Grant Agreement.

C. No Reimbursement Upon Termination

1. In the event of termination of the Grant Agreement, Grantor will make no further disbursement of grant funds to Grantee beyond those already approved at the time of termination, and Grantee specifically waives all rights to any of such funds.
2. Grantee must refund the Grantor any unused funds at the time of termination of the Grant Agreement.

VIII. Dispute Resolution

A. Mediation; Noncompliance Actions

1. To the extent authorized by law, Grantor and Grantee may use a dispute resolution process before pursuing termination or litigation.
2. Grantor and Grantee may sign an amended Grant Agreement or noncompliance action plan agreeing to the amended terms.
3. The noncompliance action plan may include increased communications between Grantor and Grantee, site visits, audits, and additional reporting requirements.
4. The dispute may be mediated by a mutually acceptable third party.
5. If mediation occurs, Grantor and Grantee (without using funds derived from the MGF) will pay all costs of any mediation equally.

6. Grantor's participation in any mediation or nonbinding dispute resolution process will not be construed as a waiver (by Grantor) of any of the following:
- a) any rights, privileges, defenses, remedies, or immunities available to Grantor as an agency or governmental unit of the State of Texas, or otherwise available to Grantor;
 - b) Grantor's termination rights; or
 - c) other termination provisions or expiration dates of the Grant Agreement.