

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

Friday, August 18, 2023  
8:30 a.m.

Finance Commission Building  
William F. Aldridge Hearing Room  
2601 North Lamar Boulevard  
Austin, Texas 78705

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*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 June 16, 2023 Audit Committee Meeting
- B. Review of Agencies' Activities
  - 1. Office of Consumer Credit Commissioner
  - 2. Department of Savings and Mortgage Lending
  - 3. Texas Department of Banking
- C. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Agencies' 2023 Third Quarter Investment Officer Reports
  - 1. Office of Consumer Credit Commissioner
  - 2. Department of Savings and Mortgage Lending
  - 3. Texas Department of Banking
- 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
- E. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Agencies' 2023 Third Quarter Financial Statements
  - 1. Office of Consumer Credit Commissioner
  - 2. Department of Savings and Mortgage Lending
  - 3. Texas Department of Banking
- F. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Agencies' Fiscal Year 2024 Operating Budgets
  - 1. Office of Consumer Credit Commissioner
  - 2. Department of Savings and Mortgage Lending
  - 3. Texas Department of Banking
- G. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Office of Consumer Credit Commissioner's 2023 Annual Internal Audit Report as Prepared and Presented by Garza/Gonzalez and Associates
- H. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Department of Savings and Mortgage Lending's 2023 Annual Internal Audit Report as Prepared and Presented by Garza/Gonzalez and Associates

- I. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Texas Department of Banking's 2023 Procurement/Contract Management/HUB Audit Report as Prepared and Presented by Garza/Gonzalez and Associates
- J. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Texas Department of Banking's 2023 Annual Internal Audit Report as Prepared and Presented by Garza/Gonzalez and Associates
- K. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Activities of the Texas Financial Education Endowment Fund
- L. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Appointment of New Texas Financial Education Endowment Fund Grant Advisory Committee Member Ashley Minaudo
- M. Discussion of the Activities of the Mortgage Grant Fund
- N. 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 55.089, 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.

**MINUTES OF THE  
AUDIT COMMITTEE MEETING  
Friday, June 16, 2023**

The Audit Committee of the Finance Commission of Texas convened at 8:30 a.m., on Friday, June 16, 2023, with the following members present:

**Audit Committee Members in Attendance:**

Debbie Scanlon, Chairman  
Phillip Holt, Chairman, Finance Commission of Texas  
Cliff McCauley, Vice-Chair, Finance Commission of Texas

**Audit Committee Members Absent:**

Roselyn "Rosie" Morris  
Hector Cerna

Chairman Scanlon announced there was a quorum of the Audit Committee of the Finance Commission of Texas with three (3) members present. *(0:36 on audio file).*

AGENDA ITEM	ACTION	LOCATION ON AUDIO FILE
A. Review and Approval of the Minutes of the April 21, 2023, Audit Committee Meeting	Phillip Holt made a motion to Approve the Minutes of the April 21, 2023, Audit Committee Meeting. Cliff McCauley seconded, and the motion passed.	0:54 Start of Discussion  1:09 Vote
B. Review of Agencies' Activities 1. Department of Savings and Mortgage Lending 2. Texas Department of Banking 3. Office of Consumer Credit Commissioner	No Action Required.	1:29  Start of Discussion
C. Discussion of the 2024 Budget Process	No Action Required.	5:06 Start of Discussion
D. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Office of Consumer Credit Commissioner's Texas Financial Education Endowment Fund Investment Portfolio Administration Audit Report as Prepared and Presented by Garza/Gonzalez and Associates	Cliff McCauley made a motion to Recommend that the Finance Commission Approve the Office of Consumer Credit Commissioner's Texas Financial Education Endowment Fund Investment Portfolio Administration Audit Report as Prepared and Presented by Garza/Gonzalez and Associates. Phillip Holt seconded, and the motion passed.	6:12 Start of Discussion  14:06 Vote
E. Discussion of the Activities of the Texas Financial Education Endowment (TFEE) Fund	No Action Required.	14:40 Start of Discussion

AGENDA ITEM	ACTION	LOCATION ON AUDIO FILE
F. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Revised Texas Financial Education Endowment Fund Grant Administration & Advisory Policy Manual and 2024-2025 Funding Priorities	Phillip Holt made a motion to Recommend that the Finance Commission Approve the Revised Texas Financial Education Endowment Fund Grant Administration & Advisory Policy Manual and 2024-2025 Funding Priorities. Cliff McCauley seconded, and the motion passed.	16:19 Start of Discussion  18:18 Vote
G. Discussion of and Possible Vote to Recommend that the Financial Commission Take Action to Approve an Amount for the Upcoming 2024-2025 Grant Cycle for the Texas Financial Education Endowment	Cliff McCauley made a motion to Recommend that the Finance Commission Approve \$730,000 for the Upcoming 2024-2025 Grant Cycle for the Texas Financial Education Endowment. Phillip Holt seconded, and the motion passed.	18:44 Start of Discussion  26:30 Vote
H. Discussion of the Activities of the Mortgage Grant Fund	No Action Required.	26:55 Start of Discussion
I. 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	Deferred to Executive Session. No Vote Required.	n/a

Chairman Scanlon called for an Executive Session at 8:57 a.m. (27:30 on the audio file). The open meeting resumed at 9:27 a.m. (28:11 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 9:27 a.m. (28:37 on the audio file).

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Phillip Holt, Chairman, Finance Commission on behalf of  
 Debbie Scanlon, Chairman, Audit Committee  
 Finance Commission of Texas

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Charles G. Cooper, Executive Director  
 Finance Commission of Texas

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Ruth Wright, Executive Assistant  
 Finance Commission of Texas

**Texas Office of Consumer Credit Commissioner**  
**Audit Activities Report**  
**As of July 31, 2023**

**Auditor:** *Garza/Gonzalez*

**Audit Report Date:** *July 28, 2023*

**Audit Area:** *Internal Audit – Payroll & Human Resources*  
*Follow-up of Prior Year Audits*

**Findings:**

**Status Update:**

*A. Ensure that state applications are not only completed in their entirety but also signed by the applicant.*

*The OCCC will update processes to ensure all accepted state applications are signed. This will be completed by 9/30/23.*

*B. Evaluate and determine if re-hires are required to complete new hire forms or if previous forms can be relied on. If new forms are not required, previous forms should be located and stored in the employee’s personnel file.*

*The OCCC agrees with the recommendation and will update processes by 9/30/23.*

*C. Conduct a review of each employee’s most recent PAF and ensure all documentation is in alignment with the SAO job descriptions and verify information is correct in CAPPS.*

*The OCCC agrees with the recommendation and will update processes by 9/30/23.*

*D. The Payroll department should ensure that time reflected in CAPPS is approved by the employee’s supervisor prior to the employee being paid. In addition, we recommend that OCCC further investigate whether supervisor approval may be bypassed to allow for payment.*

*The OCCC will ensure leave is approved by supervisors prior to payment and will inquire with the Comptroller’s Office regarding time approval timelines and indicators in CAPPS by 9/30/23.*

*E. Follow up of Prior Year’s Audits*

- 1. Special Instructions – Licensee’s Signature*
- 2. Examination Frequency*
- 3. Examination Review Frequency*
- 4. Training Certification Program*
- 5. ROE Quality Review*
- 6. Exam Status Reports*
- 7. Travel Policies and Procedures*

- Fully Implemented*
- Fully Implemented*
- Fully Implemented*
- Fully Implemented*
- Fully Implemented*
- Fully Implements*
- Substantially Implemented*

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**Auditor:** Department of Information Resources –  
AT&T Consulting

**Audit Report Date:** July 20, 2023

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**Audit Area:** Texas Cybersecurity Framework Assessment

**Findings:** Results to be Discussed in Executive  
Session.

**Status Update:** Complete.

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**Auditor:** Comptroller of Public Accounts

**Audit Report Date:** May 2, 2023

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**Audit Area:** Statewide Desk Audit – Dual or Multiple Employment

**Findings:** None

**Status Update:** Comptroller of Public Accounts  
completed a statewide desk audit of dual or multiple  
employment compliance.

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**Auditor:** Dept of Information Resources – AT&T  
Consulting

**Audit Report Date:** March 6, 2023

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**Audit Area:** Web Application Vulnerability Scan & Controlled Penetration Test

**Findings:** NA

**Status Update:** Penetration test and scan completed  
in March 2023; rescan in progress.

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**Auditor:** Department of Public Safety

**Audit Report Date:** May 18, 2022

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

**Findings:**

Evaluate IT Access. IT should be fingerprinted  
or access should be limited.

**Status Update:**

Pending. Coordinating with DPS and awaiting  
clarification.

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## **COOP Plan Evaluation Report**

Texas Office of Consumer Credit Commissioner

**Conducted By:**

Heather Hernandez, Statewide Continuity Coordinator





State Office of Risk Management

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

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7/6/2023

Leslie Pettijohn  
Commissioner  
Texas Office of Consumer Credit Commissioner  
2601 North Lamar Blvd.  
Austin, TX 78610

Re: Continuity Plan Evaluation

Agency # 466

Dear Leslie Pettijohn,

The Texas Office of Consumer Credit Commissioner recently submitted your Continuity of Operations (COOP) Plan to the State Office of Risk Management (SORM) for review. We have completed our evaluation and have included our findings below. Pursuant to [Texas Labor Code § 412.054](#), SORM acts as an advisory partner to ensure your plan meets Federal Emergency Management (FEMA) and other relevant standards.

Continuity plans are living documents, intended to continuously grow and adapt as organizations evolve. Your COOP plan should ensure you continue mission essential functions should a disruptive event make it impossible to continue work as normal. This is achieved through routinely conducting testing, training, and exercises, then making improvements to the plan based on your findings. SORM serves Texas agencies through review of COOP plans and exercises, and by offering training and resources.

With these goals in mind, we have made the following observations recognizing your plan achievements over the past year and making recommendations about where continued growth and development could be most effective in the year to come.

**Synopsis of Key Elements:**

- Previous review of the Continuity Plan identified additional information needed regarding alternate location needs. The updates address the added options for telework and the ability to work with other organizations to fulfill space needs as needed and in a timely manner.
- The COOP plan contains a detailed and thorough examination of the essential functions in the BPA and BIA sections. This section is extremely well done and could serve as an example to other organizations.
- The COOP plan incorporates all staff within the organization and demonstrates their importance in the continuity process and also takes into account efforts to ensure their wellbeing during an event.

**Action Items for Follow-up (if any):**

**None**

SORM recommends the above option(s) for you to consider when conducting your annual plan update to help continue to strengthen your program. Additional refinements may be identified through disaster



events, testing and exercises, and sharing of best practices with other professionals.

Please convey my appreciation to your continuity staff and all personnel who assisted in the completion of this year's submission. If you have questions or concerns regarding information detailed in this review, please feel free to reach out to me.

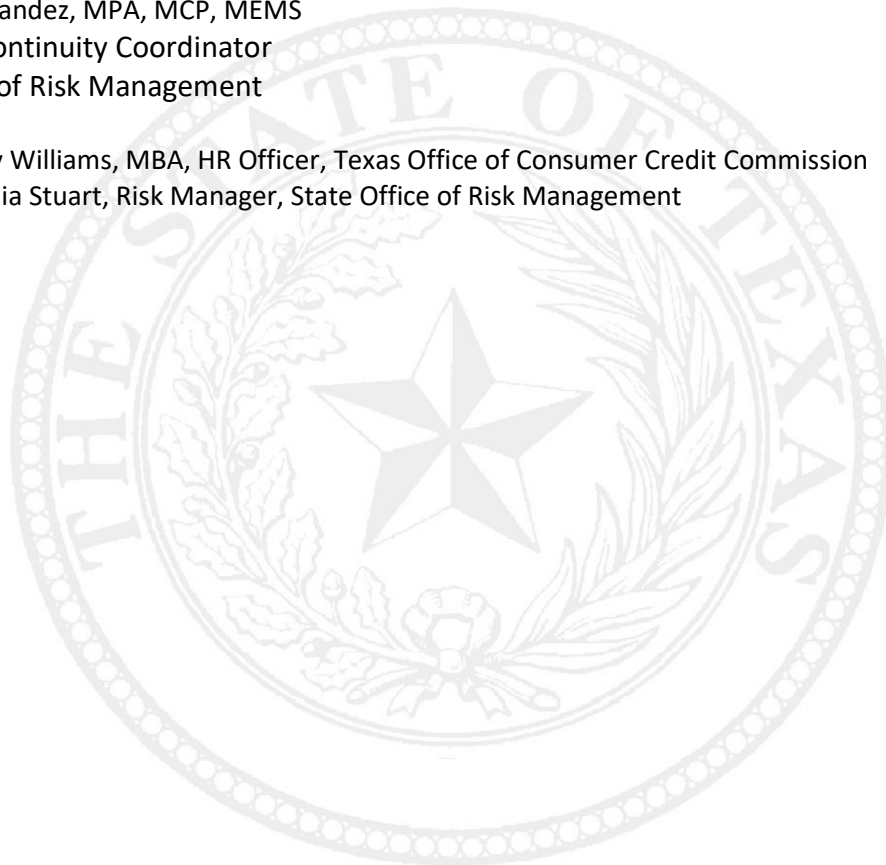
Your COOP exercise is due June 30, 2024.  
Your next COOP plan is due June 30, 2025.

Respectfully,



Heather Hernandez, MPA, MCP, MEMS  
Statewide Continuity Coordinator  
State Office of Risk Management

cc: Kelley Williams, MBA, HR Officer, Texas Office of Consumer Credit Commission  
Cynthia Stuart, Risk Manager, State Office of Risk Management



# Department of Savings and Mortgage Lending

## Audit Activities Report as of July 31, 2023

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**Auditor:** *Garza/Gonzalez*

**Audit Report Date:** *June 9, 2023*

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**Audit Area:** *Mortgage Examinations*

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**Findings:**

*Non-compliance with policies and procedures regarding adequate workpapers and sample size selection.*

**Status Update:**

*In progress. Recommended training provided in June 2023. Additional training is scheduled for October 2023.*

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**Texas Department of Banking  
Audit Activities Report  
As of July 31, 2023**

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**Auditor:** *Garza/Gonzalez & Associates*      **Audit Report Date:** *July 2023*

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**Audit Area:** *Procurement/Contract Management/HUB*

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**Findings:**      **Status Update:**

***LBB Reporting***

***Recommendation:*** *Strengthen its internal controls to ensure DOB remains compliant with the LBB state reporting requirements.*

*The initial rule interpretation was that such contracts were not reportable to the LBB as they were procured through a State agency (DIR in this case). In addition, at the time of the original award in June 2021, the Department did not have a purchaser and the CFO took on that additional role to at least ensure procurement of such services. The Department has since employed a purchaser who has improved compliance with reporting requirements.*

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***HUB Supplemental Data Reporting***

***Recommendation:*** *Update HUB Supplemental Data collection methodology to ensure accurate data will be submitted to the Comptroller.*

*While this is an oversight, agencies have the opportunity to finalize and correct any data discrepancies when reporting year-end data. In this instance, the Department will have the opportunity to revise the bids/proposals received.*

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

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**Audit Area:** *Texas Cybersecurity Framework Assessment*

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**Findings:**      **Status Update:**

*Evaluation to be discussed in Audit Committee Executive Session on August 18, 2023.*

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**Office of Consumer Credit Commissioner  
Fiscal Year 2023 - 3rd Quarter**

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

Beginning Balance at 02/28/2023	Additions / *(Deductions)	Interest Paid	Paid Bank Fees	Ending Balance at 05/31/2023	Current Interest Rate
\$ 191,047.03	\$ 1,475.00	\$ 2,342.69	\$ (48.73)	\$ 194,815.99	5.01%

Prepared By: /s/ William Collard \_\_\_\_\_

Date: 07/31/2023 \_\_\_\_\_

Investment Officer: /s/ Mirand Diamond \_\_\_\_\_

Date: 8/2/2023 \_\_\_\_\_

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 2023 - 3rd Quarter**

**Texas Financial Education Endowment Fund #3071**

	Beginning Balance at 02/28/2023	Additions	Interest Paid	Transfers	Grant Disbursements	Paid Bank Fees	Ending Balance at 05/31/2023	Current Interest Rate
<b>Cash</b>	\$ 1,064,839.71	\$ 33,964.66	\$ 12,120.86	\$ -	\$ (118,756.89)	\$ (6,094.99)	\$ 986,073.35	5.01%
<b>Invested Portfolio</b>	Beginning Balance at 02/28/2023	Additions	*Change in Value	Transfers	Transfer Out	Paid Fees	Ending Balance at 05/31/2023	
Cash in Bank	\$ 31,109.27	\$ -	\$ (12,851.45)	\$ -	\$ -	\$ -	\$ 18,257.82	
Investments - STIF	1,785,584.04	-	491,053.32	-	-	-	2,276,637.36	
Investments - Short Term	179,455.29	-	(179,455.29)	-	-	-	-	
Interest & Dividends Receivable	5,878.41	-	3,805.23	-	-	-	9,683.64	
Trade Receivables	1,181.78	-	8,190.95	-	-	-	9,372.73	
Investments - Equities	153,173.92	-	36,012.93	-	-	-	189,186.85	
Investments - Alternatives	6,364,608.66	-	644,938.01	-	-	-	7,009,546.67	
Investments - Fixed Income	112,950.96	-	23,238.26	-	-	-	136,189.22	
Investments - Futures	-	-	-	-	-	-	-	
Investments - SWAPS, at Fair Value	(15,549.93)	-	8,850.99	-	-	-	(6,698.94)	
<b>Total Assets-Invested Portfolio</b>	<b>\$ 8,618,392.40</b>	<b>\$ -</b>	<b>\$ 1,023,782.94</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 9,642,175.34</b>	
<b>Liabilities</b>								
Accounts Payable	\$ (3,915.90)	-	\$ 3,915.90	\$ -	\$ -	\$ -	\$ -	
Interest Payable	(21,924.09)	-	\$ 5,397.16	-	-	-	(16,526.93)	
Trade Payables	-	-	\$ -	-	-	-	-	
Futures Contracts, at Fair Value	-	-	-	-	-	-	-	
Swaps, at Fair Value	-	-	-	-	-	-	-	
<b>Total Liabilities</b>	<b>\$ (25,839.99)</b>	<b>\$ -</b>	<b>\$ 9,313.06</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (16,526.93)</b>	
<b>Total Net Fiduciary Assets-Invested Portfolio</b>	<b>\$ 8,592,552.41</b>						<b>\$ 9,625,648.41</b>	
<b>Total Endowment Funds</b>	<b>\$ 9,657,392.12</b>						<b>\$ 10,611,721.76</b>	

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: 7/31/2023

Investment Officer: /s/ Mirand Diamond

Date: 8/2/2023

## Department of Savings and Mortgage Lending

### Investment Officer Report as of May 31, 2023

#### Recovery Fund

	Beginning Balance 3/1/2023	Additions/ Reductions	Interest Received	Bank Fees	Ending Balance 5/31/2023
Cash & Cash Equivalents	\$4,842,823.25	\$41,360.00	\$50,550.10	(\$387.46)	\$4,934,345.89
Mortgage Grant Program Balance (12/31/2021)					935,489.78
Mortgage Grant Program Balance (12/31/2022)					356,479.17
Recovery Balance					\$3,642,376.94

Bank Name	Type	Maturity Date	Interest Rate	Book/Market Value	Accrued Interest
Tx Treasury Safekeeping Trust Co	Overnight Repurchase Agreements	6/1/2023	5.08%	\$4,184,345.89	\$582.32
Sunflower Bank	CD - 12 months	6/2/2023	0.20%	250,000.00	40.28
Horizon Bank SSB	CD - 12 months	2/7/2024	4.06%	250,000.00	874.03
Dalhart Federal Savings	CD - 24 months	10/18/2024	2.25%	250,000.00	4,004.02
				\$4,934,345.89	\$5,500.65

**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: 7/7/2023

Date: 7/7/2023

## Department of Savings and Mortgage Lending

### Investment Officer Report as of May 31, 2023

#### Mortgage Grant Fund

	Beginning Balance 3/1/2023	Additions/ Reductions	Interest Received	Bank Fees	Ending Balance 5/31/2023
Cash & Cash Equivalents	\$277,388.37	\$0.00	\$3,383.38	(\$57.11)	\$280,714.64

Bank Name	Type	Maturity Date	Interest Rate	Book/Market Value	Accrued Interest
Tx Treasury Safekeeping Trust Co	Overnight Repurchase Agreements	6/1/2023	5.08%	\$280,714.64	\$39.07
				\$280,714.64	\$39.07

**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: 7/7/2023

Date: 7/7/2023



**Texas Department of Banking Quarterly Investment Report**  
**March 1, 2023 to May 31, 2023**

<b>Seized Prepaid Funeral Funds Held in a Financial Institution</b>	<b>Book Value at February 28, 2023</b>	<b>Interest Income Received</b>	<b>Trustee Fees Paid</b>	<b>Other Deductions</b>	<b>Other Additions</b>	<b>Book Value at May 31, 2023</b>	<b>Financial Institution</b>	<b>Investment Type</b>	<b>Maturity Date</b>	<b>Interest Rate</b>
None	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00			N/A	N/A
<b>Total Seized Funds</b>	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00				

**Notes:**

\_\_\_\_\_  
/s/ Jesse Saucillo  
Investment Officer

\_\_\_\_\_  
6/27/2023  
Date

\_\_\_\_\_  
/s/ Sami Chadli  
Investment Officer

\_\_\_\_\_  
6/28/2023  
Date

**Trust-Funded Prepaid Funeral Guaranty Fund Quarterly Investment Report  
March 1, 2023 to May 31, 2023**

<u>Book Value at February 28, 2023</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 May 31, 2023</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Accrued Interest on CDs</u>
\$1,422,422.34	\$17,901.85	\$82.40	\$1,417.29	\$3,317.29	\$1,442,141.79	--	--	\$860.55

Trust Account Balances at Trustee/Depositories

Texas Treasury Safekeeping Trust Company *	\$705,060.33	6/1/2023	5.01%	--
State Bank of Texas, Dallas, Texas (CD)	\$240,000.00	12/16/2023	5.00%	\$427.39
Texas Bank Financial, Weatherford, Texas (CD)	\$246,992.73	12/24/2023	4.40%	\$208.42
American Bank of Commerce, Wolfforth, Texas (CD)	\$250,088.73	11/23/2023	4.10%	\$224.74
Subtotal	\$1,442,141.79			

(1) Other deductions include: (a) \$612.88 in consumer restitution escheated to the Texas Comptroller of Public Accounts (Comptroller's Office) as abandoned property related to Hernandez Funeral Home; and (b) \$804.41 in consumer restitution escheated to the Comptroller's Office as abandoned property related to Gonzalez Funeral Home.

(2) Other additions include: (a) \$1,500.00 restitution received from Mr. Kevin Keeney related to Howell-Doran Funeral Home; (b) \$400.00 restitution received from Mr. Marc Gonzalez related to Gonzalez Funeral Home; (c) \$612.88 stop payment of restitution checks related to Hernandez Funeral Home that were not negotiated by consumers; and (d) 804.41 stop payment of restitution checks related to Gonzalez Funeral Home that were not negotiated by consumers.

\* 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.

/s/ Jesse Saucillo Investment Officer	6/27/2023 Date
/s/ Sami Chadli Investment Officer	6/28/2023 Date

**Insurance-Funded Prepaid Funeral Guaranty Fund Quarterly Investment Report  
March 1, 2023 to May 31, 2023**

<u>Book Value at February 28, 2023</u>	<u>Interest Income Received</u>	<u>Trustee Fees Paid</u>	<u>Other Deduction(s)</u>	<u>(1) Other Addition(s)</u>	<u>Book/Market Value at May 31, 2023</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Accrued Interest on CDs</u>
\$938,945.85	\$9,337.33	\$ 81.63		\$ 33,294.00	\$981,495.55	--	--	\$508.46

Account Balances at Trustee/Depositories

Texas Treasury Safekeeping Trust Company *	\$736,495.55	3/1/2023	5.01%	--
Spring Hill State Bank, Longview, Texas (CD)	<u>\$245,000.00</u>	5/12/2024	5.05%	\$508.46
Subtotal	\$981,495.55			

(1) Other additions include assessments collected from permit holders 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.

\_\_\_\_\_/s/ Jesse Saucillo\_\_\_\_\_  
Investment Officer

\_\_\_\_\_/6/27/2023\_\_\_\_\_  
Date

\_\_\_\_\_/s/ Sami Chadli\_\_\_\_\_  
Investment Officer

\_\_\_\_\_/6/28/2023\_\_\_\_\_  
Date

## Texas Department of Banking Investment Officer Training

<b>Name of Investment Officer</b>	<b>Date Training Completed</b>	<b>Course Name</b>	<b>Course Sponsor</b>	<b>Hours</b>
Jesse Saucillo	February 3, 2023	Texas Public Funds Investment Act	University of North Texas Center for Public Management	5 hours
Sami Chadli	August 2, 2023	Public Funds Investment Act Training	Texas State University's Office of Distance & Extended Learning	5 hours

TEXAS  STATE<sup>®</sup>  
DISTANCE AND  
EXTENDED LEARNING

**CERTIFICATE OF COMPLETION**

5 Hours  
Awarded to  
Sami Chadli

For the satisfactory completion of organized instruction in:

**Public Funds Investment Act Training**

Awarded by Texas State University's Office of Distance & Extended Learning



Course Instructor



August 2, 2023  
Date Completed

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OFFICE OF CONSUMER CREDIT COMMISSIONER  
 INVESTMENT POLICY STATEMENT  
 [Effective ~~August 18, 2023~~ ~~August 19, 2022~~]

**1. Overview**

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

The Finance Commission met on ~~August 18, 2023~~ ~~August 19, 2022~~ to re-approve this policy as revised to clarify content within this policy. Previously, this policy was reviewed and approved on ~~August 19, 2022~~ ~~August 20, 2021~~.

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

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

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

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

**2. Identification of Covered Funds**

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

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

OCCC Residential Mortgage Loan Originator Recovery Fund (TTSTC #3008)	
Enabling Legislation	Sections 341.601 through 341.610, TEX. FIN. CODE
Distribution Policy	The fund shall be used to reimburse residential mortgage loan applicants for actual damages incurred because of acts committed by a state-licensed residential mortgage loan originator who was licensed under the applicable chapter when the act was committed. Recovery is limited by the provisions of §341.606 to an aggregate of \$25,000 per claim.

Texas Financial Education Endowment Fund (TTSTC #3071)	
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Distribution Policy	Annual distributions, payable quarterly or annually, are calculated as 3.5% times the twenty-quarter, moving-average value of the Fund as of June 30 for distributions to be made the following fiscal year.

### **3.Types of Authorized Investments**

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

In accordance with Section 341.602(f) of the Finance Code, the OCCC Residential Mortgage Loan Originator Recovery Fund may be invested and reinvested in the same manner as funds of the Employees Retirement System of Texas until 8/31/2023, Effective 9/1/2023, the fund may be invested and reinvested under the prudent person standard described by Section 11b, Article VII, Texas Constitution. Interest and the interest from these investments shall be deposited to the credit of the fund. An investment may not be made under Section 341.602(f) if the investment will impair the necessary liquidity required to satisfy payment of judgment awarded under Chapter 341, Subchapter G of the Finance Code.

The Texas Financial Education Endowment Fund is to be invested with the TTSTC. In accordance with Section 393.628(b) of the Finance Code and Title 7, Section 7.105 of the Texas Administrative Code, Texas Financial Education Endowment funds may be invested and reinvested in the same manner as funds of the Employees Retirement System of Texas under Texas Government Code Chapter 815, Subchapter D until 8/31/2023, Effective 9/1/2023, in accordance with Section 14.113 of the Finance Code, the fund may be invested and reinvested under the prudent person standard described by Section 11b, Article VII, Texas Constitution. Interest and interest from those investments will be deposited to the credit of the account. The Investment Policy Statement for Texas Endowment Funds managed by the TTSTC is adopted by reference for the oversight of the Texas Financial Education Endowment Fund. {See [https://assets.ttstc.com/ttstc-public/en/Endowment%20IPS%20\(July%202023\).pdf](https://assets.ttstc.com/ttstc-public/en/Endowment%20IPS%20(July%202023).pdf) <https://assets.ttstc.com/ttstc-public/20/2022-03-30%20TTSTC%20ENDOW%20Investment%20Policy.pdf>}

These policies include:

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

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

Insofar as a fund or portion of a fund is deposited in a financial institution, the Agency may utilize the investment securities listed below<sup>1</sup>. ~~"Maximum allowable maturity," when used in this policy, means the~~

<sup>1</sup> The Office is prohibited from investing funds in companies that discriminate against firearm and ammunition industries or that boycott energy companies per Chapter 2274 of the Government Code.



~~remaining time until the final principal payment on the investment, measured from the date of purchase by the Agency.~~

- A. Obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks, with a maximum allowable maturity<sup>2</sup> of 10 years;
- B. Direct obligations of this state or its agencies and instrumentalities with a maximum allowable maturity of 10 years;
- C. Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the U. S., the underlying security for which is guaranteed by an agency or instrumentality of the U.S. provided that the applicable interest rate is not determined by an index that adjusts opposite to the changes in a market index and the stated final maturity date is not greater than 10 years from the date the collateralized mortgage obligation is acquired by the Agency;
- D. Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, this state or the U.S. or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or by the explicit full faith and credit of the U.S. with a maximum allowable maturity of 10 years;
- E. Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent with a maximum allowable maturity of 10 years. If the rating of the issuing entity is downgraded below investment quality during the time an investment is held from that entity, all prudent measures must be taken to liquidate the investment within a reasonable period of time, consistent with the guidelines in this policy;
- F. Bonds issued, assumed, or guaranteed by the State of Israel;
- G. Interest-bearing deposit accounts that are guaranteed or insured by the FDIC or its successor;
- H. Other interest-bearing deposit accounts not described above if:
  - i. The funds are invested through a broker with a main office or branch office in this state as selected by the Agency from an approved list, or through a depository institution with a main office or branch office in this state;
  - ii. The selected broker or depository institution arranges for the deposit of the funds in deposit accounts in one or more federally insured institutions, regardless of where located;
  - iii. The full amount of principal and accrued interest in such deposit accounts is insured by the U.S. or an instrumentality of the U.S.; and
  - iv. The Agency appoints a custodian of the deposit accounts that is:
    - a. The depository institution selected to broker the deposits;
    - b. A state or national bank designated by the comptroller as a state depository with its main office or a branch office in this state, that has capital stock and surplus of \$5 million or more;
    - c. The Texas Treasury Safekeeping Trust Company;
    - d. A Federal Reserve Bank or a branch of a Federal Reserve Bank;
    - e. A Federal Home Loan Bank;
    - f. A financial institution authorized to exercise fiduciary powers that is designated by the comptroller as custodian; or
    - g. A clearing broker dealer registered with the Securities and Exchange Commission (SEC) and operating under SEC Rule 15c3 (17 C.F.R. Section 240.15c3-3)
- I. A certificate of deposit issued by depository institution that has its main office or a branch office in this state, if the certificate:
  - i. Is guaranteed or fully insured by the FDIC, or its successor; ~~or~~
  - ii. Is secured by obligations allowable under Gov't Code § 2256.009(a) for direct investment by

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<sup>2</sup> Maximum allowable maturity," when used in this policy, means the remaining time until the final principal payment on the investment, measured from the date of purchase by the Agency

the Agency; or

- iii. Is secured as provided under the Public Funds Collateral Act (Gov't Code Ch. 2257); and
- iv. Does not have a maturity exceeding 36 months.

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

Bids for certificates of deposit may be solicited:

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

J. A repurchase agreement<sup>3</sup>, collateralized on a daily basis at a minimum of 102% of market value, including a direct security repurchase agreement and a reverse security repurchase agreement, that:

- i. With respect to a reverse security repurchase agreement, does not have a defined termination date exceeding 90 days;
- ii. Is secured by a combination of cash and obligations allowable under Gov't Code §2256.009(a)(1) or § 2256.013;
- iii. Requires securities being purchased or cash held by the Agency to be pledged to the Agency, either directly or through a joint account<sup>4</sup> approved by the Agency, held in the Agency's name, either directly or through a joint account approved by the entity, and deposited at the time the investment is made with the Agency or with a third party selected and approved by the Agency;
- iv. Is placed through a primary government securities dealer, as defined by the Federal Reserve, or an insured financial institution domiciled in this state; or made directly with a state agency with the authority to invest in repurchase agreements as defined by Gov't Code § 404.024 (c-1); and
- ~~v.~~ Requires that money received under the terms of a reverse security repurchase agreement must be used to acquire additional authorized investments, but the term of the authorized investments required must mature not later than the expiration date stated in the reverse security repurchase agreement;
- ~~vi.~~ Provides that an investing entity that contracts with an investment management firm may authorize the firm to invest the Agency's public funds or other funds under the Agency's control in repurchase agreements using a joint account;
- ~~vii.~~ Requires that an investment management firm responsible for managing a repurchase agreement transaction using a joint account on behalf of an investing entity must ensure that:
  - ~~a.~~ accounting and control procedures are implemented to document the investing entity's aggregate daily investment and pro rata share in the joint account;
  - ~~b.~~ each party participating in the joint account retains the sole rights of ownership to the party's pro rata share of assets invested in the joint account, including investment earnings on those assets; and
  - ~~a-c.~~ policies and procedures are implemented to prevent a party participating in the joint account from using any part of a balance of the joint account that is credited to another party.

K. A no-load money market mutual fund that:

<sup>3</sup> A repurchase agreement made by an investing entity may be submitted for clearing and settlement to a covered clearing agency, as defined by the Securities and Exchange Commission in Rule 17Ad-22 (17 C.F.R. Section 240.17Ad-22).

<sup>4</sup> Joint account means an account maintained by a custodian bank and established on behalf of two or more parties to engage in aggregate repurchase agreement transactions.

- i. Is registered with and regulated by the SEC;
- ii. Provides the Agency with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940; and
- iii. Complies with federal SEC Rule 2a-7, promulgated under the Investment Company Act of 1940 (17 C.F.R. § 270-2a-7).

L. A no-load mutual fund that:

- i. Is registered with the SEC;
- ii. Has an average weighted maturity of less than two years; and
- iii. Either:
  - a. Has a duration of one year or more and is invested exclusively in obligations authorized in this policy; or
  - b. Has a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities.

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

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

#### **4.Unauthorized Investments**

The following are not authorized investments under this policy:

- A. Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal;
- B. Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest;
- C. Collateralized mortgage obligations that have a stated final maturity date of greater than 10 years;
- D. Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index; and
- E. No portion of bond proceeds, reserves and funds held for debt service may be invested in no-load mutual funds described in Gov't Code §2256.014(b);
- F. Investments in companies doing business in Sudan, in Iran, or with a foreign terrorist organization.<sup>4</sup>
- G. Investments in companies that are prohibited by law or have been barred from participating in State of Texas contracts.<sup>5</sup>

#### **5.Safekeeping of Investments**

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

#### **6.Reporting**

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

- A. The investment position of the Agency on the date of the report;
- B. The book and market values of each separately invested asset at the beginning and end of the reporting

<sup>5</sup> Lists of companies that are prohibited by law or have been barred from participating in State of Texas contracts are published on the Texas Comptroller's website at <https://comptroller.texas.gov/purchasing/publications/divestment.php>

period by the type of asset and fund type invested (for demand deposits and certificates of deposit, reports will reflect book value and market value as the same);

- C. The maturity date of each separately invested asset that has a maturity date;
- D. The fund for which each individual investment was acquired;
- E. The state of compliance, including any ~~Any~~ non-compliance, of the investment portfolio with this policy;
- F. Income received and expenses incurred in conjunction with investments; and,
- G. Any other information as required by the Finance Commission.

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

### **7.Rates of Return, Market Pricing and Ratings Changes**

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

The Investment Officer will periodically review the market pricing, rating changes, and rates of return on all investments to ensure that values and yields are consistent with risk and meet investment objectives. The investment officer will use the same methods and procedures as a prudent investor, exercising reasonable care, skill, and caution.

### **8.Diversification**

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

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

### **9.Settlement**

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

### **10.Investment Officer**

The Director of Licensing and Finance ~~is will be the~~ designated as the Investment Officer and is responsible for the investment of the funds held and invested by the Agency. The Investment Officer is authorized to:

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

~~The if the~~ Investment Officer may not have ~~has~~ a personal business relationship with a business organization offering to engage in an investment transaction with the Agency, ~~the Officer shall file a statement disclosing that personal business interest. For the purposes of this policy, an investment officer has a personal business relationship with a business organization if:~~

- ~~• The investment officer owns 10% or more of the voting stock or shares of the business organization or owns \$5,000 or more of the fair market value of the business organization;~~

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

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

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

### **11. Investment Training**

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

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

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

### **12. Entities Authorized to Engage in Investment Transactions**

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

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

A written copy of this policy must be presented to any business organization<sup>6</sup> offering to engage in an investment transaction with the Agency. A qualified representative of the business organization offering to engage in an investment transaction with the Agency shall execute a written acknowledgment (Appendix #1) that the business organization:

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

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

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<sup>6</sup> A “business organization” means an investment pool or investment management firm that has contractual authority granted by an investing entity to exercise investment discretion in regard to the investing entity’s funds.

**Acknowledgment**

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

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

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

\_\_\_\_\_  
Signature of Qualified Representative

\_\_\_\_\_  
Date

OFFICE OF CONSUMER CREDIT COMMISSIONER  
 INVESTMENT POLICY STATEMENT  
 [Effective August 18, 2023]

**1. Overview**

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- Diversification of investment portfolio; and,
- Marketability of the investment if the need arises to liquidate the investment before maturity.

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

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The Texas Financial Education Endowment Fund is to be invested with the TTSTC. In accordance with Section 393.628(b) of the Finance Code and Title 7, Section 7.105 of the Texas Administrative Code, Texas Financial Education Endowment funds may be invested and reinvested in the same manner as funds of the Employees Retirement System of Texas under Texas Government Code Chapter 815, Subchapter D until 8/31/2023. Effective 9/1/2023, in accordance with Section 14.113 of the Finance Code, the fund may be invested and reinvested under the prudent person standard described by Section 11b, Article VII, Texas Constitution. Interest from those investments will be deposited to the credit of the account. The Investment Policy Statement for Texas Endowment Funds managed by the TTSTC is adopted by reference for the oversight of the Texas Financial Education Endowment Fund. {See [https://assets.ttstc.com/ttstc-public/en/Endowment%20IPS%20\(July%202023\).pdf](https://assets.ttstc.com/ttstc-public/en/Endowment%20IPS%20(July%202023).pdf) }

These policies include:

- An investment return objective of 6%
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The investment policies of the TTSTC control over any conflict between this policy and the TTSTC investment policy for the Texas Financial Education Endowment Fund.

Insofar as a fund or portion of a fund is deposited in a financial institution, the Agency may utilize the investment securities listed below<sup>1</sup>.

<sup>1</sup> The Office is prohibited from investing funds in companies that discriminate against firearm and ammunition industries or that boycott energy companies per Chapter 2274of the Government Code.

- A. Obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks, with a maximum allowable maturity<sup>2</sup> of 10 years;
- B. Direct obligations of this state or its agencies and instrumentalities with a maximum allowable maturity of 10 years;
- C. Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the U. S., the underlying security for which is guaranteed by an agency or instrumentality of the U.S. provided that the applicable interest rate is not determined by an index that adjusts opposite to the changes in a market index and the stated final maturity date is not greater than 10 years from the date the collateralized mortgage obligation is acquired by the Agency;
- D. Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, this state or the U.S. or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or by the explicit full faith and credit of the U.S. with a maximum allowable maturity of 10 years;
- E. Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent with a maximum allowable maturity of 10 years. If the rating of the issuing entity is downgraded below investment quality during the time an investment is held from that entity, all prudent measures must be taken to liquidate the investment within a reasonable period of time, consistent with the guidelines in this policy;
- F. Bonds issued, assumed, or guaranteed by the State of Israel;
- G. Interest-bearing deposit accounts that are guaranteed or insured by the FDIC or its successor;
- H. Other interest-bearing deposit accounts not described above if:
  - i. The funds are invested through a broker with a main office or branch office in this state as selected by the Agency from an approved list, or through a depository institution with a main office or branch office in this state;
  - ii. The selected broker or depository institution arranges for the deposit of the funds in deposit accounts in one or more federally insured institutions, regardless of where located;
  - iii. The full amount of principal and accrued interest in such deposit accounts is insured by the U.S. or an instrumentality of the U.S.; and
  - iv. The Agency appoints a custodian of the deposit accounts that is:
    - a. The depository institution selected to broker the deposits;
    - b. A state or national bank designated by the comptroller as a state depository with its main office or a branch office in this state, that has capital stock and surplus of \$5 million or more;
    - c. The Texas Treasury Safekeeping Trust Company;
    - d. A Federal Reserve Bank or a branch of a Federal Reserve Bank;
    - e. A Federal Home Loan Bank;
    - f. A financial institution authorized to exercise fiduciary powers that is designated by the comptroller as custodian; or
    - g. A clearing broker dealer registered with the Securities and Exchange Commission (SEC) and operating under SEC Rule 15c3 (17 C.F.R. Section 240.15c3-3)
- I. A certificate of deposit issued by depository institution that has its main office or a branch office in this state, if the certificate:
  - i. Is guaranteed or fully insured by the FDIC, or its successor;
  - ii. Is secured by obligations allowable under Gov't Code § 2256.009(a) for direct investment by the Agency; or
  - iii. Is secured as provided under the Public Funds Collateral Act (Gov't Code Ch. 2257); and

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<sup>2</sup> Maximum allowable maturity," when used in this policy, means the remaining time until the final principal payment on the investment, measured from the date of purchase by the Agency

- iv. Does not have a maturity exceeding 36 months.

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

Bids for certificates of deposit may be solicited:

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

J. A repurchase agreement<sup>3</sup>, collateralized on a daily basis at a minimum of 102% of market value, including a direct security repurchase agreement and a reverse security repurchase agreement, that:

- i. With respect to a reverse security repurchase agreement, does not have a defined termination date exceeding 90 days;
- ii. Is secured by a combination of cash and obligations allowable under Gov't Code §2256.009(a)(1) or § 2256.013;
- iii. Requires securities being purchased or cash held by the Agency to be pledged to the Agency, either directly or through a joint account<sup>4</sup> approved by the Agency, held in the Agency's name, either directly or through a joint account approved by the entity, and deposited at the time the investment is made with the Agency or with a third party selected and approved by the Agency;
- iv. Is placed through a primary government securities dealer, as defined by the Federal Reserve, or an insured financial institution domiciled in this state; or made directly with a state agency with the authority to invest in repurchase agreements as defined by Gov't Code § 404.024 (c-1);
- v. Requires that money received under the terms of a reverse security repurchase agreement must be used to acquire additional authorized investments, but the term of the authorized investments required must mature not later than the expiration date stated in the reverse security repurchase agreement;
- vi. Provides that an investing entity that contracts with an investment management firm may authorize the firm to invest the Agency's public funds or other funds under the Agency's control in repurchase agreements using a joint account;
- vii. Requires that an investment management firm responsible for managing a repurchase agreement transaction using a joint account on behalf of an investing entity must ensure that:
  - a. accounting and control procedures are implemented to document the investing entity's aggregate daily investment and pro rata share in the joint account;
  - b. each party participating in the joint account retains the sole rights of ownership to the party's pro rata share of assets invested in the joint account, including investment earnings on those assets; and
  - c. policies and procedures are implemented to prevent a party participating in the joint account from using any part of a balance of the joint account that is credited to another party.

K. A no-load money market mutual fund that:

- i. Is registered with and regulated by the SEC;
- ii. Provides the Agency with a prospectus and other information required by the Securities

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<sup>3</sup> A repurchase agreement made by an investing entity may be submitted for clearing and settlement to a covered clearing agency, as defined by the Securities and Exchange Commission in Rule 17Ad-22 (17 C.F.R. Section 240.17Ad-22).

<sup>4</sup> Joint account means an account maintained by a custodian bank and established on behalf of two or more parties to engage in aggregate repurchase agreement transactions.

- iii. Exchange Act of 1934 or the Investment Company Act of 1940; and Complies with federal SEC Rule 2a-7, promulgated under the Investment Company Act of 1940 (17 C.F.R. § 270-2a-7).

L. A no-load mutual fund that:

- i. Is registered with the SEC;
- ii. Has an average weighted maturity of less than two years; and
- iii. Either:
  - a. Has a duration of one year or more and is invested exclusively in obligations authorized in this policy; or
  - b. Has a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities.

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

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

#### **4.Unauthorized Investments**

The following are not authorized investments under this policy:

- A. Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal;
- B. Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest;
- C. Collateralized mortgage obligations that have a stated final maturity date of greater than 10 years;
- D. Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index; and
- E. No portion of bond proceeds, reserves and funds held for debt service may be invested in no-load mutual funds described in Gov't Code §2256.014(b);
- F. Investments in companies doing business in Sudan, in Iran, or with a foreign terrorist organization.<sup>4</sup>
- G. Investments in companies that are prohibited by law or have been barred from participating in State of Texas contracts.<sup>5</sup>

#### **5.Safekeeping of Investments**

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

#### **6.Reporting**

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

- A. The investment position of the Agency on the date of the report;
- B. The book and market values of each separately invested asset at the beginning and end of the reporting period by the type of asset and fund type invested (for demand deposits and certificates of deposit, reports will reflect book value and market value as the same);

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<sup>5</sup> Lists of companies that are prohibited by law or have been barred from participating in State of Texas contracts are published on the Texas Comptroller's website at <https://comptroller.texas.gov/purchasing/publications/divestment.php>

- C. The maturity date of each separately invested asset that has a maturity date;
- D. The fund for which each individual investment was acquired;
- E. The state of compliance, including any non-compliance, of the investment portfolio with this policy;
- F. Income received and expenses incurred in conjunction with investments; and,
- G. Any other information as required by the Finance Commission.

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

### **7.Rates of Return, Market Pricing and Ratings Changes**

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

The Investment Officer will periodically review the market pricing, rating changes, and rates of return on all investments to ensure that values and yields are consistent with risk and meet investment objectives. The investment officer will use the same methods and procedures as a prudent investor, exercising reasonable care, skill, and caution.

### **8.Diversification**

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

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

### **9.Settlement**

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

### **10.Investment Officer**

The Director of Licensing and Finance is designated as the Investment Officer and is responsible for the investment of the funds held and invested by the Agency. The Investment Officer is authorized to:

- A. Obtain external investment expertise if deemed necessary to fulfill investment objectives;
  - B. Delegate routine business transactions within authorized and established investments; and,
  - C. Enter into agreements with other parties as necessary to fulfill this policy, make or authorize investments, or notify other parties concerning this policy and its requirements.
- The Investment Officer may not have a personal business relationship with a business organization offering to engage in an investment transaction with the Agency

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

Within 180 days of the end of each Legislative session, the Agency will provide a report to the Finance **37**

Commission outlining any recent amendments pertaining to the Public Funds Investment Act and other statutes, and will provide appropriate recommendations to update the Investment Policy as needed.

### **11. Investment Training**

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

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

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

### **12. Entities Authorized to Engage in Investment Transactions**

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

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

A written copy of this policy must be presented to any business organization<sup>6</sup> offering to engage in an investment transaction with the Agency. A qualified representative of the business organization offering to engage in an investment transaction with the Agency shall execute a written acknowledgment (Appendix #1) that the business organization:

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

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

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<sup>6</sup> A "business organization" means an investment pool or investment management firm that has contractual authority granted by an investing entity to exercise investment discretion in regard to the investing entity's funds.

**Acknowledgment**

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

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

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

\_\_\_\_\_  
Signature of Qualified Representative

\_\_\_\_\_  
Date

## OCCC Investment Training

<b>Staff Member</b>	<b>Date</b>	<b>Course</b>	<b>Sponsor</b>	<b>Hours</b>
Chris Churchill	8/4/2023	PFIA	Univ North Texas	5
William Collard	8/5/2022	PFIA	Univ North Texas	5
Mirand Diamond	8/5/2022	PFIA	Univ North Texas	5
Leslie Pettijohn	8/4/2023	PFIA	Univ North Texas	5





## **Required Report Outlining Amendments to the Public Funds Investment Act (PFIA)**

This is a summary of the Texas Legislature's recently passed legislation that amends the Public Funds Investment Act. The amendments go into effect on September 1, 2023.

### 2023 Legislation

**SB 1246** -- Section 7 of SB 1246 amends Section 2256.011 of the TEX GOVT CODE. The bill amends the PFIA to specify that a fully collateralized repurchase agreement was an authorized investment under certain conditions to allow for securities being purchased by the entity or cash being held by the entity to be pledged or held directly in the entity's name or through a joint account. A joint account would be defined as an account maintained by a custodian bank and established on behalf of two or more parties to engage in aggregate repurchase agreement transactions.

An investing entity that contracted with an investment management firm could authorize the firm to invest the entity's funds under the entity's control in repurchase agreements using a joint account. A repurchase agreement made by an investing entity could be submitted for clearing and settlement to a covered clearing agency.

An investment management firm responsible for managing a repurchase agreement transaction using a joint account would be required to ensure that:

- accounting and control procedures were implemented to document the investing entity's aggregate daily investment and pro rata share in the joint account;
- each party participating in the joint account retained the sole rights of ownership to the party's pro rata share of assets invested in the joint account, including investment earnings on those assets; and
- policies and procedures were implemented to prevent a party participating in the joint account from using any part of a balance of the joint account that was credited to another party.

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# DEPARTMENT OF SAVINGS AND MORTGAGE LENDING INVESTMENT POLICY

## **Overview**

This policy governs the investment of funds of the Recovery Fund and Mortgage Grant Fund (“the Funds”) which are administered by the Department of Savings and Mortgage Lending (“the Department”) to the extent the Department has statutory investment authority. The Recovery Fund was established as mandated by the 76<sup>th</sup> Legislature and organized pursuant to ~~Texas~~-Finance Code, Chapter 156, Subchapter F. The Mortgage Grant Fund was created by the 87<sup>th</sup> Legislature and organized pursuant to ~~Texas~~-Finance Code, Chapter 156, Subchapter G. While this agency is not subject to the requirements in the Public Funds Investment Act (Government Code Chapter 2256), except as specifically authorized by the 87<sup>th</sup> legislature, efforts are made to closely follow the Act.

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

The Finance Commission reapproved this policy on August 19<sup>8</sup>, 202<sup>23</sup>. The policy includes clarification-revisions to incorporate changes to Government Code Section 2256.011 regarding repurchase agreements, edits to legal citations for consistency, and an update regarding the secondary Investment Officer related to other unauthorized investments. Previous changes to this policy were approved on August 20<sup>19</sup>, 202<sup>12</sup>.

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

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

According to the Texas Constitution, Section 11b, Article VII, each of the Funds shall be managed and invested as a prudent investor, exercising reasonable care, skill, and caution, would invest in light of the purposes, terms, distribution requirements, and other circumstances of the Funds then prevailing, taking into consideration the investment of all the assets of each of the Funds rather than a single investment.

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

## **Identification of Covered Funds**

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

## **Types of Authorized Investments**

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

According to ~~Texas~~-Finance Code Section 156.501(c), the amounts in the Recovery Fund may be invested and reinvested in accordance with ~~Chapter 2256~~, Government Code, Chapter 2256 and under the standard described by the Texas Constitution Section 11b, Article VII, ~~Texas Constitution~~, however, an investment may not be made if it will impair the necessary liquidity required to satisfy claims awarded to residential mortgage loan applicants from the Recovery Fund.

According to ~~Texas~~-Finance Code Section 156.553(b), the amounts in the Mortgage Grant Fund may be invested and reinvested in accordance with ~~Chapter 2256~~, Government Code, Chapter 2256 and under the standard described in the

# DEPARTMENT OF SAVINGS AND MORTGAGE LENDING INVESTMENT POLICY

~~Texas Constitution~~ Section 11b, Article VII, ~~Texas Constitution~~.

Authorized investments according to the Public Funds Investment Act as well as their applicable standards, requirements, and any exceptions, may be found at ~~Tex. Government~~ Code ~~§§Sections~~ 2256.009 through 2256.016, and include:

1. Obligations of, or Guaranteed by, Governmental Entities
2. Certificates of Deposit and Share Certificates
3. Repurchase Agreements
4. Securities Lending Programs
5. Bankers' Acceptances
6. Commercial Paper
7. Mutual Funds
8. Guaranteed Investment Contracts
9. Investment Pools

To provide for more flexibility and obtain a higher rate of return, while still maintaining liquidity and preserving principal, the Department's maximum allowable maturity period<sup>1</sup> for any individual investment is 36 months (60 months for Obligations of, or Guaranteed by, Governmental Entities) and a minimum acceptable credit rating of A. To further limit the investment risk, the Department restricts the eligible securities for investment of funds covered under this policy to:

1. *Certificates of Deposit & Time Deposits* – Deposit accounts in a depository institution that has its main office or a branch office in this state which are: 1) Insured by a federal deposit insurance agency or its successor; or 2) 100% secured by either obligations that are described by ~~Tex. Government~~ Code ~~Section~~§ 2256.009(a), including mortgage backed securities directly issued by a federal agency or instrumentality that have a market value of not less than the principal amount of the certificates, but excluding those mortgage backed securities of the nature described by ~~Tex. Government~~ Code ~~§Section~~ 2256.009(b), or in accordance with ~~Tex. Government~~ Code Chapter 2257; and 3) do not have a maturity exceeding 36 months. Bids for certificates of deposit may be solicited orally, in writing, electronically or in any combination of those methods.
2. *Repurchase Agreements*<sup>2</sup> – Direct or reverse security repurchase agreements with TTSTC (or its successor) or another authorized entity under this policy, which are:
  - a. ~~1)~~ collateralized on a daily basis at a minimum of 102% of market value;
  - b. ~~2)~~ 100% secured by securities authorized by the Public Funds Investment Act;
  - c. ~~3)~~ are placed through a primary government securities dealer, as defined by the Federal Reserve, or an insured financial institution domiciled in this state, or made directly with a state agency with the authority to invest in repurchase agreements as defined Government Code Section 404.024 (c-1).
  - d. Requires securities being purchased or cash held by the Department to be pledged to the Department, either directly or through a joint account<sup>3</sup> approved by the Department, held in the Department's name, either directly or through a joint account approved by the entity, and deposited at the time the investment is made with the Department or with a third party selected and approved by the Department;
  - e. Provides that an investing entity that contracts with an investment management firm may authorize the firm to invest the Department's public funds or other funds under the Department's control in repurchase agreements using a joint account.

<sup>1</sup> "Maximum allowable maturity," when used in this policy, means the remaining time until the final principal payment on the investment, measured from the date of purchase by the Department.

<sup>2</sup> A repurchase agreement made by an investing entity may be submitted for clearing and settlement to a covered clearing agency, as defined by the Securities and Exchange Commission in Rule 17Ad-22 (17 C.F.R. Section 240.17Ad-22).

<sup>3</sup> Joint account means an account maintained by a custodian bank and established on behalf of two or more parties to engage in aggregate repurchase agreement transactions.

# DEPARTMENT OF SAVINGS AND MORTGAGE LENDING INVESTMENT POLICY

f. Requires that an investment management firm responsible for managing a repurchase agreement transaction using a joint account on behalf of an investing entity must ensure that:

- i. Accounting and control procedures are implemented to document the investing entity's aggregate daily investment and pro rata share in the joint account;
- ii. Each party participating in the joint account retains the sole rights of ownership to the party's pro rata share of assets invested in the joint account, including investment earnings on those assets; and
- iii. Policies and procedures are implemented to prevent a party participating in the joint account from using any part of a balance of the joint account that is credited to another party.

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

3.4. Investment Pools – Investment pools with TTSTC or another authorized entity, which pools invest in authorized by the Public Funds Investment Act investments, according to the requirements of ~~Tex.~~ Government Code §Section 2256.016.

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

## **Unauthorized Investments**

Unauthorized Investments under this policy are:

1. All investments in securities not specifically listed in this policy as eligible securities;
2. All investments with maturity and credit rating that do not comply with the requirements of this policy;
3. All investments obtained through an unauthorized entity under this policy;
4. All investments which comply with the policy but through inherent characteristics or external influences and factors could prevent the Department to reach its investment goals under this policy;
5. All investments in companies doing business in Sudan, Iran, or engaging in business with a foreign terrorist organization.<sup>4</sup>
6. All investments in companies that are prohibited by law or have been barred from participating in State of Texas contracts.<sup>5</sup>

## **Strategy for the Recovery Fund**

The investment strategy for funds received into the Recovery Fund is to place funds in either authorized investments set forth in this policy, or in the Texas Treasury Safekeeping Trust Company, with amounts and maturities determined using the following priorities in order of importance:

- (1) the suitability of the investment to the available balances and anticipated needs of the Recovery Fund
- (2) preservation and safety of principal;
- (3) liquidity;

<sup>4</sup> Lists of companies with ties to Sudan, Iran and foreign terrorist organizations are published on the Texas Comptroller's website at <https://comptroller.texas.gov/purchasing/publications/divestment.php>.

<sup>5</sup> Lists of companies that are prohibited by law or have been barred from participating in State of Texas contracts are published on the Texas Comptroller's website at <https://comptroller.texas.gov/purchasing/publications/divestment.php>

# DEPARTMENT OF SAVINGS AND MORTGAGE LENDING INVESTMENT POLICY

- (4) marketability of the investment if the need arises to liquidate the investment before maturity;
- (5) diversification of the investment portfolio; and
- (6) yield.

## **Strategy for the Mortgage Grant Fund**

The investment strategy for funds received into the Mortgage Grant Fund is to place funds in either authorized investments set forth in this policy, or in the Texas Treasury Safekeeping Trust Company, with amounts and maturities determined by using the following priorities in order of importance:

- (1) the suitability of the investment to the anticipated needs of the Mortgage Grant Fund,
- (2) preservation and safety of principal;
- (3) liquidity;
- (4) marketability of the investment if the need arises to liquidate the investment before maturity;
- (5) diversification of the investment portfolio; and
- (6) yield.

## **Safekeeping of Investments**

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

## **Reporting**

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

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

## **Investment Management**

The investment management of the Funds must be of sufficient quality and capability to meet and understand the suitability of the investments to the meet the financial requirements of the Department and each of the Funds.

## **Rates of Return, Market Pricing, and Ratings Changes**

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

The Investment Officer will periodically review the market pricing, rating changes, and rates of return on all investments to ensure that their ratings, values, and yields are consistent with risk and meet investment objectives, using the same methods and procedures a prudent investor, exercising reasonable care, skill, and caution, would use.

## **Diversification**

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

## **Settlement**

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

# DEPARTMENT OF SAVINGS AND MORTGAGE LENDING INVESTMENT POLICY

## **Investment Officer**

The Director of Operations will be the designated primary Investment Officer (“Investment Officer”) and is responsible for the funds held and invested by the Department. The ~~Commissioner may designate a~~ **Chief Accountant is designated as the** secondary Investment Officer who will act as Investment Officer, if the primary Investment Officer is unavailable. The Investment Officer is authorized to:

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

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

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

Within six months of the end of each Legislative session, the Investment Officer will provide a report to the Finance Commission outlining any amendments made to the Public Funds Investment Act and other statutes impacting the agency’s investments, and provide recommendations to update the Investment Policy, as needed.

## **Investment Training**

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

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

## **Entities Authorized to Engage in Investment Transactions**

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

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

A written copy of this policy must be presented to any business organization<sup>6</sup> offering to engage in an investment transaction with the Department. Any business organization holding federally insured deposit accounts is exempt from this requirement. A qualified representative of the business organization offering to engage in an investment transaction with the Department shall execute a written acknowledgment (Appendix) that the business organization:

- Has received and reviewed the Investment Policy of the Department; and,
- Has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Department and the organization that are not authorized by the Department's investment policy, except

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<sup>6</sup> A “business organization” means an investment pool or investment management firm that has contractual authority granted by an investing entity to exercise investment discretion in regard to the investing entity’s funds.

## DEPARTMENT OF SAVINGS AND MORTGAGE LENDING INVESTMENT POLICY

to the extent that this authorization:

- is dependent on an analysis of the makeup of the Department's entire portfolio;
- requires an interpretation of subjective investment standards; or
- relates to investment transactions of the Department that are not made through accounts or other contractual arrangements over which the business organization has accepted discretionary investment authority.

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



DEPARTMENT OF SAVINGS AND MORTGAGE LENDING  
INVESTMENT POLICY

**Appendix  
Acknowledgment**

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

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

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

\_\_\_\_\_  
Signature of Qualified Representative

\_\_\_\_\_  
Date

# DEPARTMENT OF SAVINGS AND MORTGAGE LENDING INVESTMENT POLICY

## **Overview**

This policy governs the investment of funds of the Recovery Fund and Mortgage Grant Fund (“the Funds”) which are administered by the Department of Savings and Mortgage Lending (“the Department”) to the extent the Department has statutory investment authority. The Recovery Fund was established as mandated by the 76<sup>th</sup> Legislature and organized pursuant to Finance Code Chapter 156 Subchapter F. The Mortgage Grant Fund was created by the 87<sup>th</sup> Legislature and organized pursuant to Finance Code Chapter 156 Subchapter G. While this agency is not subject to the requirements in the Public Funds Investment Act (Government Code Chapter 2256), except as specifically authorized by the 87<sup>th</sup> legislature, efforts are made to closely follow the Act.

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

The Finance Commission reapproved this policy on August 18, 2023. The policy includes revisions to incorporate changes to Government Code Section 2256.011 regarding repurchase agreements, edits to legal citations for consistency, and an update regarding the secondary Investment Officer. Previous changes to this policy were approved on August 19, 2022.

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

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

According to the Texas Constitution Section 11b Article VII, each of the Funds shall be managed and invested as a prudent investor, exercising reasonable care, skill, and caution, would invest in light of the purposes, terms, distribution requirements, and other circumstances of the Funds then prevailing, taking into consideration the investment of all the assets of each of the Funds rather than a single investment.

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

## **Identification of Covered Funds**

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

## **Types of Authorized Investments**

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

According to Finance Code Section 156.501(c), the amounts in the Recovery Fund may be invested and reinvested in accordance with Government Code Chapter 2256 and under the standard described by the Texas Constitution Section 11b Article VII, however, an investment may not be made if it will impair the necessary liquidity required to satisfy claims awarded to residential mortgage loan applicants from the Recovery Fund.

According to Finance Code Section 156.553(b), the amounts in the Mortgage Grant Fund may be invested and reinvested in accordance with Government Code Chapter 2256 and under the standard described in the Texas Constitution Section 11b Article VII.

# DEPARTMENT OF SAVINGS AND MORTGAGE LENDING INVESTMENT POLICY

Authorized investments according to the Public Funds Investment Act as well as their applicable standards, requirements, and any exceptions, may be found at Government Code Sections 2256.009 through 2256.016, and include:

1. Obligations of, or Guaranteed by, Governmental Entities
2. Certificates of Deposit and Share Certificates
3. Repurchase Agreements
4. Securities Lending Programs
5. Bankers' Acceptances
6. Commercial Paper
7. Mutual Funds
8. Guaranteed Investment Contracts
9. Investment Pools

To provide for more flexibility and obtain a higher rate of return, while still maintaining liquidity and preserving principal, the Department's maximum allowable maturity period<sup>1</sup> for any individual investment is 36 months (60 months for Obligations of, or Guaranteed by, Governmental Entities) and a minimum acceptable credit rating of A. To further limit the investment risk, the Department restricts the eligible securities for investment of funds covered under this policy to:

1. *Certificates of Deposit & Time Deposits* – Deposit accounts in a depository institution that has its main office or a branch office in this state which are: 1) Insured by a federal deposit insurance agency or its successor; or 2) 100% secured by either obligations that are described by Government Code Section 2256.009(a), including mortgage backed securities directly issued by a federal agency or instrumentality that have a market value of not less than the principal amount of the certificates, but excluding those mortgage backed securities of the nature described by Government Code Section 2256.009(b), or in accordance with Government Code Chapter 2257; and 3) do not have a maturity exceeding 36 months. Bids for certificates of deposit may be solicited orally, in writing, electronically or in any combination of those methods.
2. *Repurchase Agreements*<sup>2</sup> – Direct or reverse security repurchase agreements with TTSTC (or its successor) or another authorized entity under this policy, which are:
  - a. collateralized on a daily basis at a minimum of 102% of market value;
  - b. 100% secured by securities authorized by the Public Funds Investment Act;
  - c. are placed through a primary government securities dealer, as defined by the Federal Reserve, or an insured financial institution domiciled in this state, or made directly with a state agency with the authority to invest in repurchase agreements as defined Government Code Section 404.024 (c-1).
  - d. Requires securities being purchased or cash held by the Department to be pledged to the Department, either directly or through a joint account<sup>3</sup> approved by the Department, held in the Department's name, either directly or through a joint account approved by the entity, and deposited at the time the investment is made with the Department or with a third party selected and approved by the Department;
  - e. Provides that an investing entity that contracts with an investment management firm may authorize the firm to invest the Department's public funds or other funds under the Department's control in repurchase agreements using a joint account.
  - f. Requires that an investment management firm responsible for managing a repurchase agreement transaction using a joint account on behalf of an investing entity must ensure that:
    - i. Accounting and control procedures are implemented to document the investing entity's

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<sup>1</sup> "Maximum allowable maturity," when used in this policy, means the remaining time until the final principal payment on the investment, measured from the date of purchase by the Department.

<sup>2</sup> A repurchase agreement made by an investing entity may be submitted for clearing and settlement to a covered clearing agency, as defined by the Securities and Exchange Commission in Rule 17Ad-22 (17 C.F.R. Section 240.17Ad-22).

<sup>3</sup> Joint account means an account maintained by a custodian bank and established on behalf of two or more parties to engage in aggregate repurchase agreement transactions.

# DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

## INVESTMENT POLICY

- aggregate daily investment and pro rata share in the joint account;
- ii. Each party participating in the joint account retains the sole rights of ownership to the party's pro rata share of assets invested in the joint account, including investment earnings on those assets; and
  - iii. Policies and procedures are implemented to prevent a party participating in the joint account from using any part of a balance of the joint account that is credited to another party.
3. *Obligations of, or Guaranteed by, Governmental Entities* – Obligations, including letters of credit, of the United States or its agencies and instrumentalities (including the Federal Home Loan Banks), direct obligations of this state or its agencies and instrumentalities, and obligations of state or local government agencies and instrumentalities of any state rated as to investment quality by a nationally recognized investment rating firm not less than A with a maximum allowable maturity of 60 months.
  4. *Investment Pools* – Investment pools with TTSTC or another authorized entity, which pools invest in authorized by the Public Funds Investment Act investments, according to the requirements of Government Code Section 2256.016.

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

### **Unauthorized Investments**

Unauthorized Investments under this policy are:

1. All investments in securities not specifically listed in this policy as eligible securities;
2. All investments with maturity and credit rating that do not comply with the requirements of this policy;
3. All investments obtained through an unauthorized entity under this policy;
4. All investments which comply with the policy but through inherent characteristics or external influences and factors could prevent the Department to reach its investment goals under this policy;
5. All investments in companies doing business in Sudan, Iran, or engaging in business with a foreign terrorist organization.<sup>4</sup>
6. All investments in companies that are prohibited by law or have been barred from participating in State of Texas contracts.<sup>5</sup>

### **Strategy for the Recovery Fund**

The investment strategy for funds received into the Recovery Fund is to place funds in either authorized investments set forth in this policy, or in the Texas Treasury Safekeeping Trust Company, with amounts and maturities determined using the following priorities in order of importance:

- (1) the suitability of the investment to the available balances and anticipated needs of the Recovery Fund
- (2) preservation and safety of principal;
- (3) liquidity;
- (4) marketability of the investment if the need arises to liquidate the investment before maturity;
- (5) diversification of the investment portfolio; and
- (6) yield.

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<sup>4</sup> Lists of companies with ties to Sudan, Iran and foreign terrorist organizations are published on the Texas Comptroller's website at <https://comptroller.texas.gov/purchasing/publications/divestment.php>.

<sup>5</sup> Lists of companies that are prohibited by law or have been barred from participating in State of Texas contracts are published on the Texas Comptroller's website at <https://comptroller.texas.gov/purchasing/publications/divestment.php>

# DEPARTMENT OF SAVINGS AND MORTGAGE LENDING INVESTMENT POLICY

## **Strategy for the Mortgage Grant Fund**

The investment strategy for funds received into the Mortgage Grant Fund is to place funds in either authorized investments set forth in this policy, or in the Texas Treasury Safekeeping Trust Company, with amounts and maturities determined by using the following priorities in order of importance:

- (1) the suitability of the investment to the anticipated needs of the Mortgage Grant Fund,
- (2) preservation and safety of principal;
- (3) liquidity;
- (4) marketability of the investment if the need arises to liquidate the investment before maturity;
- (5) diversification of the investment portfolio; and
- (6) yield.

## **Safekeeping of Investments**

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

## **Reporting**

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

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

## **Investment Management**

The investment management of the Funds must be of sufficient quality and capability to meet and understand the suitability of the investments to the meet the financial requirements of the Department and each of the Funds.

## **Rates of Return, Market Pricing, and Ratings Changes**

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

The Investment Officer will periodically review the market pricing, rating changes, and rates of return on all investments to ensure that their ratings, values, and yields are consistent with risk and meet investment objectives, using the same methods and procedures a prudent investor, exercising reasonable care, skill, and caution, would use.

## **Diversification**

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

## **Settlement**

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

## **Investment Officer**

The Director of Operations will be the designated primary Investment Officer ("Investment Officer") and is responsible for the funds held and invested by the Department. The Chief Accountant is designated as the secondary

# DEPARTMENT OF SAVINGS AND MORTGAGE LENDING INVESTMENT POLICY

Investment Officer who will act as Investment Officer, if the primary Investment Officer is unavailable. The Investment Officer is authorized to:

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

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

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

Within six months of the end of each Legislative session, the Investment Officer will provide a report to the Finance Commission outlining any amendments made to the Public Funds Investment Act and other statutes impacting the agency's investments, and provide recommendations to update the Investment Policy, as needed.

## **Investment Training**

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

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

## **Entities Authorized to Engage in Investment Transactions**

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

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

A written copy of this policy must be presented to any business organization<sup>6</sup> offering to engage in an investment transaction with the Department. Any business organization holding federally insured deposit accounts is exempt from this requirement. A qualified representative of the business organization offering to engage in an investment transaction with the Department shall execute a written acknowledgment (Appendix) that the business organization:

- Has received and reviewed the Investment Policy of the Department; and,
- Has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Department and the organization that are not authorized by the Department's investment policy, except to the extent that this authorization:
  - is dependent on an analysis of the makeup of the Department's entire portfolio;
  - requires an interpretation of subjective investment standards; or

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<sup>6</sup> A "business organization" means an investment pool or investment management firm that has contractual authority granted by an investing entity to exercise investment discretion in regard to the investing entity's funds.

## DEPARTMENT OF SAVINGS AND MORTGAGE LENDING INVESTMENT POLICY

- relates to investment transactions of the Department that are not made through accounts or other contractual arrangements over which the business organization has accepted discretionary investment authority.

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

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING  
INVESTMENT POLICY

**Appendix  
Acknowledgment**

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

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

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

\_\_\_\_\_  
Signature of Qualified Representative

\_\_\_\_\_  
Date



DEPARTMENT OF SAVINGS AND MORTGAGE LENDING  
INVESTMENT POLICY

**Investment Training Report**

<b>Name/Designation</b>	<b>Date</b>	<b>Course</b>	<b>Provider</b>	<b>Hours</b>
Antonia Antov – Primary Investment Officer	August 2023	Texas Public Funds Investment Act	Texas State University	5
Anis Golshan – Secondary Investment Officer	September 2022	Texas Public Funds Investment Act	University of North Texas Center for Public Management	10
According to Government Code Sec. 2256.007, investment officer training requirements are on a state fiscal biennium basis.				

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# TEXAS DEPARTMENT OF BANKING

★ *Dedicated to Excellence in Texas Banking* ★

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## ADMINISTRATIVE MEMORANDUM – 2027

August ~~19, 2022~~ 18, 2023

**TO:** Finance Commission Members

**FROM:** Charles G. Cooper, Banking Commissioner

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

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### Overview

This policy governs the investment of funds maintained by the Texas Department of Banking ("Department"), as well as the investment of funds under its control to the extent the Department has either statutory or court-approved investment authority. While this agency is not subject to the requirements in the Public Funds Investment Act (Government Code Ch. 2256), efforts are made to closely follow the Act. This policy does not convey investment authority where such does not exist through statute or the courts. This policy shall be approved by the Finance Commission as this policy applies to funds within its purview. The policy will be reviewed annually by the Finance Commission, with said review and any changes made to either the policy or investment strategies recorded in the minutes of the Finance Commission.

The Finance Commission met August ~~19, 2022~~ 18, 2023, to re-approve this policy as revised to incorporate changes to Gov't Code Section 2256.011 regarding repurchase agreements, clarify other unauthorized investments. Previously, this policy was reviewed and approved ~~August 20, 2021~~ August 19, 2022.

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

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

All investments shall be made with the judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's

own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived.

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

### Identification of Covered Funds

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

### Types of Authorized Investments

The fund or a portion of the fund may be placed in the Texas Treasury Safekeeping Trust Company (or its successor). Pursuant to Section 404.106 of the Government Code (Gov't Code), funds held by the Texas Treasury Safekeeping Trust Company are to be invested in obligations in which the Texas Comptroller of Public Accounts is authorized to invest. Section 404.024 of the Gov't Code specifies those obligations in which the Comptroller is authorized to invest.

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

1. Obligations, including letters of credit, of the United States (U.S.) or its agencies and instrumentalities, including the Federal Home Loan Banks with a maximum allowable maturity<sup>1</sup> of 10 years.
2. Direct obligations of this state or its agencies and instrumentalities with a maximum allowable maturity of 10 years.
3. Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the U.S., the underlying security for which is guaranteed by an agency or instrumentality of the U.S., provided that the applicable interest rate is not determined by an index that adjusts opposite to the changes in a market index and the stated final maturity date is not greater than 10 years from the date the collateralized mortgage obligation is acquired by the Department.
4. Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, this state or the U.S. or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured

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<sup>1</sup> "Maximum allowable maturity," when used in this policy, means the remaining time until the final principal payment on the investment, measured from the date of purchase by the Department.

by the Federal Deposit Insurance Corporation (FDIC) or by the explicit full faith and credit of the U.S. with a maximum allowable maturity of 10 years.

5. Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent with a maximum allowable maturity of 10 years. If the rating of the issuing entity is downgraded below investment quality during the time an investment is held from that entity, all prudent measures must be taken to liquidate the investment within a reasonable period of time, consistent with the guidelines in this policy.
6. Bonds issued, assumed, or guaranteed by the State of Israel.
7. Interest-bearing deposit accounts that are guaranteed or insured by the FDIC or its successor.
8. Other interest-bearing deposit accounts not described above if:
  - a. The funds are invested through a broker with a main office or branch office in this state as selected by the Department from an approved list, or through a depository institution with a main office or branch office in this state;
  - b. The selected broker or depository institution arranges for deposit of the funds in deposit accounts in one or more federally insured institutions, regardless of where located;
  - c. The full amount of principal and accrued interest in such deposit accounts is insured by the U.S. or an instrumentality of the U.S.; and
  - d. The Department appoints a custodian of the deposit accounts that is:
    - i. The depository institution selected to broker the deposits;
    - ii. A state or national bank designated by the comptroller as a state depository with its main office or a branch office in this state, that has capital stock and surplus of \$5 million or more;
    - iii. The Texas Treasury Safekeeping Trust Company;
    - iv. A Federal Reserve Bank or a branch of a Federal Reserve Bank;
    - v. A Federal Home Loan Bank;
    - vi. A financial institution authorized to exercise fiduciary powers that is designated by the comptroller as a custodian; or
    - vii. A clearing broker dealer registered with the Securities and Exchange Commission (SEC) and operating under SEC Rule 15c3-3 (17 C.F.R. Section 240.15c3-3).
9. A certificate of deposit issued by a depository institution that has its main office or a branch office in this state, if the certificate:
  - a. Is guaranteed or insured by the FDIC, or its successor;
  - b. Is secured by obligations described by Gov't Code § 2256.009(a) for direct investment by the Department; or

- c. Is secured as provided under the Public Funds Collateral Act (Gov't Code Chapter 2257); and
- d. Does not have a maturity exceeding 36 months.

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

Bids for certificates of deposit may be solicited:

- Orally;
  - In writing;
  - Electronically; or
  - In any combination of those methods.
10. A repurchase agreement,<sup>2</sup> collateralized on a daily basis at a minimum of 102% of market value, including a direct security repurchase agreement and a reverse security repurchase agreement that:
    - a. With respect to a reverse security repurchase agreement, does not have a defined termination date exceeding 90 days;
    - b. Is secured by a combination of cash and obligations described by Gov't Code § 2256.009(a)(1) or § 2256.013;
    - c. Requires securities being purchased or cash held by the Department to be pledged to the Department, either directly or through a joint account<sup>3</sup> approved by the Department, held in the Department's name, either directly or through a joint account approved by the entity, and deposited at the time the investment is made with the Department or with a third party selected and approved by the Department;
    - d. Is placed through a primary government securities dealer, as defined by the Federal Reserve, or an insured financial institution domiciled in this state, or made directly with a state agency with the authority to invest in repurchase agreements as defined by Gov't Code § 404.024 (c-1); and
    - e. Requires that money received under the terms of a reverse security repurchase agreement must be used to acquire additional authorized investments, but the term of the authorized investments required must mature not later than the expiration date stated in the reverse security repurchase agreement;
    - f. Provides that an investing entity that contracts with an investment management firm may authorize the firm to invest the Department's public funds or other funds under the Department's control in repurchase agreements using a joint account.

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<sup>2</sup> A repurchase agreement made by an investing entity may be submitted for clearing and settlement to a covered clearing agency, as defined by the Securities and Exchange Commission in Rule 17Ad-22 (17 C.F.R. Section 240.17Ad-22).

<sup>3</sup> Joint account means an account maintained by a custodian bank and established on behalf of two or more parties to engage in aggregate repurchase agreement transactions.

- g. Requires that an investment management firm responsible for managing a repurchase agreement transaction using a joint account on behalf of an investing entity must ensure that:
  - i. Accounting and control procedures are implemented to document the investing entity's aggregate daily investment and pro rata share in the joint account;
  - ii. Each party participating in the joint account retains the sole rights of ownership to the party's pro rata share of assets invested in the joint account, including investment earnings on those assets; and
  - e-iii. Policies and procedures are implemented to prevent a party participating in the joint account from using any part of a balance of the joint account that is credited to another party.

11. A no-load money market mutual fund that:

- a. Is registered with and regulated by the SEC;
- b. Provides the Department with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940; and
- c. Complies with federal SEC Rule 2a-7, promulgated under the Investment Company Act of 1940 (17 C.F.R. § 270-2a-7).

12. A no-load mutual fund that:

- a. Is registered with the SEC;
- b. Has an average weighted maturity of less than two years; and
- c. Either:
  - i. Has a duration of one year or more and are invested exclusively in obligations authorized in this policy; or
  - ii. Has a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities.

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

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

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

### Unauthorized Investments

The following are not authorized investments under this policy:

1. Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal;
2. Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest;
3. Collateralized mortgage obligations that have a stated final maturity date of greater than 10 years;
4. Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index;
5. No portion of bond proceeds, reserves and funds held for debt service may be invested in no-load mutual funds described in Gov't Code § 2256.014(b);
6. Investments in companies doing business in Sudan, in Iran, or with a foreign terrorist organization;<sup>4</sup> and
7. Investments in companies that are prohibited by law or have been barred from participating in State of Texas contracts.<sup>5</sup>

### Strategies for Covered Funds

The investment strategy for funds acquired through seizure of a trust-funded prepaid funeral contract seller, or trust company or uninsured bank in liquidation is to maintain investments seized in the seized entity's existing investment vehicle until potential legal challenges to the Department's seizure are resolved. Thereafter, if funds are in unauthorized investments, the Investment Officer will reinvest funds into authorized investments as it becomes prudent to do so.

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<sup>4</sup> Lists of companies with ties to Sudan, Iran and foreign terrorist organizations are published on the Texas Comptroller's website at <https://comptroller.texas.gov/purchasing/publications/divestment.php>.

<sup>5</sup> Lists of companies that are prohibited by law or have been barred from participating in State of Texas contracts are published on the Texas Comptroller's website at <https://comptroller.texas.gov/purchasing/publications/divestment.php>



If funds are anticipated to be held for less than one year, funds may be placed in the Texas Treasury Safekeeping Trust Company, subject to an agreement with that company. Otherwise, funds will be invested in authorized investments as set forth elsewhere in this policy. Investments will be of a diverse nature, with maturities and cash flows structured to accommodate the anticipated distributions from the seizure or liquidation. Court-appointed liquidators will be used when possible to manage funds under liquidation.

### **Safekeeping of Investments**

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

### **Reporting**

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

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

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

### **Rates of Return, Market Pricing, and Ratings Changes**

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

The Investment Officer will periodically review the market pricing, rating changes, and rates of return on all investments to ensure that their ratings, values, and yields are consistent with risk and meet investment objectives. The Investment Officer will use the same methods and procedures as

a prudent investor, exercising reasonable care, skill, and caution.

### **Diversification**

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

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

### **Settlement**

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

### **Investment Officer**

The Director of the Non-Depository Supervision Division is designated as the primary Investment Officer and is responsible for the investment of the funds held and invested by the Department. The Chief Financial Officer is designated as the secondary Investment Officer and will perform the functions of the primary Investment Officer if the primary Investment Officer is unavailable. The Investment Officer is authorized to:

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

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

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

Ethics Commission and the Finance Commission.

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

### **Investment Training**

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

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

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

### **Entities Authorized to Engage in Investment Transactions**

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

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

A written copy of this policy must be presented to any business organization<sup>6</sup> offering to engage in an investment transaction with the Department. Any business organization holding federally insured deposit accounts that come under the Department's control, through a seizure or liquidation

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<sup>6</sup> A "business organization" means an investment pool or investment management firm that has contractual authority granted by an investing entity to exercise investment discretion in regard to the investing entity's funds.

are exempt from this requirement. A qualified representative of the business organization offering to engage in an investment transaction with the Department shall execute a written acknowledgment, as provided in the Appendix, that the business organization:

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

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

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## Appendix

### Acknowledgment

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

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

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

\_\_\_\_\_  
Signature of Qualified Representative

\_\_\_\_\_  
Date



# TEXAS DEPARTMENT OF BANKING

★ *Dedicated to Excellence in Texas Banking* ★

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## ADMINISTRATIVE MEMORANDUM – 2027

August 18, 2023

**TO:** Finance Commission Members

**FROM:** Charles G. Cooper, Banking Commissioner

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

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### Overview

This policy governs the investment of funds maintained by the Texas Department of Banking ("Department"), as well as the investment of funds under its control to the extent the Department has either statutory or court-approved investment authority. While this agency is not subject to the requirements in the Public Funds Investment Act (Government Code Ch. 2256), efforts are made to closely follow the Act. This policy does not convey investment authority where such does not exist through statute or the courts. This policy shall be approved by the Finance Commission as this policy applies to funds within its purview. The policy will be reviewed annually by the Finance Commission, with said review and any changes made to either the policy or investment strategies recorded in the minutes of the Finance Commission.

The Finance Commission met August 18, 2023, to re-approve this policy as revised to incorporate changes to Government Code Section 2256.011 regarding repurchase agreements. Previously, this policy was reviewed and approved August 19, 2022.

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

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

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

the probable income to be derived.

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

### **Identification of Covered Funds**

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

### **Types of Authorized Investments**

The fund or a portion of the fund may be placed in the Texas Treasury Safekeeping Trust Company (or its successor). Pursuant to Section 404.106 of the Government Code (Gov't Code), funds held by the Texas Treasury Safekeeping Trust Company are to be invested in obligations in which the Texas Comptroller of Public Accounts is authorized to invest. Section 404.024 of the Gov't Code specifies those obligations in which the Comptroller is authorized to invest.

Insofar as the fund or a portion of the fund is deposited in a financial institution as authorized by Texas Finance Code Section 154.353, the Department may utilize the investment securities listed below.

1. Obligations, including letters of credit, of the United States (U.S.) or its agencies and instrumentalities, including the Federal Home Loan Banks with a maximum allowable maturity<sup>1</sup> of 10 years.
2. Direct obligations of this state or its agencies and instrumentalities with a maximum allowable maturity of 10 years.
3. Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the U.S., the underlying security for which is guaranteed by an agency or instrumentality of the U.S., provided that the applicable interest rate is not determined by an index that adjusts opposite to the changes in a market index and the stated final maturity date is not greater than 10 years from the date the collateralized mortgage obligation is acquired by the Department.
4. Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, this state or the U.S. or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or by the explicit full faith and credit of the U.S. with a maximum allowable maturity of 10 years.
5. Obligations of states, agencies, counties, cities, and other political subdivisions of any state

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<sup>1</sup> "Maximum allowable maturity," when used in this policy, means the remaining time until the final principal payment on the investment, measured from the date of purchase by the Department.

rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent with a maximum allowable maturity of 10 years. If the rating of the issuing entity is downgraded below investment quality during the time an investment is held from that entity, all prudent measures must be taken to liquidate the investment within a reasonable period of time, consistent with the guidelines in this policy.

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



- d. Does not have a maturity exceeding 36 months.

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

Bids for certificates of deposit may be solicited:

- Orally;
  - In writing;
  - Electronically; or
  - In any combination of those methods.
10. A repurchase agreement,<sup>2</sup> collateralized on a daily basis at a minimum of 102% of market value, including a direct security repurchase agreement and a reverse security repurchase agreement that:
- a. With respect to a reverse security repurchase agreement, does not have a defined termination date exceeding 90 days;
  - b. Is secured by a combination of cash and obligations described by Gov't Code § 2256.009(a)(1) or § 2256.013;
  - c. Requires securities being purchased or cash held by the Department to be pledged to the Department, either directly or through a joint account<sup>3</sup> approved by the Department, held in the Department's name, either directly or through a joint account approved by the entity, and deposited at the time the investment is made with the Department or with a third party selected and approved by the Department;
  - d. Is placed through a primary government securities dealer, as defined by the Federal Reserve, or an insured financial institution domiciled in this state, or made directly with a state agency with the authority to invest in repurchase agreements as defined by Gov't Code § 404.024 (c-1); and
  - e. Requires that money received under the terms of a reverse security repurchase agreement must be used to acquire additional authorized investments, but the term of the authorized investments required must mature not later than the expiration date stated in the reverse security repurchase agreement;
  - f. Provides that an investing entity that contracts with an investment management firm may authorize the firm to invest the Department's public funds or other funds under the Department's control in repurchase agreements using a joint account;
  - g. Requires that an investment management firm responsible for managing a repurchase agreement transaction using a joint account on behalf of an investing

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<sup>2</sup> A repurchase agreement made by an investing entity may be submitted for clearing and settlement to a covered clearing agency, as defined by the Securities and Exchange Commission in Rule 17Ad-22 (17 C.F.R. Section 240.17Ad-22).

<sup>3</sup> Joint account means an account maintained by a custodian bank and established on behalf of two or more parties to engage in aggregate repurchase agreement transactions.

entity must ensure that:

- i. Accounting and control procedures are implemented to document the investing entity's aggregate daily investment and pro rata share in the joint account;
- ii. Each party participating in the joint account retains the sole rights of ownership to the party's pro rata share of assets invested in the joint account, including investment earnings on those assets; and
- iii. Policies and procedures are implemented to prevent a party participating in the joint account from using any part of a balance of the joint account that is credited to another party.

11. A no-load money market mutual fund that:

- a. Is registered with and regulated by the SEC;
- b. Provides the Department with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940; and
- c. Complies with federal SEC Rule 2a-7, promulgated under the Investment Company Act of 1940 (17 C.F.R. § 270-2a-7).

12. A no-load mutual fund that:

- a. Is registered with the SEC;
- b. Has an average weighted maturity of less than two years; and
- c. Either:
  - i. Has a duration of one year or more and are invested exclusively in obligations authorized in this policy; or
  - ii. Has a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities.

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

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

Any noncomplying investments received through liquidation or seizure will be reported by the

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

### **Unauthorized Investments**

The following are not authorized investments under this policy:

1. Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal;
2. Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest;
3. Collateralized mortgage obligations that have a stated final maturity date of greater than 10 years;
4. Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index;
5. No portion of bond proceeds, reserves and funds held for debt service may be invested in no-load mutual funds described in Gov't Code § 2256.014(b);
6. Investments in companies doing business in Sudan, in Iran, or with a foreign terrorist organization;<sup>4</sup> and
7. Investments in companies that are prohibited by law or have been barred from participating in State of Texas contracts.<sup>5</sup>

### **Strategies for Covered Funds**

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

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<sup>4</sup> Lists of companies with ties to Sudan, Iran and foreign terrorist organizations are published on the Texas Comptroller's website at <https://comptroller.texas.gov/purchasing/publications/divestment.php>.

<sup>5</sup> Lists of companies that are prohibited by law or have been barred from participating in State of Texas contracts are published on the Texas Comptroller's website at <https://comptroller.texas.gov/purchasing/publications/divestment.php>

be invested in authorized investments as set forth elsewhere in this policy. Investments will be of a diverse nature, with maturities and cash flows structured to accommodate the anticipated distributions from the seizure or liquidation. Court-appointed liquidators will be used when possible to manage funds under liquidation.

### **Safekeeping of Investments**

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

### **Reporting**

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

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

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

### **Rates of Return, Market Pricing, and Ratings Changes**

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

The Investment Officer will periodically review the market pricing, rating changes, and rates of return on all investments to ensure that their ratings, values, and yields are consistent with risk and meet investment objectives. The Investment Officer will use the same methods and procedures as a prudent investor, exercising reasonable care, skill, and caution.

### **Diversification**

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

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

### **Settlement**

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

### **Investment Officer**

The Director of the Non-Depository Supervision Division is designated as the primary Investment Officer and is responsible for the investment of the funds held and invested by the Department. The Chief Financial Officer is designated as the secondary Investment Officer and will perform the functions of the primary Investment Officer if the primary Investment Officer is unavailable. The Investment Officer is authorized to:

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

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

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

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

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

### **Investment Training**

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

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

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

### **Entities Authorized to Engage in Investment Transactions**

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

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

A written copy of this policy must be presented to any business organization<sup>6</sup> offering to engage in an investment transaction with the Department. Any business organization holding federally insured deposit accounts that come under the Department's control, through a seizure or liquidation are exempt from this requirement. A qualified representative of the business organization offering to engage in an investment transaction with the Department shall execute a written acknowledgment, as provided in the Appendix, that the business organization:

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<sup>6</sup> A "business organization" means an investment pool or investment management firm that has contractual authority granted by an investing entity to exercise investment discretion in regard to the investing entity's funds.

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

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

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## Appendix

### Acknowledgment

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

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

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

\_\_\_\_\_  
Signature of Qualified Representative

\_\_\_\_\_  
Date



**Office of Consumer Credit Commissioner  
Operating Statement and Budget Analysis  
For the Quarter Ending May 31, 2023**

	FY 2022 ACTUAL	FY 2023 BUDGET	QUARTER PERFORMANCE				FY 2023 PERFORMANCE			
			3rd Quarter BUDGET	3rd Quarter ACTUAL	(Over)/Under BUDGET	Percent BUDGET	YTD BUDGET	YTD ACTUAL	(Over)/Under BUDGET	Percent BUDGET
<b>REVENUES</b>										
Industry										
Consumer Lending Industry	\$ 1,672,949	\$ 2,291,531	\$ 40,565	\$ 47,706	\$ (7,140)	117.6%	\$ 2,263,669	\$ 1,855,186	\$ 408,482	82.0%
Credit Access Industry	818,210	746,351	28,804	10,475	18,329	36.4%	719,402	765,940	(46,538)	106.5%
MVSF Industry	3,415,651	4,355,540	299,289	193,216	106,073	64.6%	4,055,365	4,008,428	46,937	98.8%
Pawn	471,353	737,403	175,967	232,623	(56,656)	132.2%	203,264	255,105	(51,840)	125.5%
Registered Entities	369,390	330,485	36,584	15,760	20,824	43.1%	280,422	319,015	(38,593)	113.8%
Penalties	114,600	-	0	10,825	(10,825)	0.0%	0	41,231	(41,231)	0.0%
Miscellaneous Revenue	65,474	15,000	2,579	167,759	(165,180)	6505.7%	12,681	424,659	(411,978)	3348.9%
<b>TOTAL REVENUES</b>	<b>\$ 6,927,627</b>	<b>\$ 8,476,310</b>	<b>\$ 583,787</b>	<b>\$ 678,363</b>	<b>\$ (94,576)</b>	<b>116.2%</b>	<b>\$ 7,534,802</b>	<b>\$ 7,669,564</b>	<b>\$ (134,761)</b>	<b>101.8%</b>
<b>EXPENDITURES</b>										
Personnel Costs										
Employee Compensation	\$ 4,435,662	\$ 5,045,938	\$ 1,261,485	\$ 1,200,055	\$ 61,430	95.1%	\$ 3,784,454	\$ 3,504,893	\$ 279,560	92.6%
Employee Benefits	1,524,245	1,805,828	451,457	398,988	52,469	88.4%	1,354,371	1,164,339	190,032	86.0%
Add'l Health/Retirement	68,443	74,950	18,738	17,745	992	94.7%	56,213	53,355	2,858	94.9%
Other Personnel Costs	120,175	121,194	30,299	18,175	12,123	60.0%	90,896	54,351	36,544	59.8%
Subtotal Personnel Costs	\$ 6,148,526	\$ 7,047,910	\$ 1,761,978	\$ 1,634,964	\$ 127,014	92.8%	\$ 5,285,933	\$ 4,776,938	\$ 508,995	90.4%
Travel										
In-State Travel	\$ 466,732	\$ 567,000	\$ 139,625	\$ 139,933	\$ (308)	100.2%	\$ 425,250	\$ 386,632	\$ 38,618	90.9%
Out of State - Travel	0	15,000	5,875	13,040	(7,165)	222.0%	11,250	21,501	(10,251)	191.1%
Subtotal Travel	\$ 466,732	\$ 582,000	\$ 145,500	\$ 152,973	\$ (7,473)	105.1%	\$ 436,500	\$ 408,133	\$ 28,367	93.5%
Operating Costs										
Professional Services & Fees	\$ 91,283	\$ 90,500	\$ 22,625	\$ 1,866	\$ 20,759	8.2%	\$ 67,875	\$ 25,461	\$ 42,414	37.5%
Consumables	7,083	7,500	1,875	1,443	432	77.0%	5,625	2,982	2,643	53.0%
Office Utilities	16,616	17,250	4,313	2,932	1,381	68.0%	12,938	11,245	1,692	86.9%
Rent - Building/Space	28,802	27,600	6,900	6,822	78	98.9%	20,700	22,712	(2,012)	109.7%
Rent - Equipment/Other	2,841	3,100	775	675	100	87.1%	2,325	1,936	389	83.3%
Communications	78,834	79,830	19,958	17,900	2,057	89.7%	59,873	57,479	2,393	96.0%
Information Technology	409,708	488,969	122,242	83,321	38,921	68.2%	366,727	254,092	112,635	69.3%
Employee Training	7,321	8,700	2,175	4,865	(2,690)	223.7%	6,525	11,109	(4,584)	170.3%
Misc. Operating Costs	291,666	277,240	69,310	37,292	32,018	53.8%	207,930	178,320	29,610	85.8%
Subtotal Operating Costs	\$ 934,154	\$ 1,000,689	\$ 250,172	\$ 157,117	\$ 93,056	62.8%	\$ 750,517	\$ 565,338	\$ 185,179	75.3%
<b>TOTAL EXPENDITURES</b>	<b>\$ 7,549,412</b>	<b>\$ 8,630,599</b>	<b>\$ 2,157,650</b>	<b>\$ 1,945,054</b>	<b>\$ 212,596</b>	<b>90.1%</b>	<b>\$ 6,472,949</b>	<b>\$ 5,750,409</b>	<b>\$ 722,540</b>	<b>88.8%</b>
<b>EXPENDITURES (OVER) / UNDER REVENUES</b>	<b>\$ (621,785)</b>	<b>\$ (154,289)</b>	<b>\$ (1,573,862)</b>	<b>\$ (1,266,691)</b>	<b>\$ (307,172)</b>		<b>\$ 1,061,853</b>	<b>\$ 1,919,155</b>	<b>\$ (857,302)</b>	

**Office of Consumer Credit Commissioner  
Budget Variance Analysis  
For the Quarter Ending May 31, 2023**

**Revenues:** Overall revenues are 102% of the year-to-date budget.

Consumer Lending- The variance (-18%) is due to a lower renewal rate for regulated lenders than expected and a higher discount for renewal than budgeted. It was anticipated that 93% of regulated lenders would renew based on historical trends and 85% completed renewal.

Credit access industry- The positive variance (6%) is due to higher than anticipated renewal rate. It was anticipated that 85% of CABs would renew and 93% completed renewal.

Registered entities-The positive variance (14%) is due to timing in the receipt of revenue for debt management and settlement registrations and refund anticipation loan.

Misc Revenue- This category is greater than budgeted due to significantly higher interest earned than anticipated. Interest revenue projections were based on historical trends and current interest rates have significantly impacted actual interest revenue collected.

**Expenditures:** Overall expenditures are 89% of the budget.

Personnel- Expenditures are ~10% under budget primarily due to staff vacancies, primarily for financial examiners. New examiner classes that were planned throughout the year proved more difficult to fill resulting in delays and deferment of hiring classes.

Travel- Travel expenditures are 6% under budget due to examiner vacancies and some reduced examination travel in Q1 consistent with the level of examination production.

Expenditure Type	In-State	Out of State	Total
	FY23	FY23	
Regulatory Supervision	313,498	9,927	323,425
Development & Training	71,021	11,574	82,596
Other Reg Activities	2,113	-	2,113
<b>Total</b>	<b>386,632</b>	<b>21,501</b>	<b>408,133</b>

Professional fees- This category is ~63% under budget due to the timing of planned expenditures and costs not incurred. Anticipated expenditures for accounting services and architectural/engineering are expected to occur in the 4<sup>th</sup> quarter. Payments for legal services have been less than projected in FY23.

Information Technology – This category is ~31% under budget due to the timing of and change of scope in IT projects. Three projects have been deferred into FY24 due to competing priorities and contracting procedural requirements.

Miscellaneous Operating Costs – This category is ~14% under budget due to the timing of SWCAP reimbursement payments and less than projected fees for electronic payments.

**Office of Consumer Credit Commissioner  
Liquidity Report  
For the Quarter Ending May 31, 2023**

	<b>Actual</b>
Cash at Beginning of Period	\$ 15,377,805
Revenues Over (Under) Expenditures	\$ (1,266,691)
Increase (Decrease) in Payables/Encumbrances	\$ (45,897)
(Increase) Decrease in Receivables	\$ (20,236)
Other source of funds (transfer)	\$ -
<b>Cash at End of Period</b>	<b><u>\$ 14,044,982</u></b>
Reserved Cash Balance:	
Building Maintenance/IT	\$ -
Long-term facilities planning	\$ 9,463,640
Payables (net of receivables)	\$ 661,937
Lump sums for Retirements	\$ 290,704
Program Funds	\$ -
Other	\$ -
<b>Total Reserved Cash Balance</b>	<b><u>\$ 10,416,281</u></b>
Unreserved Cash Balance:	
Future Operations	\$ 3,628,701
<b>Total Unreserved Cash Balance</b>	<b><u>\$ 3,628,701</u></b>
<b>Total Cash Balance</b>	<b><u><u>\$ 14,044,982</u></u></b>
Unreserved Cash / FY 2023 Monthly Budget	5.0

**Department of Savings and Mortgage Lending**

**Operating Statement and Budget Analysis  
For the Quarter Ending May 31, 2023**

	FY 2022 ACTUAL	FY 2023 BUDGET	QUARTER PERFORMANCE				FY 2023 PERFORMANCE			
			3rd Quarter BUDGET	3rd Quarter ACTUAL	(Over)/Under BUDGET	Percent BUDGET	YTD BUDGET	YTD ACTUAL	(Over)/Under BUDGET	Percent BUDGET
<b>REVENUES</b>										
Thrift Industry										
Assessments	\$ 3,921,495	\$ 4,076,434	\$ 1,005,180	\$ 1,203,257	\$ (198,077)	119.7%	\$ 3,093,075	\$ 3,691,241	\$ (598,166)	119.3%
Application Fees	7,750	16,000	500	100	400	20.0%	8,500	4,900	3,600	57.6%
Mortgage Industry										
Licensing Fees	3,353,999	4,707,550	455,700	328,345	127,355	72.1%	4,254,075	3,469,290	784,785	81.6%
Administrative Penalties	154,567	-	-	30,095	(30,095)	0.0%	-	88,652	(88,652)	0.0%
Misc. Revenues	54,383	105,000	25,000	156,846	(131,846)	627.4%	75,000	368,883	(293,883)	491.8%
<b>TOTAL REVENUES</b>	<b>\$ 7,492,194</b>	<b>\$ 8,904,984</b>	<b>\$ 1,486,380</b>	<b>\$ 1,718,643</b>	<b>\$ (232,263)</b>	<b>115.6%</b>	<b>\$ 7,430,650</b>	<b>\$ 7,622,966</b>	<b>\$ (192,316)</b>	<b>102.6%</b>
<b>EXPENDITURES</b>										
Personnel Costs										
Employee Compensation	\$ 4,986,018	\$ 5,858,020	\$ 1,507,755	\$ 1,280,165	\$ 227,590	84.9%	\$ 4,240,265	\$ 3,779,178	\$ 461,087	89.1%
Employee Benefits	1,475,368	1,734,627	451,741	406,887	44,854	90.1%	1,279,449	1,170,995	108,454	91.5%
Add'l Health/Retirement	64,658	81,661	21,626	18,231	3,395	84.3%	60,034	52,745	7,289	87.9%
Other Personnel Costs	130,222	105,481	21,564	64,311	(42,747)	298.2%	84,881	144,697	(59,816)	170.5%
Subtotal Personnel Costs	<b>\$ 6,656,267</b>	<b>\$ 7,779,789</b>	<b>\$ 2,002,686</b>	<b>\$ 1,769,594</b>	<b>\$ 233,092</b>	<b>88.4%</b>	<b>\$ 5,664,629</b>	<b>\$ 5,147,616</b>	<b>\$ 517,013</b>	<b>90.9%</b>
Travel										
In-State	\$ 51,775	\$ 108,000	\$ 30,000	\$ 29,823	\$ 177	99.4%	\$ 84,000	\$ 70,295	\$ 13,705	83.7%
Out-of-State	16,387	45,000	10,000	9,010	990	90.1%	21,500	10,168	11,332	47.3%
Subtotal Travel	<b>\$ 68,162</b>	<b>\$ 153,000</b>	<b>\$ 40,000</b>	<b>\$ 38,832.14</b>	<b>\$ 1,168</b>	<b>97.1%</b>	<b>\$ 105,500</b>	<b>\$ 80,463</b>	<b>\$ 25,037</b>	<b>76.3%</b>
Operating Costs										
Professional Fees	\$ 45,169	\$ 120,844	\$ 22,500	\$ 4,527	\$ 17,973	20.1%	\$ 54,544	\$ 30,325	\$ 24,219	55.6%
Consumables	6,551	10,000	2,500	2,180	320	87.2%	7,500	3,614	3,886	48.2%
Office Utilities	13,486	14,059	3,530	2,255	1,275	63.9%	10,109	9,159	950	90.6%
Rent - Space & Equipment	7,138	10,700	250	45	205	18.0%	10,450	6,837	3,613	65.4%
Communications	88,394	96,432	16,335	16,338	(3)	100.0%	80,197	77,415	2,782	96.5%
Information Technology	228,459	258,391	88,340	79,073	9,267	89.5%	191,641	179,552	12,089	93.7%
Employee Training	50,741	70,000	17,500	10,537	6,963	60.2%	52,500	24,293	28,207	46.3%
Misc. Operating Costs	106,096	132,205	49,244	45,993	3,251	93.4%	101,300	93,991	7,309	92.8%
Subtotal Operating Costs	<b>\$ 546,033</b>	<b>\$ 712,631</b>	<b>\$ 200,199</b>	<b>\$ 160,949</b>	<b>\$ 39,250</b>	<b>80.4%</b>	<b>\$ 508,241</b>	<b>\$ 425,187</b>	<b>\$ 83,054</b>	<b>83.7%</b>
<b>TOTAL EXPENDITURES</b>	<b>\$ 7,270,461.73</b>	<b>\$ 8,645,420</b>	<b>\$ 2,242,885</b>	<b>\$ 1,969,375</b>	<b>\$ 273,510</b>	<b>87.8%</b>	<b>\$ 6,278,370</b>	<b>\$ 5,653,266</b>	<b>\$ 625,104</b>	<b>90.0%</b>
<b>EXPENDITURES (OVER)/ UNDER REVENUES</b>	<b>221,732</b>	<b>\$ 259,564</b>	<b>\$ (756,505)</b>	<b>\$ (250,733)</b>	<b>\$ (505,773)</b>		<b>\$ 1,152,280</b>	<b>\$ 1,969,700</b>	<b>\$ (817,420)</b>	

# Department of Savings and Mortgage Lending

## Budget Variance Analysis For the Quarter Ending May 31, 2023

Revenues: Overall revenues are at 102.6% of budget.

Thrift Assessments – Amounts collected are 19.3% over budget due to higher thrift industry risk-weighted assets than budgeted.

Licensing Fees – Amounts collected are 18.4% under budget. The Department received fewer 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 10% under budget.

Personnel Costs – The category is 9.1% under budget due to unfilled vacancies.

Travel – Travel costs incurred were 23.7% under budget, due to fewer in-person training events attended and changes in business processes reducing the requirements for travel to exam locations.

Travel Breakdown 3rd Qtr FY23			
Category	In-State	Out-of-State	Total
Regulation and Supervision	\$59,310.32	\$909.93	\$60,220.25
Development and Training	10,185.69	9,258.05	19,443.74
Other Regulatory Activities	55.00	0.00	55.00
Non-Employee Travel	743.97	0.00	743.97
Total	\$70,294.98	\$10,167.98	\$80,462.96

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

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

# Department of Savings and Mortgage Lending

## Liquidity Report For the Quarter Ending May 31, 2023

	<b>ACTUAL</b>
Cash at Beginning of Period	\$ 13,431,426
Revenues Over (Under) Expenditures	(245,288)
Increase (Decrease) in Payables	73,477
(Increase) Decrease in Receivables	2,125
<b>Cash at End of Period</b>	<b><u>\$ 13,261,741</u></b>
<b>Reserved Cash Balance:</b>	
Bldg. maintenance/IT	\$ -
Long-term facilities planning	9,510,187
Payables (net of receivables)	700,366
Lump Sums for Retirements	183,979
Program Funds	-
Other	-
<b>Total Reserved Cash Balance</b>	<b><u>\$ 10,394,533</u></b>
<b>Unreserved Cash Balance:</b>	
Future Operations	<u>\$ 2,867,208</u>
<b>Total Unreserved Cash Balance</b>	<b><u>\$ 2,867,208</u></b>
<b>Total Cash Balance</b>	<b><u>\$ 13,261,741</u></b>
 Unreserved Cash/FY2023 Monthly Budget	 3.98 months

**Texas Department of Banking  
Operating Statement and Budget Analysis  
For the Quarter Ending May 31, 2023**

	FY 2022 ACTUAL	FY 2023 BUDGET	QUARTER PERFORMANCE				FY 2023 PERFORMANCE			
			3rd Quarter BUDGET	3rd Quarter ACTUAL	(Over)/Under BUDGET	Percent BUDGET	YTD BUDGET	YTD ACTUAL	(Over)/Under BUDGET	Percent BUDGET
<b>REVENUES</b>										
Bank & Trust Regulation	\$23,622,042	\$30,345,091	\$8,540,492	\$8,593,012	(\$52,520)	100.6%	\$25,955,980	\$25,721,861	\$234,119	99.1%
Penalties - Bank & Trust Regulation	250,000	0	0	0	0	0.0%	0	0	0	0.0%
Non-Depository Supervision	2,609,768	3,237,400	934,950	942,718	(\$7,768)	100.8%	3,110,900	3,029,607	81,293	97.4%
Penalties - Non-Depository Supervision	716,705	285,000	22,500	75,314	(52,814)	334.7%	264,000	585,309	(321,309)	221.7%
Miscellaneous Revenues	91,505	84,200	21,050	232,497	(211,447)	1104.5%	63,150	576,384	(513,234)	912.7%
<b>TOTAL REVENUES</b>	<b>\$27,290,019</b>	<b>\$33,951,691</b>	<b>\$9,518,992</b>	<b>\$9,843,541</b>	<b>(\$324,549)</b>	<b>103.4%</b>	<b>\$29,394,030</b>	<b>\$29,913,161</b>	<b>(\$519,131)</b>	<b>101.8%</b>
<b>EXPENDITURES</b>										
Personnel Costs										
Employee Compensation	\$18,330,063	\$21,650,654	\$5,339,564	\$4,582,551	\$757,012	85.8%	\$15,463,682	\$13,935,070	\$1,528,612	90.1%
Employee Benefits	5,152,387	6,101,007	1,547,209	1,312,166	235,044	84.8%	4,428,816	3,908,785	520,030	88.3%
Add'l Health/Retirement	253,643	314,468	80,093	65,603	14,491	81.9%	231,955	199,040	32,916	85.8%
Other Personnel Costs	520,138	596,388	75,785	161,193	(85,408)	212.7%	221,773	335,039	(113,266)	151.1%
Subtotal Personnel Costs	\$24,256,231	\$28,662,517	\$7,042,651	\$6,121,513	\$921,138	86.9%	\$20,346,226	\$18,377,934	\$1,968,292	90.3%
Travel										
In-State	\$475,391	\$1,246,150	\$357,366	\$242,952	\$114,414	68.0%	\$874,932	\$701,154	\$173,778	80.1%
Out-of-State	95,374	675,895	161,178	112,249	48,929	69.6%	380,397	271,492	108,905	71.4%
Subtotal Travel	\$570,766	\$1,922,045	\$518,544	\$355,201	\$163,343	68.5%	\$1,255,329	\$972,646	\$282,683	77.5%
Operating Costs										
Professional Fees	\$275,678	\$669,070	\$135,017	\$108,237	\$26,780	80.2%	\$231,730	\$205,335	\$26,395	88.6%
Consumables	48,668	38,000	13,226	17,198	(3,972)	130.0%	47,110	57,203	(\$10,093)	121.4%
Office Utilities	32,012	33,870	7,183	7,106	77	98.9%	31,996	30,397	\$1,599	95.0%
Rent - Building/Space	410,994	471,735	114,967	105,740	9,227	92.0%	363,740	350,567	\$13,173	96.4%
Rent - Equipment/Other	24,216	28,784	7,196	5,510	1,686	76.6%	19,088	19,686	(\$598)	103.1%
Communications	239,885	270,841	73,299	68,665	4,635	93.7%	197,368	194,436	\$2,932	98.5%
Information Technology	538,893	734,225	173,836	107,878	65,958	62.1%	439,675	410,706	\$28,969	93.4%
Employee Training	216,573	348,581	69,695	48,007	21,688	68.9%	130,560	99,626	\$30,934	76.3%
Misc. Operating Costs	441,992	772,023	161,538	71,799	89,739	44.4%	425,511	279,044	146,467	65.6%
Subtotal Operating Costs	\$2,228,911	\$3,367,129	\$755,958	\$540,141	\$215,817	71.5%	\$1,886,779	\$1,646,999	\$239,779	87.3%
<b>TOTAL EXPENDITURES</b>	<b>\$27,055,908</b>	<b>\$33,951,691</b>	<b>\$8,317,153</b>	<b>\$7,016,855</b>	<b>\$1,300,298</b>	<b>84.4%</b>	<b>\$23,488,334</b>	<b>\$20,997,579</b>	<b>\$2,490,755</b>	<b>89.4%</b>
<b>EXPENDITURES (OVER) / UNDER REVENUES</b>	<b>\$234,111</b>	<b>\$0</b>	<b>\$1,201,839</b>	<b>\$2,826,686</b>	<b>(\$1,624,847)</b>		<b>\$5,905,696</b>	<b>\$8,915,582</b>	<b>(\$3,009,886)</b>	

## Texas Department of Banking

**Overview of Budget Variances for the Third Quarter of Fiscal Year 2023** - (Variances in excess of \$1,000 and 5% from budget are reported).

**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 budgeted.

**Employee Compensation and Benefits** – The positive variance relates to vacant staff positions. Vacancies in terms of FTEs as of May 31, 2023 are listed below:

Administrative	16
Examiners	28

**Other Personnel Costs** – The negative variance is mainly due to five resignations and one retirement that were not anticipated.

### Travel Breakdown

	In-State Travel	Out-of-State Travel
<b>Regulatory Supervision</b>	\$191,945	\$69,223
<b>Development and Training</b>	24,857	42,352
<b>Other Regulatory Activities</b>	25,013	674
<b>Non-Employee</b>	1,137	0
<b>Total</b>	<b>\$242,952</b>	<b>\$112,249</b>

**In-State Travel** – The positive variance is mainly related to a number of examinations being conducted off-site and other examinations not conducted due to staffing limitations.

**Out-of-State Travel** – The positive variance is related to NDS examinations being conducted using a hybrid model, alternating on-site and off-site examinations, and conferences and training classes that were not held or attended.

**Professional Fees** – The positive variance is due to unbilled internal auditor fees. Allocated funds in the fourth quarter will be used to cover these fees. This variance is offset by higher than anticipated State Office of Administrative Hearings expenditures.

**Consumables** – The negative variance is mainly due to miscategorized items that should have been budgeted under Miscellaneous Operating Costs.

**Rent – Building/Space** – The positive variance is related to townhall and in-person meetings that did not occur.

**Rent – Equipment/Other** – The positive variance is related to townhall meetings that did not occur.

**Communications** – The positive variance is due to an electronic subscription that was provided free of charge and a legislative service subscription reimbursement from the Office of Consumer Credit Commissioner and the Department of Savings and Mortgage Lending.

**Information Technology** – The positive variance is due to software that was not procured and a laptop order that will be covered by funds in the fourth quarter.

**Employee Training** – The positive variance is due to training that was not held or attended.

**Misc. Operating Costs** – The positive variance is mainly due to: (1) unused funds that were allocated for a contractor, (2) a budgeted unemployment claim expenditure that did not occur, and (3) miscategorized items that should have been expended under Consumables.



**TEXAS DEPARTMENT OF BANKING**  
**Liquidity Report**  
**For the Period Ending May 31, 2023**

	<b>Actual</b>
Cash at Beginning of Period	\$23,409,718
Revenues Over (Under) Expenditures	2,777,535
Increase (Decrease) in Payables/Encumbrances	(70,024)
(Increase) Decrease in Receivables	26,768
<b>Cash at End of Period</b>	<b><u><u>\$26,143,997</u></u></b>
Reserved Cash Balance:	
Bldg. maintenance/IT	\$0
Long-term facilities planning	9,503,403
Payables (net of receivables)	2,122,798
Lump Sums for Retirements	801,890
Program Funds	0
Other	0
<b>Total Reserved Cash Balance</b>	<b><u><u>\$12,428,091</u></u></b>
Unreserved Cash Balance:	
Future Operations	13,715,906
<b>Total Unreserved Cash Balance</b>	<b><u><u>\$13,715,906</u></u></b>
<b>Total Cash Balance</b>	<b><u><u>\$26,143,997</u></u></b>
Unreserved Cash/FY2023 Monthly Budget	4.85 months

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**Office of Consumer Credit Commissioner  
Proposed Budget Fiscal Year 2024**

	<b>Budget 2023</b>	<b>Budget 2024</b>
<b>REVENUE:</b>		
Regulated Lenders	\$ 2,291,531	\$ 2,020,130
Credit Access Industry	746,351	824,000
MV Industry	4,355,540	4,301,370
Pawn Industry	737,403	728,560
Registered Industry	330,485	326,280
Miscellaneous Revenues	15,000	504,000
<b>TOTAL REVENUES:</b>	<b>\$ 8,476,310</b>	<b>\$ 8,704,340</b>
<b>EXPENDITURES:</b>		
Personnel Costs		
Employee Compensation	\$ 5,045,938	\$ 5,219,845
Employee Benefits	1,805,828	1,715,710
Add'l Health/Retirement	74,950	78,297
Other Personnel Costs	121,194	123,814
Subtotal Personnel Costs	<b>\$ 7,047,910</b>	<b>7,137,666</b>
Travel		
In-State	567,000	535,500
Out-of-State	75,000	35,500
Out-of-State Reimbursements	(60,000)	(9,000)
Subtotal Travel	<b>582,000</b>	<b>562,000</b>
Other Expenditures		
Professional Fees & Services	90,500	87,200
Consumable Supplies	7,500	3,500
Office Utilities	17,250	16,700
Rent - Buildings/Space	27,600	6,274
Rent - Equipment/Other	3,100	2,800
Communications	79,830	79,700
Information Technology	488,969	512,600
Employee Training	8,700	26,000
Misc. Operating Costs	277,240	269,900
Subtotal Operating Costs	<b>1,000,689</b>	<b>1,004,674</b>
<b>TOTAL EXPENDITURES:</b>	<b>\$ 8,630,599</b>	<b>\$ 8,704,340</b>
<b>EXPENDITURES (OVER)/UNDER REVENUE:</b>	<b>\$ (154,289)</b>	<b>\$ -</b>

FTE's

80

75

**Office of Consumer Credit Commissioner  
Proposed Budget Fiscal Year 2024**

	Budget 2023	Estimated FY 2023	% of 2023 Budget	Budget 2024	\$ Change Budget 2023 to Budget 2024	% Change Budget 2023 to Budget 2024
<b>REVENUE:</b>						
Regulated Lenders	\$ 2,291,531	\$ 1,935,126	84.4%	\$ 2,020,130	\$ (271,401)	-11.8%
Credit Access Industry	746,351	798,660	107.0%	824,000	77,649	10.4%
MV Industry	4,355,540	4,258,950	97.8%	4,301,370	(54,170)	-1.2%
Pawn Industry	737,403	705,730	95.7%	728,560	(8,843)	-1.2%
Registered Industry	330,485	322,625	97.6%	326,280	(4,205)	-1.3%
Miscellaneous Revenues	15,000	554,918	3699.5%	504,000	489,000	3260.0%
<b>TOTAL REVENUES:</b>	<b>\$ 8,476,310</b>	<b>\$ 8,576,009</b>	<b>101.2%</b>	<b>\$ 8,704,340</b>	<b>\$ 228,030</b>	<b>2.7%</b>
<b>EXPENDITURES:</b>						
Personnel Costs						
Employee Compensation	\$ 5,045,938	\$ 4,786,171	94.9%	\$ 5,219,845	\$ 173,907	3.4%
Employee Benefits	1,805,828	1,577,045	87.3%	1,715,710	(90,118)	-5.0%
Add'l Health/Retirement	74,950	69,290	92.4%	78,297	3,347	4.5%
Other Personnel Costs	121,194	124,932	103.1%	123,814	2,620	2.2%
Subtotal Personnel Costs	\$ 7,047,910	\$ 6,557,438	93.0%	7,137,666	89,756	1.3%
Travel						
In-State	567,000	478,883	84.5%	535,500	(31,500)	-5.6%
Out-of-State	75,000	26,529	35.4%	35,500	(39,500)	-52.7%
Out-of-State Reimbursements	(60,000)	-	0.0%	(9,000)	51,000	-85.0%
Subtotal Travel	582,000	505,412	86.8%	562,000	(20,000)	-3.4%
Other Expenditures						
Professional Fees & Services	90,500	68,411	75.6%	87,200	(3,300)	-3.6%
Consumable Supplies	7,500	3,432	45.8%	3,500	(4,000)	-53.3%
Office Utilities	17,250	15,945	92.4%	16,700	(550)	-3.2%
Rent - Buildings/Space	27,600	24,986	90.5%	6,274	(21,326)	-77.3%
Rent - Equipment/Other	3,100	2,387	77.0%	2,800	(300)	-9.7%
Communications	79,830	75,619	94.7%	79,700	(130)	-0.2%
Information Technology	488,969	363,448	74.3%	512,600	23,631	4.8%
Employee Training	8,700	11,408	131.1%	26,000	17,300	198.9%
Misc. Operating Costs	277,240	232,137	83.7%	269,900	(7,340)	-2.6%
Subtotal Operating Costs	1,000,689	797,773	79.7%	1,004,674	3,985	0.4%
<b>TOTAL EXPENDITURES:</b>	<b>\$ 8,630,599</b>	<b>\$ 7,860,623</b>	<b>91.1%</b>	<b>\$ 8,704,340</b>	<b>\$ 73,741</b>	<b>0.9%</b>
<b>EXPENDITURES (OVER)/UNDER REVENUE:</b>	<b>\$ (154,289)</b>	<b>\$ 715,386</b>		<b>\$ -</b>	<b>\$ 154,289</b>	

FTE's

80

75



DEPARTMENT OF  
**SAVINGS AND  
MORTGAGE LENDING**

HECTOR RETTA, COMMISSIONER

**BUDGET INFORMATION**

**FY2023-FY2024**

	<b>FY 2023 Approved Budget</b>	<b>FY 2024 Proposed Budget</b>
<b>REVENUES</b>		
Thrift Industry		
Assessments	\$ 4,076,434	\$ 4,767,743
Application Fees	16,000	16,000
Mortgage Industry		
Licensing Fees	4,707,550	4,959,195
Administrative Penalties	-	-
Misc. Revenues	105,000	505,000
<b>TOTAL REVENUES</b>	<b>\$ 8,904,984</b>	<b>\$ 10,247,938</b>
<b>EXPENDITURES</b>		
Personnel Costs		
Employee Compensation	\$ 5,858,020	\$ 6,347,998
Employee Benefits	1,734,627	1,905,784
Add'l Health/Retirement	81,661	93,826
Other Personnel Costs	105,481	106,393
Subtotal Personnel Costs	<b>\$ 7,779,789</b>	<b>\$ 8,454,001</b>
Travel		
In-State	\$ 108,000	\$ 108,000
Out-of-State	45,000	42,000
Subtotal Travel	<b>\$ 153,000</b>	<b>\$ 150,000</b>
Operating Costs		
Professional Fees	\$ 120,844	\$ 90,039
Consumables	10,000	8,500
Office Utilities	14,059	13,114
Rent - Space & Equipment	10,700	11,500
Communications	96,432	100,365
Information Technology	258,391	336,210
Employee Training	70,000	68,000
Misc. Operating Costs	130,205	140,483
Subtotal Operating Costs	<b>\$ 710,631</b>	<b>\$ 768,211</b>
<b>TOTAL EXPENDITURES</b>	<b>\$ 8,643,420</b>	<b>\$ 9,372,212</b>
<b>EXPENDITURES (OVER)/</b>		
	<b>\$ 261,564</b>	<b>\$ 875,726</b>

FTEs

70

74

**Department of Savings and Mortgage Lending**  
**Budget Information**  
**FY2023-FY2024**

	<b>FY 2023</b>	<b>FY 2023</b>	<b>% of FY2023</b>	<b>FY2024</b>	<b>\$ Change</b>	<b>% Change</b>
	<b>BUDGET</b>	<b>ESTIMATED</b>	<b>BUDGET</b>	<b>BUDGET</b>	<b>FY23 Budget to</b>	<b>FY23 Budget to</b>
					<b>FY24 Budget</b>	<b>FY24 Budget</b>
<b>REVENUES</b>						
Thrift Industry						
Assessments	\$ 4,076,434	\$ 4,881,660	119.8%	\$ 4,767,743	\$ 691,309	17.0%
Application Fees	16,000	16,900	105.6%	16,000	-	0.0%
Mortgage Industry						
Licensing Fees	4,707,550	3,713,465	78.9%	4,959,195	251,645	5.3%
Administrative Penalties	-	113,652	0.0%	-	-	0.0%
Misc. Revenues	105,000	529,883	504.7%	505,000	400,000	381.0%
<b>TOTAL REVENUES</b>	<b>\$ 8,904,984</b>	<b>\$ 9,255,560</b>	<b>103.9%</b>	<b>\$ 10,247,938</b>	<b>\$ 1,342,954</b>	<b>15.1%</b>
<b>EXPENDITURES</b>						
Personnel Costs						
Employee Compensation	\$ 5,858,020	\$ 5,140,898	87.8%	\$ 6,347,998	\$ 489,978	8.4%
Employee Benefits	1,734,627	1,586,894	91.5%	1,905,784	171,157	9.9%
Add'l Health/Retirement	81,661	71,824	88.0%	93,826	12,165	14.9%
Other Personnel Costs	105,481	205,858	195.2%	106,393	912	0.9%
Subtotal Personnel Costs	<b>\$ 7,779,789</b>	<b>\$ 7,005,467</b>	<b>90.0%</b>	<b>\$ 8,454,001</b>	<b>\$ 674,212</b>	<b>8.7%</b>
Travel						
In-State	\$ 108,000	\$ 90,295	83.6%	\$ 108,000	\$ -	0.0%
Out-of-State	45,000	17,669	39.3%	42,000	(3,000)	-6.7%
Subtotal Travel	<b>\$ 153,000</b>	<b>\$ 107,963</b>	<b>70.6%</b>	<b>\$ 150,000</b>	<b>\$ (3,000)</b>	<b>-2.0%</b>
Operating Costs						
Professional Fees	\$ 120,844	\$ 48,628	40.2%	\$ 90,039	\$ (30,805)	-25.5%
Consumables	10,000	7,500	75.0%	8,500	(1,500)	-15.0%
Office Utilities	14,059	12,509	89.0%	13,114	(945)	-6.7%
Rent - Space & Equipment	10,700	6,837	63.9%	11,500	800	7.5%
Communications	96,432	93,618	97.1%	100,365	3,933	4.1%
Information Technology	258,391	227,001	87.9%	336,210	77,819	30.1%
Employee Training	70,000	39,257	56.1%	68,000	(2,000)	-2.9%
Misc. Operating Costs	130,205	104,869	80.5%	140,483	10,278	7.9%
Subtotal Operating Costs	<b>\$ 710,631</b>	<b>\$ 543,365</b>	<b>76.5%</b>	<b>\$ 768,211</b>	<b>\$ 57,580</b>	<b>8.1%</b>
<b>TOTAL EXPENDITURES</b>	<b>\$ 8,643,420</b>	<b>\$ 7,656,794</b>	<b>88.6%</b>	<b>\$ 9,372,212</b>	<b>\$ 728,792</b>	<b>8.4%</b>
<b>EXPENDITURES (OVER)/ UNDER REVENUES</b>	<b>\$ 261,564</b>	<b>\$ 1,598,766</b>		<b>\$ 875,726</b>	<b>\$ 614,162</b>	
FTEs	70			74		



August 7, 2023

Chairman Philip Holt  
Finance Commission of Texas  
2601 N. Lamar Blvd  
Austin, Texas

Dear Chairman Holt:

On behalf of the Texas Bankers Association and our State Savings Bank (SSB) members, I write in support of the Department of Savings and Mortgage Lending (SML) proposed FY 2024 budget.

The Self-Directed and Semi-Independent (SDSI) status of SML, fully paid for by industry, is key to its ability to meet its regulatory mission. Further, an appropriately compensated and adequately staffed Department is vital to its supervisory role not only for SSBs, but for a regulated community including approximately 40,000 mortgage originators across the State of Texas.

In that regard, we are pleased to see Commissioner Retta and the SML leadership address agency flexibility and personnel needs in the FY24 budget. This will provide important resources both for the retention of its experienced staff and for attracting new talent.

The Department is adjusting licensing fees to ensure its ability to meet critical needs for competitive staffing as well as the communications and information technology infrastructure necessary to support SML personnel. Even with the proposed increases, Texas licensing fees will remain among the lowest in the United States.

Thank you for the opportunity to provide comment to the Finance Commission. Please contact me or TBA General Counsel Celeste Embrey ([celeste@texasbankers.com](mailto:celeste@texasbankers.com)) if we may answer questions.

Sincerely,

Chris Furlow  
President & CEO

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**Texas Department of Banking  
Proposed Budget - FY 2024**

	<b>Budget 2023</b>	<b>Budget 2024*</b>
<b>REVENUE</b>		
Bank & Trust Regulation	\$30,345,091	\$31,577,971
Penalties - Bank & Trust Regulation	0	0
Non-Depository Supervision	3,237,400	3,983,938
Penalties - Non-Depository Supervision	285,000	154,600
Miscellaneous Revenues	84,200	963,400
<b>TOTAL REVENUES</b>	<b>\$33,951,691</b>	<b>\$36,679,909</b>
<b>EXPENDITURES</b>		
Personnel Costs		
Employee Compensation	\$21,650,654	\$23,513,891
Employee Benefits	6,101,007	6,275,031
Add'l Health/Retirement	314,468	345,091
Other Personnel Costs	596,388	852,847
Subtotal Personnel Costs	<b>\$28,662,517</b>	<b>\$30,986,860</b>
Travel		
In-State	\$1,246,150	\$1,856,074
Out-of-State	675,895	663,055
Subtotal Travel	<b>\$1,922,045</b>	<b>\$2,519,129</b>
Operating Costs		
Professional Fees	\$669,070	\$632,766
Consumables	38,000	55,000
Office Utilities	33,870	32,670
Rent - Building/Space	471,735	497,582
Rent - Equipment/Other	28,784	39,516
Communications	270,841	313,761
Information Technology	734,225	709,573
Employee Training	348,581	310,509
Misc. Operating Costs	772,023	582,543
Subtotal Operating Costs	<b>\$3,367,129</b>	<b>\$3,173,920</b>
<b>TOTAL EXPENDITURES</b>	<b>\$33,951,691</b>	<b>\$36,679,909</b>
<b>EXPENDITURES (OVER) /                     UNDER REVENUES</b>	<b>\$0</b>	<b>\$0</b>

FTEs

205

220

\* FY 2024 budgeted assessments are net approximately \$12.9 million in Bank and Trust that are not expected to be assessed to operate the Department.

**Texas Department of Banking  
Proposed Budget - FY 2024**

	Budget 2023	Estimated FY 2023*	% of 2023 Budget		Budget 2024**	\$ Change Budget 2023 to Budget 2024	% Change Budget 2023 to Budget 2024
<b>REVENUE</b>							
Bank & Trust Regulation	\$30,345,091	\$26,217,256	86.40%		\$31,577,971	\$1,232,880	4.06%
Penalties - Bank & Trust Regulation	0	0	0.00%		0	0	0.00%
Non-Depository Supervision	3,237,400	3,139,807	96.99%		3,983,938	746,538	23.06%
Penalties - Non-Depository Supervision	285,000	667,809	234.32%		154,600	(130,400)	-45.75%
Miscellaneous Revenues	84,200	576,684	684.90%		963,400	879,200	1044.18%
<b>TOTAL REVENUES</b>	<b>\$33,951,691</b>	<b>\$30,601,556</b>	<b>90.13%</b>		<b>\$36,679,909</b>	<b>\$2,728,218</b>	<b>8.04%</b>
<b>EXPENDITURES</b>							
Personnel Costs							
Employee Compensation	\$21,650,654	\$19,183,959	88.61%		\$23,513,891	\$1,863,237	8.61%
Employee Benefits	6,101,007	5,298,156	86.84%		6,275,031	174,024	2.85%
Add'l Health/Retirement	314,468	268,173	85.28%		345,091	30,622	9.74%
Other Personnel Costs	596,388	586,763	98.39%		852,847	256,460	43.00%
Subtotal Personnel Costs	\$28,662,517	\$25,337,051	88.40%		\$30,986,860	\$2,324,342	8.11%
Travel							
In-State	\$1,246,150	\$1,151,763	92.43%		\$1,856,074	\$609,924	48.94%
Out-of-State	675,895	382,992	56.66%		663,055	(12,840)	-1.90%
Subtotal Travel	\$1,922,045	\$1,534,755	79.85%		\$2,519,129	\$597,084	31.07%
Operating Costs							
Professional Fees	\$669,070	\$344,015	51.42%		\$632,766	(\$36,304)	-5.43%
Consumables	38,000	75,003	197.38%		55,000	17,000	44.74%
Office Utilities	33,870	32,647	96.39%		32,670	(1,200)	-3.54%
Rent - Building/Space	471,735	429,472	91.04%		497,582	25,847	5.48%
Rent - Equipment/Other	28,784	22,982	79.84%		39,516	10,732	37.28%
Communications	270,841	262,995	97.10%		313,761	42,920	15.85%
Information Technology	734,225	552,206	75.21%		709,573	(24,652)	-3.36%
Employee Training	348,581	213,001	61.11%		310,509	(38,072)	-10.92%
Misc. Operating Costs	772,023	517,331	67.01%		582,543	(189,480)	-24.54%
Subtotal Operating Costs	\$3,367,129	\$2,449,652	72.75%		\$3,173,920	(\$193,209)	-5.74%
<b>TOTAL EXPENDITURES</b>	<b>\$33,951,691</b>	<b>\$29,321,458</b>	<b>86.36%</b>		<b>\$36,679,909</b>	<b>\$2,728,218</b>	<b>8.04%</b>
<b>EXPENDITURES (OVER) / UNDER REVENUES</b>	<b>\$0</b>	<b>\$1,280,098</b>			<b>\$0</b>		

FTEs

205

220

15

\* FY 2023 forecast using a combination of estimated projections and annualized June 30, 2023 actuals. To only collect funds needed to operate the Department, FY 2023 Bank and Trust assessments and Non-Depository Supervision assessments were reduced approximately by \$16.2 million and \$925,000, respectively.

\*\* FY 2024 budgeted assessments are net approximately \$12.9 million in Bank and Trust that are not expected to be assessed to operate the Department.



August 7, 2023

Chairman Philip Holt  
Finance Commission of Texas  
2601 N. Lamar Blvd  
Austin, Texas

Dear Chairman Holt:

I write on behalf of the Texas Bankers Association and in support of the Proposed FY 2024 Texas Department of Banking (DOB) Budget.

Commissioner Cooper and his leadership team are effectively managing the Department of Banking through the post-pandemic period. The result is a Texas banking industry that is strong and stable. Our banks are well-managed, well-capitalized and well-regulated. The Texas regulatory environment stands in stark contrast to what was observed in California and New York earlier this year.

This is due, in large part, to the Department's concentration on its most important asset—its employees. Last year's FY23 DOB Budget focused on human capital and ensuring the Department's ability to be competitive with Federal regulatory agencies on workforce compensation. The Department's proposed FY24 Budget continues this commitment.

In particular, we are pleased with the Department's internal training program which is directed to maintain high standards and the Commissioner's "tough but fair" culture among Texas DOB examiners. The Department expects the proposed budget to support this program as well as its goal to fill existing vacancies by the conclusion of FY24.

TBA expresses our appreciation to Commissioner Cooper and the DOB for meaningful collaborations. The Texas DOB remains the national leader among state regulators on cybersecurity public-private partnerships. We are also grateful for DOB's collaboration with TBA on public service initiatives, to include a holiday anti-fraud TV/radio campaign and a joint project to combat the growing criminal activity known as "jugging."

Thanks to you and members of the Finance Commission for the opportunity to provide comment. Please let me or TBA General Counsel Celeste Embrey ([celeste@texasbankers.com](mailto:celeste@texasbankers.com)) know if we may answer questions.

Sincerely,

Chris Furlow  
President & CEO

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**OFFICE OF CONSUMER CREDIT  
COMMISSIONER**  
Austin, Texas

**INTERNAL AUDIT ANNUAL REPORT**

Fiscal Year 2023



OFFICE OF CONSUMER CREDIT COMMISSIONER  
Austin, Texas

Annual Internal Audit Report  
Fiscal Year 2022

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# Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

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

We performed procedures to determine the effectiveness and efficiency of the Office of Consumer Credit Commissioner's (OCCC) internal control structure over the Human Resources and Payroll Area (Area); and, its compliance with the State Auditor's Office Texas Human Resources Management Statutes Inventory, and the Texas Comptroller's fiscal policies and procedures, as applicable to the Area; and, the Area's established policies and procedures, for the 7 months ended March 31, 2023.

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

We also performed a follow-up of the findings and recommendations presented in the prior year internal audit reports, that were not fully implemented. This report which reflects the results and implementation status of our follow-up procedures performed; and, includes all information required for compliance with the State of Texas Internal Audit Annual Report requirements, has been prepared by Garza/Gonzalez & Associates, an independent Certified Public Accounting firm, following Generally Accepted Auditing Standards, International Standards for the Professional Practice of Internal Auditing, and the Institute of Internal Auditors' Code of Ethics contained in the Professional Practices Framework..

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



July 6, 2023

207 Arden Grove  
San Antonio, TX 78215  
210/227-1389  
Fax 227-0716

**OFFICE OF CONSUMER CREDIT COMMISSIONER**  
Internal Audit Annual Report  
Fiscal Year 2023

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INTRODUCTION

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

OCCC examines licensed financial service providers; such as, motor vehicle sales finance companies, regulated lenders, payday/title loan lenders, and pawnshops/pawn employees, to ensure legal compliance with applicable statutes and regulations. OCCC also engages in investigations of registered creditors; and, debt management and settlement providers.

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

**2023 Internal Audit Plan**

Following are the internal audit functions performed, as identified in OCCC's 2023 Internal Audit Plan, dated November 28, 2022, and approved by the Audit Committee and Finance Commission on December 16, 2022:

- Risk Assessment & Preparation of the 2023 Internal Audit Plan
- Payroll and Human Resources Audit
- TFEE Fund Investment Portfolio Administration Audit
- Follow-up of Prior Year Internal Audits
- Preparation of the 2023 Internal Audit Annual Report
- Other Tasks

This report contains the results of the Payroll and Human Resources audit; reflects the results of the follow-up procedures performed in the current year of the findings that were presented in the prior year internal audit reports; and, meets the State of Texas Internal Audit Annual Report requirements. The TFEE Fund Investment Portfolio Administration audit report, dated April 20, 2023, was presented to, and approved by, the Audit Committee and Finance Commission on June 16, 2023.



## OFFICE OF CONSUMER CREDIT COMMISSION

Internal Audit Annual Report

Fiscal Year 2023

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

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

- An approved fiscal year 2024 audit plan, as provided by Texas Government Code, Section 2102.008.
- A fiscal year 2023 internal audit annual report, as required by Texas Government Code, Section 2102.009.

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

### **II. Consulting and Nonaudit Services Completed**

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

### **III. External Quality Assurance Review**

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

### **IV. Internal Audit Plan for Fiscal Year 2023**

The approved Internal Audit Plan (Plan) included two audits to be performed during fiscal year 2023. The Plan also included a follow-up of the prior year internal audit recommendations that were not fully implemented as of fiscal year 2022; other tasks as may have been assigned by the Finance Commission or Audit Committee; and, preparation of the 2023 Internal Audit Annual Report.

#### **Risk Assessment**

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

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

<b>HIGH RISK</b>	<b>MODERATE RISK</b>	<b>LOW RISK</b>
Payroll and Human Resources Examinations	Legal and Enforcement Procurement/Contract Management/HUB Fiscal Division (Includes Asset Management & Travel) Revenue Accounting Process Management Information Systems [(MIS) Includes Disaster Recovery Plan]	Business Licensing Complaint Intake and Investigation Business Registration & Professional Licensing TFEE Fund Grant Administration Records Management

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

Fiscal Year 2022:

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

Fiscal Year 2021:

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

Fiscal Year 2020:

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

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The internal audits and other tasks performed for fiscal year 2023 were as follows:

<b>Report No.</b>	<b>Audits/Report Titles</b>	<b>Report Date</b>
1.	TFEE Fund Investment Portfolio Administration <i>Objective:</i> To determine OCCC’s compliance with applicable state laws and rules, and established policies and procedures, over the administration of the Texas Financial Education Endowment (TFEE) Fund investment portfolio.	4/20/2023
2.	Human Resources and Payroll <i>Objective:</i> To assess the effectiveness and efficiency of the internal controls, policies, procedures, and processes in place for the Human Resources and Payroll Area; and, to ensure compliance with applicable state requirements.	7/6/2023
2.	Internal Audit Annual Report – Follow-up of findings and recommendations that were presented in the Prior Year Internal Audit Report.	7/6/2023
-	Other Tasks Assigned by the Finance Commission or the Audit Committee	None

**V. Executive Summary**

**Human Resources & Payroll Area (Area)**

**BACKGROUND**

The Human Resources (HR) and Payroll Departments are responsible for the HR and payroll functions at the Office of Consumer Credit Commission (OCCC). The Area is supervised by the Director of Licensing, Finance, and HR (Director), who reports to the Commissioner; and, consists of an HR Officer, and a Payroll Accountant.

As a state agency, all OCCC employees are employed “at-will”, which is defined as an employment relationship that may be terminated by any party (employer or employee), at any time, with no liability. State employees are paid in accordance with the State of Texas Salary Schedules; and, positions of state-classified employees are established in accordance with the State of Texas Position Classification Plan, which provides job classifications, salary groups, and salary schedules.

OCCC implemented the Centralized Accounting and Payroll/Personnel System (CAPPS) HR/Payroll module in July 2021, which resulted in significant streamlining of the Area’s processes.

**Hiring Process**

*Job Posting*

When there is a need for an existing position to be filled, or for a new position to be created, the hiring manager from the respective department notifies the HR Officer; and, the hiring manager prepares a Request to Post Job Vacancy form, which must be approved by the Commissioner. The HR Officer, along with the hiring manager, establish the job description, classification, job grade, and qualifications, for the position. The HR Officer assigns the position a job posting number, which includes the agency number, fiscal year, and sequential number, which is then posted to the OCCC website, Texas Workforce Commission’s WorkInTexas website, LinkedIn, Indeed, and college recruiting sites.

*Screening and Selection*

All applications are initially screened by the HR Officer, who forwards only those that meet the minimum qualifications, to the hiring manager. Before the selection process may begin, the hiring manager develops specific interview questions, which are reviewed and authorized by the HR Officer, to be used for all applicants interviewed. The hiring manager uses an Applicant Rating Log, which is a matrix rating system of 1-3, to rate each application, and select applicants for interview. The applicant with the highest overall score is generally selected; and, if not, the reason must be justified and documented. Preference is given to applicants that are veterans or former foster children. After receiving authorization from the applicant, reference, and credit checks are performed by the HR staff; and, criminal checks are performed by the Deputy General Counsel.

Upon making a selection, the hiring manager prepares a Justification for Hire memo and submits it to the director of the respective division for approval, along with the official application packet. The official application packet consists of a Personnel Action Form (PAF), transcript(s), and other related hiring materials for the selected applicant; all job applications rated; interview questions; and, the Applicant Rating Log. Once approved, the information is sent to the Commissioner for final approval, then submitted to the HR Officer, who calls and emails the applicant to make an official offer.

As of March 31, 2023, OCCC hired/rehired 10 new employees; and, reported a total of 71.1 FTEs to the State Auditor’s Office for the 2<sup>nd</sup> quarter of fiscal year 2023.

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### New Employee Orientation

On the first day of employment, the HR Officer is responsible for ensuring that the new hire attends a New Employee Orientation (NEO) and completes all required employment paperwork. The new employee denotes completion of each required item in the NEO Checklist. Upon being hired, all new employees are provided 'self-service' access to CAPPS. This access allows new hires to complete documents; such as, a W-4, direct deposit information, and emergency contact information. The self-service access to CAPPS also allows all employees to perform timekeeping functions.

### Timekeeping Process

Time for all employees is maintained in CAPPSS. The majority of OCCC employees are paid on an exception basis; therefore, employees are paid the same amount each month unless there is an "exception" to their pay; such as, leave without pay or an adjustment to the existing pay rate. All employees are responsible for entering their weekly time into CAPPSS; and, on a monthly basis, they certify their time of the previous month in CAPPSS, which is then electronically approved by the respective supervisor. The Payroll Accountant utilizes various CAPPSS reports to ensure all time within CAPPSS is timely certified and properly approved.

Employee leave balances are also tracked in CAPPSS, which does not allow a leave entry to exceed the available balance. In instances when a leave entry does exceed the available balance, a Leave Without Pay entry must be entered into CAPPSS by the employee. Certain types of authorized leave balances; such as, Performance Leave and Family and Medical Leave Act (FMLA) leave, must be manually entered into CAPPSS by HR before an employee may make such leave entries into CAPPSS.

### *Emergency Leave*

In accordance with Texas Government Code 661.902, OCCC employees are entitled to an emergency leave without pay deduction for instances; such as, a death in the family, or other acceptable reasons, as determined and authorized by the Commissioner. OCCC is required to report to the Comptroller, no later than October 1<sup>st</sup> of each year, the name and position of each employee who was granted more than 32 hours of emergency leave during the previous year, the reason, and the total number of hours granted. OCCC reported that no employee was granted more than 32 hours of emergency leave during the fiscal year ended August 31, 2022.

### *Sick Leave Pool*

OCCC has established a sick leave pool (pool) to benefit employees who have exhausted all paid leave due to a catastrophic injury or illness as defined by the Employee Retirement System. Upon separation from the agency, an employee may contribute their unused leave to the pool by completing a Sick Leave Pool Contribution/Donation form. Before an employee may withdraw from the pool, they must complete a request to draw from the pool form and submit it to the Director for approval. For the period from September 1, 2023 to March 31, 2023, there were no contributions or withdrawals from OCCC'S pool.

### *Donated Sick Leave*

Texas Government Code 661.207 allows OCCC employees to donate any amount of their sick leave to another OCCC employee who has exhausted their sick leave. The donated leave is in addition to the hours the employee may be eligible to withdraw from the sick leave pool. The employee donating the leave is required to complete a Request to Donate Sick Leave to Another Employee form, indicating the number of hours donated and the name of the employee to whom hours are being donated.

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### Payroll Processing

Payroll is processed in accordance with the Texas Comptroller of Public Account's (CPA) guidelines and pay schedules; and, consists of two payment types: On-cycle payments, approved by the Commissioner, and Off-cycle (supplemental) payments, approved by the Director. The Payroll Accountant (1) generates multiple CAPPs reports for a preliminary payroll file, which is used to identify and eliminate errors; (2) performs a reconciliation between the current and previous payroll to investigate and explain variances, which are sent to the Commissioner or the Director for review; and, (3) transmits the final payroll file through the Standardized Payroll/Personnel Reporting System (SPRS), to be approved and released by the Director.

### Performance Evaluation

OCCC employees are evaluated annually by their supervisor using a performance appraisal system, which evaluates employee performance on job responsibilities based on predetermined criteria. The performance evaluation is then discussed with the employee evaluated; and, signed by the employee, the employee's supervisor; and, if applicable, the supervisor's supervisor.

### Employee Separation

Employees are required to give two weeks' notice when separating from OCCC. The notice is provided to the HR Officer to prepare a PAF for termination. On the employee's last day of employment, the HR Officer conducts an exit interview with the employee; and, an Exit Checklist is completed by the employee's supervisor. The Exit Checklist is completed to ensure all required information is obtained; such as, the separating employee's contact information, and that all OCCC property is collected; such as, the employee's badge, laptop, and phone. The HR Officer emails employees who voluntarily separate, a link to the SAO exit survey for "voluntary" completion. If an employee is due any wages, a lump sum payment is paid to them within 30 days of their last day of employment.

As of March 31, 2023, a total of 5 employees separated from OCCC.

### External Reporting

The Area is responsible for preparing and submitting various reports to external parties, with the majority being sent to the CPA and the State Auditor's Office (SAO), and generated using data from CAPPs. In certain instances, the CPA directly extracts data from CAPPs, which is reviewed and certified by the Area. The Area's reporting requirements are found in the SAO's Human Resources Statute Inventory, and the CPA's FMX Texas Payroll/Personnel Resources website.

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### Audit Objective, Scope, and Methodology

#### Objective

The objective of our audit was to assess the effectiveness and efficiency of the internal controls, policies, procedures, and processes in place for the Human Resources and Payroll Area (Area); and, to ensure compliance with applicable state requirements.

#### Scope

The scope of our audit was the review of the Area's policies, procedures, and processes in place; and, the testing of selected functions performed by the Area for compliance with established policies and procedures, and applicable state requirements, during the period from September 1, 2022 to March 31, 2023 (audit period).

#### Methodology

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

We obtained and/or reviewed the following information:

- a. SAO's *Texas Human Resources Management Statutes Inventory*
- b. CPA's *Texas Payroll/Personnel Resource (FPP F.027)*; *Payroll Due Dates and Direct Deposit Schedule*; and, *Reason Code Definitions, Restrictions and Salary Schedules for State Agencies*.
- c. Organizational charts applicable to the Area.
- d. OCCC's written policies and procedures related to the Area.
- e. Checklists; and, sample templates, forms, and screenshots.
- f. OCCC's Employee Manual
- g. Listing of active employees as of March 31, 2023.
- h. Listing of employees separated during the audit period.
- i. Selected employee personnel files, pay stubs, and the respective time sheets.
- j. IRS Form 941 for the 2<sup>nd</sup> Quarter and the supporting documentation.
- k. Emergency Leave Reporting for fiscal year 2022 and submission record.
- l. FTE Report for the 2<sup>nd</sup> Quarter submitted to SAO and the supporting documentation.

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

1. Obtained and reviewed the applicable state requirements as established by the CPA and the SAO.
2. Obtained and reviewed OCCC's written policies and procedures; and, conducted interviews to obtain an understanding of controls, processes, and current practices in place over the Area.
3. Selected 22 of the 74 active employees as of March 31, 2023, including 2 of the 10 employees hired or rehired, and 2 of the 5 employees terminated during the audit period; and, for a certain pay period for each of the 22 employees, performed the following procedures:
  - a. Agreed gross salary as reflected in CAPPS, to the PAF.
  - b. Ensured the employee's base salary was within the range established in the Salary Group as determined by Classification Salary Schedules.
  - c. Recomputed gross salary and agreed to the amount paid.
  - d. Ensured time within CAPPS was approved.
  - e. Recomputed longevity pay.

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- f. Obtained and reviewed the following documents from each employee's personnel file:
  - i. PAF approved by Commissioner and Director.
  - ii. Application signed by the employee.
  - iii. Benefits Election Form signed by employee.
  - iv. Employee Manual, Harassment Policy, Conflict of Interest, and Ethics Acknowledgement forms signed by the employee.
  - v. Most recent performance evaluation, signed by the employee, the supervisor, and if applicable, the supervisor's supervisor.
4. For the 2 new hires from the above selection, performed the following procedures:
  - a. Reviewed the following selection of new employee forms and documentation to ensure the following documents were properly completed and retained:
    - i. Job posting.
    - ii. Job description.
    - iii. Application Rating Log.
    - iv. Reference Checks.
    - v. Verification of Prior State Service Forms.
    - vi. Interview Questions.
    - vii. Justification to Hire Memorandum approved by the Commissioner.
    - viii. NEO Checklist.
    - ix. Offer Letter.
    - x. Hiring PAF.
    - xi. Employee Authorization forms to release Criminal and Credit History reports.
  - b. Reviewed employee's application to ensure minimum qualifications were met.
  - c. Compared OCCC's job description to the SAO's job description for proper classification.
5. Tested a sample of the following reports prepared and submitted by the Area and agreed them to the CAPPs and other supporting documentation: 2<sup>nd</sup> Quarter IRS Form 941; and, 2<sup>nd</sup> Quarter FTE Report.
6. Ensured the Emergency Leave Reporting for fiscal year 2022 was certified by the required due date.
7. Obtained a list of 5 employees that were separated from OCCC during the audit period and selected a sample of 2 employees to test for the following attributes:
  - a. Final payout using the final time within CAPPs and accrued leave balance at the time of the separation, was accurate.
  - b. Resignation Letter was obtained.
  - c. Termination PAF was prepared and approved.
  - d. Exit Checklist was completed and retained in personnel file.
  - e. HR Exit Interview was properly completed.
  - f. Link to SAO exit interview was provided to the former employee.
  - g. Release of Personal Information Election Form was properly completed.
  - h. Former employee's status in CAPPs was updated to inactive status.



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**VI. Observations/Findings and Recommendations**

SUMMARY and RELATED RATING of OBSERVATIONS/FINDINGS and RECOMMENDATIONS

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

<b>Summary of Observations/Findings &amp; Recommendations and Related Ratings</b>		
<b>Finding No.</b>	<b>Title</b>	<b>Rating</b>
1	Applications	Low
2	HR Forms	Low
<b>Observation No.</b>		
1	PAF – Employee Classification	–
2	Approval of Time	–
<p><u>Description of Rating</u></p> <p>A finding is rated <i>Priority</i> if the issues identified present risks or effects that if not addressed could critically affect the audited entity’s ability to effectively administer the programs(s)/function(s) audited. Immediate action is required to address the noted concern(s) and reduce risks to the audited entity.</p> <p>A finding is rated <i>High</i> if the issues identified present risks or effects that if not addressed could substantially affect the audited entity’s ability to effectively administer the programs(s)/function(s) audited. Prompt action is essential to address the noted concern(s) and reduce risks to the audited entity.</p> <p>A finding is rated <i>Medium</i> if the issues identified present risks or effects that if not addressed could moderately affect the audited entity’s ability to effectively administer programs(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.</p> <p>A finding is rated <i>Low</i> if the audit identified strengths that support the audited entity’s ability to administer the programs(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity’s ability to effectively administer the programs(s)/function(s) audited.</p>		

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**OBSERVATIONS/FINDINGS and RECOMMENDATIONS**

Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Fiscal Impact/ Other Impact
2	7/6/23	Human Resources and Payroll	<p><b>1. Applications</b></p> <p>The State of Texas Application is required to be completed in its entirety, and must be signed by the applicant, certifying that the information provided is true and complete. Of the 22 applications tested, 3 were not signed by the applicant.</p> <p><b>Recommendation</b></p> <p>We recommend that OCCC ensure applications are not only completed in their entirety, but also signed by the applicant to denote that the information provided is complete and accurate.</p> <p><b>Management’s Response</b></p> <p>Although state applications are received through different channels and some of those channels include certification that information contained in a submission is true and accurate, management agrees with the recommendation. The OCCC will update processes to ensure all accepted state applications are signed by 9/30/2023.</p> <p><b>2. HR Forms</b></p> <p>Of the 22 employees tested, the following HR (new hire) forms were not provided for one of the 22 employees who was a former OCCC employee (rehire):</p> <ul style="list-style-type: none"> <li>• Signed Benefits Elections Form;</li> <li>• Signed Employee Manual Form;</li> <li>• Signed Harassment Policy Acknowledgement Form; and,</li> <li>• Signed Conflict of Interest &amp; Ethics Acknowledgement Form.</li> </ul> <p><b>Recommendation</b></p> <p>We recommend that OCCC determine whether rehires are required to complete new hire forms or if previous completed forms may be relied upon. However, if new forms are not required, the previous completed forms should be located and retained in the employee’s personnel file, in accordance with OCCC’s records retention policy.</p> <p><b>Management’s Response</b></p> <p>The OCCC agrees with the recommendation and will update processes by 9/30/2023.</p>	<p>To ensure applications are properly completed.</p> <p>To ensure HR forms are properly completed, and retained in accordance with OCCC’s records retention policy.</p>

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Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Fiscal Impact/ Other Impact
2	7/6/23	Human Resources and Payroll	<p style="text-align: center;"><b>OBSERVATIONS</b></p> <p><b>1. Personnel Action Form (PAF) – Employee Classification</b></p> <p>For the 22 employees selected for testing, we compared the job title, salary group, and class code documented in the respective PAF to the SAO job description to ensure they were paid in accordance with the state-established pay plan. Our testing disclosed 1 instance where the salary group in the PAF differed from the SAO; however, since the salary group auto-populated in CAPPS was correct, the employee’s salary was properly determined and paid in accordance with the state-established pay plan.</p> <p><b>Recommendation</b></p> <p>We recommend that the HR department conduct a review of each employee’s most recent PAF and ensure all documented information is in alignment with the correct SAO job description; and, verify agreement with what is reflected in CAPPS, which will validate the accuracy of employees’ salaries.</p> <p><b>Management’s Response</b></p> <p>The OCCC agrees with the recommendation and will conduct a review of PAFs to ensure all classifications are correct by 9/30/2023.</p> <p><b>2. Approval of Time</b></p> <p>It is OCCC’s policy that employee time within CAPPS be electronically approved by their supervisor before payment is made to the employee. Management indicated that CAPPS will not allow payment to an employee if the time within CAPPS was not approved by the supervisor set up in the approval path for the respective employee. Our testing of 22 employees disclosed one instance where an employee was paid; however, the electronic approval of the employee’s supervisor was not evident.</p> <p><b>Recommendation</b></p> <p>We recommend that the Payroll department ensure that time reflected in CAPPS is approved by the employee’s supervisor prior to the employee being paid. In addition, we recommend that OCCC further investigate whether supervisor approval may be bypassed to allow for payment; and, contact the Comptroller’s Office to determine why the supervisor’s approval was not evident.</p> <p><b>Management’s Response</b></p> <p>The OCCC will ensure leave is approved by supervisors prior to payment by 9/30/2023 and will inquire with the Comptroller’s Office regarding time approval time lines and indicators in CAPPS.</p>	<p>To ensure employees are paid in accordance with the state-established pay plan for their respective salary group.</p> <p>To ensure time is approved by the employee’s supervisor, which authorizes payment.</p>

**OFFICE OF CONSUMER CREDIT COMMISSION**

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Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Status (Fully Implemented, Substantially Implemented, Incomplete/ Ongoing, or Not Implemented) with explanation if not yet fully implemented
2	7/6/23	2023 Follow-Up	<p style="text-align: center;"><u>Follow-Up of Prior Year Audits</u></p> <p>Following is the status of the recommendations made in prior years that had not been fully implemented.</p> <p>Regulated Lenders Examinations (Report date 5/20/2022)</p> <ol style="list-style-type: none"> <li>1. Special Instructions – Licensee’s Signature           <p>OCCC should determine if ALECS has the capability of having a built-in safeguard that would prevent an examination from being closed without the licensees’ electronic signatures for examination reports that require them to comply with special instructions.</p> </li> <li>2. Examination Frequency           <p>The current weight assigned to the “last examination date” and “last examination rating” attributes used in the risk assessment should be reviewed by OCCC to determine if adjustments are necessary to ensure licensees of higher risk are examined more frequently.</p> </li> <li>3. Examination Review Frequency           <p>OCCC should establish guidelines or goals that will provide review of examinations in a timely manner to identify workpapers that require additional analysis or require further development, which will ensure workpapers contain sufficient information to support the basis for the conclusions reached in the examination and properly reported in the ROE.</p> <p style="text-align: center;">Observations</p> </li> <li>4. Training Certification Program           <p>OCCC examiners hired before January 2017 are exempt from completing the certification training process. OCCC should include this exemption in their training policies and procedures.</p> </li> <li>5. Report of Examination (ROE) – Quality Review           <p>OCCC should re-enforce the importance of inserting complete and accurate information into ALECS, the system used to prepare ROEs; and, any issues should be corrected during the review process.</p> </li> </ol>	<p><b>Fully Implemented</b></p> <p><b>Fully Implemented</b></p> <p><b>Fully Implemented</b></p> <p><b>Fully Implemented</b></p> <p><b>Fully Implemented</b></p>



## **OFFICE OF CONSUMER CREDIT COMMISSION**

Internal Audit Annual Report

Fiscal Year 2023

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### **VII. External Audit Services Procured in Fiscal Year 2023**

OCCC procured the internal audit services documented in the approved Internal Audit Plan for fiscal year 2023. No other external audit services were performed.

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

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

### **IX. Proposed Internal Audit Plan for Fiscal Year 2024**

The risk assessment performed during fiscal year 2023 was used to identify the following *proposed* area that is recommended for internal audit and other tasks to be performed for fiscal year 2024. The Internal Audit Plan for Fiscal Year 2024 will be developed and presented to the Audit Committee and Finance Commission, for acceptance and approval, at a meeting to be determined at a later date.

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

ATTACHMENT

**OFFICE OF CONSUMER CREDIT COMMISSIONER**  
**History of Areas Audited**  
**For Fiscal Year 2023**

	POTENTIAL AUDIT TOPIC	Fiscal Year Audited/Reviewed									
		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
1	Business Licensing				<b>B*</b>	<b>D</b>					
2	Business Registration & Professional Licensing	<b>A*</b>			<b>A*/B*</b>	<b>D</b>					
3	Complaint Intake and Investigation					<b>D</b>				<b>B*</b>	
4	Examinations			<b>A*</b>		<b>A*/D</b>				<b>A*</b>	
5	Fiscal Division (Includes Asset Management & Travel)				<b>B</b>	<b>C*/D*</b>		<b>C1*</b>	<b>A*</b>	<b>B</b>	
6	Legal and Enforcement				<b>B*</b>	<b>D</b>				<b>B*</b>	
7	Management Information Systems [(MIS) Includes Disaster Recovery Plan] <sup>1</sup>	<b>E</b>			<b>B*</b>	<b>D*</b>	<b>A1*</b>		<b>E</b>	<b>B*</b>	
8	Payroll and Human Resources					<b>C*</b>	<b>F*</b>				<b>A</b>
9	Procurement/Contract Management/HUB				<b>B</b>	<b>C*/D*</b>					
10	Records Management							<b>A</b>			
11	Revenue Accounting Process				<b>B</b>	<b>D</b>				<b>B</b>	
12	TFEE Fund Grant Administration		<b>A</b>		<b>A*</b>	<b>D</b>					
<i>Required Periodic Audit</i>											
13	TFEE Fund Investment Portfolio Administration				<b>A</b>	<b>D</b>	<b>A1</b>		<b>A</b>		<b>A</b>

<sup>1</sup> Quarterly vulnerability scans are performed by the DIR or a third-party procured through the DIR, which are considered standardized reviews and therefore not reflected in this schedule by year.

- Note:** 1. Performance Measures are included in the scope of the applicable audit area(s).  
2. Effective FY23 —
- All examinations-related areas were combined into the "Examinations" auditable area.
  - Business Registration and Professional Licensing were combined into the "Business Registration & Professional Licensing" auditable area.

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

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



**DEPARTMENT OF SAVINGS AND MORTGAGE LENDING**  
Austin, Texas

**INTERNAL AUDIT ANNUAL REPORT**

Fiscal Year 2023



DEPARTMENT OF SAVINGS AND MORTGAGE LENDING  
Austin, Texas

Internal Audit Annual Report  
Fiscal Year 2023

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# Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

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

We performed procedures to determine the effectiveness and efficiency of the Department of Savings and Mortgage Lending's (SML) internal control structure over the Mortgage Examinations Area (the Area); and, its compliance with the Texas Finance Code chapters, Texas Administrative Code rules, and the Area's established policies and procedures, as applicable to the Area, for the 8 months ended April 30, 2023.

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

We also performed a follow-up of findings and recommendations presented in the prior year internal audit report, that were not fully implemented. This report, which reflects the results and implementation status of our follow-up procedures performed; and, includes all information required for compliance with State of Texas Internal Audit Annual Report requirements, has been prepared by Garza/Gonzalez & Associates, an independent Certified Public Accounting firm, following Generally Accepted Auditing Standards, International Standards for the Professional Practice of Internal Auditing, and the Institute of Internal Auditors' Code of Ethics contained in the Professional Practices Framework.

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



June 9, 2023

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## DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

Internal Audit Annual Report

Fiscal Year 2023

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### INTRODUCTION

The Department of Savings and Mortgage Lending (SML) is a Texas state agency whose mission is “to supervise and regulate the residential mortgage lending and state savings industries in order to protect Texans, provide a healthy residential mortgage lending environment, and maintain safe and sound savings banks and savings associations for the purpose of increasing the economic prosperity of the state.” SML operates under the oversight of the Finance Commission of Texas pursuant to the authority of various provisions of the Texas Finance Code; and, the Texas Administrative Code.

SML’s primary goals, as provided in the 2023-2027 Strategic Plan, are as follows:

1. **Thrift Industry Regulation:** Supervise, regulate, and enforce the organization, operation, and the liquidation of state savings banks and state savings associations.
2. **Mortgage Industry Regulation:** Protect Texas consumers through fair and effective regulation of the residential mortgage industry.
3. **Consumer Responsiveness:** Provide consumer assistance by ensuring compliance with statutes and regulations; and, being responsive to inquiries, requests, and complaints from consumers, industry, public officials, and other state and federal governmental entities.

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

### 2023 Internal Audit Plan

Following are the internal audit functions performed, as identified in SML’s 2023 Internal Audit Plan, dated November 28, 2022, and approved by the Audit Committee and Finance Commission on December 16, 2022:

- Risk Assessment & Preparation of the 2023 Internal Audit Plan
- Mortgage Examinations Audit
- Follow-up of Prior Year Internal Audit
- Preparation of the 2023 Internal Audit Annual Report
- Other Tasks

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

## DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

Internal Audit Annual Report

Fiscal Year 2023

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

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

- An approved fiscal year 2024 audit plan, as provided by Texas Government Code, Section 2102.008.
- A fiscal year 2023 internal audit annual report, as required by Texas Government Code, Section 2102.009.

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

### II. Consulting and Nonaudit Services Completed

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

### III. External Quality Assurance Review

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

### IV. Internal Audit Plan for Fiscal Year 2023

The approved Internal Audit Plan (Plan) included one audit to be performed during fiscal year 2023. The Plan also included a follow-up of the prior year internal audit recommendations that were not fully implemented as of fiscal year 2022; other tasks as may have been assigned by the Finance Commission or Audit Committee; and, preparation of the 2023 Internal Audit Annual Report.

#### Risk Assessment

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

**DEPARTMENT OF SAVINGS AND MORTGAGE LENDING**  
 Internal Audit Annual Report  
 Fiscal Year 2023

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

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

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

Fiscal Year 2022:

- Risk Assessment & Preparation of the Internal Audit Plan
- Legal & Enforcement Audit
- Preparation of the Internal Audit Annual Report

Fiscal Year 2021:

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

Fiscal Year 2020:

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

**DEPARTMENT OF SAVINGS AND MORTGAGE LENDING**  
 Internal Audit Annual Report  
 Fiscal Year 2023

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The internal audit and other tasks performed for fiscal year 2023 were as follows:

<b>Report No.</b>	<b>Audits/Report Titles</b>	<b>Report Date</b>
1.	Mortgage Examinations Audit <i>Objective:</i> To determine whether SML’s policies and procedures and internal controls in place over the Mortgage Examinations Area (the Area) are effective to enforce and administer applicable state and federal laws and regulations of the entities it regulates.	6/9/2023
1.	Internal Audit Annual Report – Follow-up of findings and recommendations that were presented in the Prior Year Internal Audit Report.  <i>Includes all reported audit results for Fiscal Year 2023.</i>	6/9/2023
-	Other Tasks Assigned by the Finance Commission or the Audit Committee	None

V. Executive Summary

Mortgage Examinations

**BACKGROUND**

The Mortgage Examinations Area (Area) is supervised by the Director of Mortgage Regulation, who reports to the Commissioner; and, consists of a Chief Mortgage Examiner, a Review Examiner, 13 Mortgage Examiners, and an Administrative Assistant. The Area’s primary functions are to conduct compliance examinations of Residential Mortgage Loan Companies and Mortgage Bankers (collectively, “entities”) that it regulates, and the entities’ sponsored residential mortgage loan originators (RMLO), to promote the entities’ compliance with various state and federal laws when conducting business with Texas consumers. The Area has developed applicable policies and procedures to be used when performing compliance examinations, which are documented in the Policies and Procedures Manual (Manual).

Compliance Examinations

The Chief Mortgage Examiner is responsible for scheduling compliance examinations, based on a risk-focused approach that incorporates the consideration of various factors, and in accordance with the Report of Examination Timing Policy, as follows:

- **Initial examination** (entities never examined): Within 12 months of a quarterly Mortgage Call Report (MCR) showing a cumulative total of 5 or more closed loans, as tracked by the Chief Mortgage Examiner.
- **Re-examination:** The frequency is generally determined by the prior examination rating, as shown below, with additional consideration of other factors; such as, production volume, and complaints received from consumers and/or other regulatory agencies.

Prior exam rating	Examination cycle (months)
5	12
4	24
3	36
2	48
1	60

Semarca, which is used by SML, is an agency-wide information database, that centrally stores and tracks a wide array of information related to regulated entities. On a monthly basis, the Chief Mortgage Examiner generates a report from Semarca, to identify examinations that are due in the coming months, and make assignments to Mortgage Examiners.



A compliance examination is conducted in the following stages:

- (1) **Initial Planning and Analysis** – Upon receiving an examination assignment, the assigned Mortgage Examiner contacts the Residential Mortgage Loan Company’s “Qualifying Individual<sup>1</sup>” or the Mortgage Banker Representative (collectively, “Contact”) to agree on the examination timing. The Mortgage Examiner then prepares and electronically delivers to the Contact, an Examination Notification Letter, which documents the timing of the scheduled examination, and an Initial Information Request (IIR). For performance tracking purposes, the Examination Notification Letter date is used as the examination start date. The Mortgage Examiner also collects various internal and external information related to the entity to identify risks. Upon receipt of a mortgage transaction log from the entity, as requested in the IIR, the Mortgage Examiner performs a review of loan originators to identify unlicensed activity, and selects a sample of closed and denied loan files. The Mortgage Examiner must select a minimum sample size, in accordance with the Manual; however, the sample size will be expanded, as applicable, to include high-risk loans; such as, wrap loans, and balloon payment loans.
- (2) **Examination** – The Mortgage Examiner reviews the entity’s policies and procedures, and other documentation, as requested in the IIR, to assess its system of compliance management; and, to determine their compliance with applicable state and federal requirements. The Mortgage Examiner also completes an Application Compliance Worksheet (ACW) for each loan file selected for an examination. The ACW workbook, which contains an ACW for each loan file examined, also includes summary tabs that are populated to reflect information entered into each individual ACW, which streamlines the reporting process. The Mortgage Examiner documents the examination results in a Summary of Preliminary Findings (FS) Form, a copy of which is provided to the Contact for the exit meeting. The Contact is requested to sign and return the FS Form to the Mortgage Examiner subsequent to the exit meeting. The workbook and templates used by Mortgage Examiners, along with the examination process overview, and other pertinent information, are published on SML’s website.
- (3) **Report of Examination (ROE)** – The Mortgage Examiner prepares a draft ROE and assigns a compliance rating of 1 to 5, with 1 representing the lowest level of concern, in accordance with the Examination Rating Policy, developed by the Area. The Examination Rating System was established to ensure consistent rating across examinations and adequate supervisory focus. Per the Area’s policy, Mortgage Examiners are expected to submit the draft ROE for review within 12 calendar days of the exit meeting date.

Mortgage Examiners submit a draft ROE to the Area’s designated email monitored by the Administrative Assistant. Upon receipt of a draft ROE, the Administrative Assistant enters applicable examination information to Semarca and proofreads the draft ROE for spelling and grammar, and for consistency with supporting work papers; such as, the number of loan files reviewed. Any edits made are tracked in a copy of the draft ROE, which is provided to the Chief Mortgage Examiner for review.

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<sup>1</sup> Defined in the Texas Finance Code (TFC) Chapter 156 as an individual who is licensed under TFC Chapter 157 as an RMLO and designated by a residential mortgage loan company as the company’s representative.

## DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

Internal Audit Annual Report

Fiscal Year 2023

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The Chief Mortgage Examiner reviews the edited draft ROE for quality, accuracy, and content, and makes additional changes, as appropriate. Upon completion of the Chief Mortgage Examiner’s review, the ROE becomes final, and the Administrative Assistant submits an electronic copy to the Contact. Serious noncompliance, as identified in SML’s Penalty Matrix, is referred to the Legal & Enforcement Department for possible enforcement actions.

If an examination results in a 3-, 4-, or 5-rating, a signed, written response is requested from the entity, to be received within 30 days of the ROE issuance date. The Review Examiner is responsible for monitoring and reviewing written responses.

Documentation obtained or prepared as part of the examination and ROE, is retained electronically in the ApplicationXtender, a document imaging and management system, for the duration of the retention period. Examination information is confidential and may be disclosed to other regulatory agencies only under specific conditions, as described in the Area’s Information Sharing Policy.

During the period from September 1, 2022 to April 30, 2023, the Area issued 280 ROEs, covering 4,854 RMLOs, with the following ratings:

Examination Rating	Number of ROEs
1	21
2	109
3	132
4	16
5	2
Total	280

Of the 280 examinations performed, 275 (98.2%) were initiated within established timeframes, which reflects that the Area is on track to meet the established 90% annual performance goal.

### Mortgage Examiner Training

Mortgage Examiners are required to obtain, on an annual basis, the following training hours, in accordance with SML’s policy:

- Chief Mortgage Examiner & Review Examiner — 80 hours
- Mortgage Examiners — 60 hours

Requirements may be met by any combination of available training; including, agencywide mandatory training (cybersecurity, sexual harassment, etc.), external or inhouse technical training, and attendance at job-related conferences. Training records are maintained by the Human Resources department, and reviewed by the Chief Mortgage Examiner.

## **AUDIT OBJECTIVE, SCOPE, AND METHODOLOGY**

### **Objective**

The objective of our audit was to determine whether SML's policies and procedures and internal controls in place over the Mortgage Examinations Area (the Area) are effective to enforce and administer applicable state and federal laws and regulations of the entities it regulates.

### **Scope**

The scope of this audit was to review and/or test the Area's selected functions performed, for the 8-month period from September 1, 2022 through April 30, 2023 (audit period).

### **Methodology**

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

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

- a. Organizational chart of the Area.
- b. Sections of the Texas Finance Code and the Texas Administrative Code applicable to the Area.
- c. Mortgage Examination Policies and Procedures Manual; and, Training Policy.
- d. Sample internal reports utilized by the Area for monitoring examination frequency, and examiner assignment.
- e. Examination tools and templates (ACW, Summary of Preliminary Findings, ROE, etc.) utilized by Mortgage Examiners.
- f. Listing of ROEs issued during the audit period.
- g. Applicable performance measure definitions, goals, and Finance Commission reporting.
- h. Semarca Examination/Examination Note tables user rights listing.
- i. FY23 training records for the Area.

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

1. Reviewed and obtained an understanding of the laws and regulations provided in the Texas Finance Code and Texas Administrative Code, as applicable to the Area.
2. Obtained and reviewed the Area's written policies and procedures, collected other available documentation, and conducted virtual interviews, to obtain an understanding of controls, processes, and current practices in place over the Area. Then, evaluated whether such controls adequately ensure compliance with applicable requirements identified in procedure 1 above.

## DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

Internal Audit Annual Report

Fiscal Year 2023

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3. Obtained a listing of 280 ROEs issued by the Area during the period from September 1, 2022 to April 30, 2023, and selected 21 to test for the following attributes:
  - a. The Examination Notification and the Information Request (and the Mortgage Compliance Guide if a residential mortgage loan company) were sent to the Contact prior to the examination, as required by the applicable TAC rule.
  - b. The minimum number of closed and denied loan files were reviewed, as provided in the Loan Sample Chart included in the Manual.
  - c. All required examination documentation, as listed in the Exam Timeline Checklist, were included in the examination file.
  - d. All fields in the ACW were completed for all loan files selected.
  - e. All fields in the Summary of Preliminary Findings were completed.
  - f. The Summary of Preliminary Findings was signed by the Examiner and the Contact.
  - g. The weaknesses identified in the ACW and the Summary of Preliminary Findings were included in the ROE and its cover letter.
  - h. The assigned ROE rating, as supported by the ACW and the Summary of Preliminary Findings, is consistent with the department's Examination Rating Policy.
  - i. A draft ROE was prepared within 12 days of the Exit date.
  - j. If a 3, 4, or 5 rating —
    - i. a signed, written response was requested in the ROE cover letter, and received within 30 days of the ROE issuance date; and,
    - ii. the entity's response(s), including evidence of payment, were obtained; or, follow-up was performed for instances of non-response.
  - k. The examination information was accurately entered into Semarca.
  - l. The examination was initiated timely, in accordance with the Report of Examination Timing Policy.
4. Obtained the following performance measures reporting for Q1 and Q2, FY23, as presented to the Finance Commission, and agreed the reported numbers to the supporting documentation:
  - a. Number of examination reports issued (key)
  - b. Number of licensees examined (non-key)
5. Reviewed the calculation methodology for the Area's new annual performance measures, *Percentage of examinations initiated within the established timeframes*.
6. Obtained training records for all Mortgage Examiners (excluding those hired during FY23) for fiscal year 2023 as of May 16, 2023, to verify that the required amount of training was completed or planned.
7. Compared the user rights report for Semarca Examination/Examination Notes tables to the organizational charts to verify that the access is restricted to only the individuals who require access to perform their respective job duties.

**VI. Observations/Findings and Recommendations**

SUMMARY and RELATED RATING of OBSERVATIONS/FINDINGS and RECOMMENDATIONS

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

Summary of Observations/Findings & Recommendations and Related Ratings		
Finding No.	Title	Rating
1	Examination Files Testing	Low
Observation No.	Title	Rating
—	None.	—

Description of Rating

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

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

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

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

**DEPARTMENT OF SAVINGS AND MORTGAGE LENDING**  
Internal Audit Annual Report  
Fiscal Year 2023

OBSERVATIONS/FINDINGS and RECOMMENDATIONS

Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Fiscal Impact/Other Impact
1	6/9/23	Mortgage Examinations	<p><b>1. Examination Files Testing</b></p> <p>Our testing of 21 examination files disclosed the following instances of non-compliance with the Area’s established policies and procedures:</p> <ul style="list-style-type: none"> <li>a. In 3 instances, the “Selection” transaction log was not retained in the examination folder, as required by the “Deliver Loan File Procedure” in the Manual.</li> <li>b. The Loan Sample Chart in the Manual provides the minimum sample size to be reviewed for denied loans. In 5 instances, the minimum sample size was not followed; and, in 3 other instances, we were unable to determine if the minimum sample size was selected, since the transaction logs did not include the loan status information.</li> </ul> <p><b>Recommendation</b>  We recommend that training be provided to Mortgage Examiners to enforce the importance of compliance with established policies and procedures; and, to ensure all required procedures are consistently performed.</p> <p><b>Management’s Response</b>  The Department agrees with the recommendation. On June 14, 2023, during the monthly Mortgage Examiner meeting, the Mortgage Examiners were instructed on the importance of: (1) maintaining adequate workpapers including the “Selection” transaction log (the written record selecting the sample size); and (2) reviewing, at least, the minimum sample size for an examination including denied loans. Additionally, to reinforce these requirements, additional training will be provided to the Mortgage Examiners during the annual Examiner meeting. The meeting will reinforce the Mortgage Examination policies and procedures for examinations including maintaining adequate records to reflect the “selected” sample size and that the minimum sample size is reviewed. The post-examination quality control processes will be updated to ensure compliance.</p>	To ensure compliance with established policies and procedures.

**DEPARTMENT OF SAVINGS AND MORTGAGE LENDING**

Internal Audit Annual Report

Fiscal Year 2023

Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Status (Fully Implemented, Substantially Implemented, Incomplete/Ongoing, or Not Implemented) with explanation if not yet fully implemented
1	6/9/23	2023 Follow-Up	<p style="text-align: center;"><b><u>Follow-Up of the Prior Year Internal Audit</u></b></p> <p>Following is the status of the recommendations made during fiscal year 2022 that had not been fully implemented.</p> <p><u>Legal &amp; Enforcement (Report date 5/24/2022)</u></p> <p><b>1. Written Policies and Procedures (Observation)</b> The Area should set a date as a goal for completing its P&amp;P update to ensure comprehensive and current P&amp;P are available for staff to refer to when performing their assigned functions.</p> <p><b>2. Quality Control (Observation)</b> SML should assess the existing quality control processes and identify areas that can be enhanced.</p>	<p style="text-align: center;"><b>Fully Implemented</b></p> <p style="text-align: center;"><b>Fully Implemented</b></p>

**VII. External Audit Services Procured in Fiscal Year 2023**

SML procured the internal audit services documented in the approved Internal Audit Plan for fiscal year 2023. No other external audit services were performed.

**VIII. Reporting Suspected Fraud and Abuse**

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

**IX. Proposed Internal Audit Plan for Fiscal Year 2024**

The risk assessment performed during fiscal year 2023 was used to identify the following *proposed* area that is recommended for internal audit and other tasks to be performed for fiscal year 2024. The Internal Audit Plan for Fiscal Year 2024 will be developed and presented to the Audit Committee and Finance Commission, for acceptance and approval, at a meeting to be determined at a later date.

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



ATTACHMENT

**DEPARTMENT OF SAVINGS AND MORTGAGE LENDING**  
**History of Areas Audited**  
**For Fiscal Year 2023**

POTENTIAL AUDIT TOPIC	Fiscal Year Audited/Reviewed										
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
1 Consumer Protection		A			B*	D					
2 Financial Reporting (Includes Asset Management & Travel)		E*			B	D*/E*					
3 Legal and Enforcement					B	D				A	
4 Management Information Systems [(MIS) Includes Disaster Recovery Plan] <sup>1</sup>				A	B*	C/D*	A1*		C		C
5 Mortgage Examinations			A		B*	D			G*		A
6 Mortgage Licensing and Registration					B*	D			G*		
7 Payroll and Human Resources	F*	E*				E*	F*				
8 Procurement/Contract Management/HUB		E*			B	D*/E*			A		
9 Records Management								A			
10 Revenue Accounting Process					B	D*					
11 Thrift Examinations					A	D					
12 Thrift Supervision and Compliance	A				B*	A/D					

<sup>1</sup> Quarterly vulnerability scans are performed by the DIR or a third-party procured through the DIR, which are considered standardized reviews and therefore not reflected in this schedule by year.

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

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

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

**TEXAS DEPARTMENT OF BANKING**  
Austin, Texas

**INTERNAL AUDIT ANNUAL REPORT**

Fiscal Year 2023



TEXAS DEPARTMENT OF BANKING  
Austin, Texas

Internal Audit Annual Report  
Fiscal Year 2023

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# Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

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

We performed procedures to determine the effectiveness and efficiency of the Texas Department of Banking's (DOB) internal control structure over the Procurement/Contract Management/HUB Area (Area); and, its compliance with the applicable chapters of the Texas Government Code, the Texas Administrative Code rules, and, the Area's established policies and procedures, for the 8 months ended April 30, 2023.

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

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

This report, which includes all information required for compliance with State of Texas Internal Audit Annual Report requirements, has been prepared by Garza/Gonzalez & Associates, an independent Certified Public Accounting firm, following Generally Accepted Auditing Standards, International Standards for the Professional Practice of Internal Auditing, and the Institute of Internal Auditors' Code of Ethics contained in the Professional Practices Framework.



June 7, 2023

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# TEXAS DEPARTMENT OF BANKING

Internal Audit Annual Report

Fiscal Year 2023

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## INTRODUCTION

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

DOB's primary functions are to:

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

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

### **2023 Internal Audit Plan**

Following are the internal audit functions performed, as identified in DOB's 2023 Internal Audit Plan, dated November 28, 2022 and approved by the Audit Committee and Finance Commission on December 16, 2022:

- Risk Assessment & Preparation of the 2023 Internal Audit Plan
- Corporate Activities Audit
- Procurement/Contract Management/HUB Audit
- Preparation of the 2023 Internal Audit Annual Report
- Other Tasks

This report contains the results of the Procurement/Contract Management/HUB Audit; and, meets the State of Texas Internal Audit Annual Report requirements. The Corporate Activities report, dated February 27, 2023, was presented to, and approved by, the Audit Committee and Finance Commission on April 21, 2023.

## TEXAS DEPARTMENT OF BANKING

Internal Audit Annual Report

Fiscal Year 2023

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

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

- An approved fiscal year 2024 audit plan, as provided by Texas Government Code, Section 2102.008.
- A fiscal year 2023 internal audit annual report, as required by Texas Government Code, Section 2102.009.

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

### **II. Consulting and Nonaudit Services Completed**

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

### **III. External Quality Assurance Review**

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

### **IV. Internal Audit Plan for Fiscal Year 2023**

The approved Internal Audit Plan (Plan) included two audits to be performed during fiscal year 2023. The Plan also included other tasks as may have been assigned by the Finance Commission or the Audit Committee; and, preparation of the fiscal year 2023 Internal Audit Annual Report.

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**Risk Assessment**

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

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

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

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

Fiscal Year 2022:

- Risk Assessment & Preparation of the Internal Audit Plan
- Bank Examinations Audit
- IT Examinations Audit
- Follow-Up of the Prior Year Internal Audits
- Preparation of the Internal Audit Annual Report

Fiscal Year 2021:

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

Fiscal Year 2020:

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



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The internal audits and other tasks performed for fiscal year 2023 were as follows:

<b>Report No.</b>	<b>Audits/Report Titles</b>	<b>Report Date</b>
1.	Corporate Activities Audit <i>Objective:</i> To determine whether DOB's policies and procedures and internal controls in place over the Corporate Activities Division adequately ensure that filings processing comply with applicable state statute and rules, and, whether such policies and procedures and internal controls are operating as designed.	2/27/2023
2.	Procurement/Contract Management/HUB Audit <i>Objective:</i> To determine whether DOB's policies and procedures and internal controls in place over the Procurement/Contract Management/HUB Area (Area) adequately ensure that DOB's procurement of goods and services comply with applicable state statute and rules; and, whether such policies and procedures and internal controls are operating as designed.	6/7/2023
2.	Internal Audit Annual Report	6/7/2023
-	Other Tasks Assigned by the Finance Commission or the Audit Committee	None

## V. Executive Summary

### Procurement/Contract Management/HUB Area

#### BACKGROUND

The Procurement/Contract Management/HUB Area (the Area) is responsible for processing DOB's purchases, including those made using purchasing cards, in accordance with applicable state purchasing laws. The Area is also responsible for complying with the solicitation, contract posting, and reporting requirements, as established by state requirements. Applicable state purchasing statutes are primarily located in the Texas Government Code (TGC), Title 10, Subtitle D. *State Purchasing and General Services Act*; and, Subtitle F. *State and Local Contracts and Fund Management*; while, corresponding rules are in Title 34 of the Texas Administrative Code (TAC) Chapter 20 *Statewide Procurement and Support Services*. The Texas Comptroller of Public Accounts (the Comptroller) Statewide Procurement Division (SPD) has developed the *Texas Procurement and Contract Management Guide* (TPCMG) to assist state agencies in complying with these state requirements.

The Area is supervised by the Chief Financial Officer (CFO), who reports to the Deputy Commissioner, and consists of one Purchasing Officer. Both the CFO and the Purchasing Officer hold the Certified Texas Contract Developer and Certified Texas Contract Manager (CTCD/CTCM) dual designations. State agency purchasing employees must adhere to the same ethical standards required of the Comptroller's employees; such as, prohibition of financial interest in, and gift/compensation from, contracting entities.

During the audit period, from September 1, 2022 to April 30, 2023, the Area processed 115 purchase orders (POs) totaling \$1,065,971 and made 235 purchasing card (P-Card) transactions totaling \$48,130. During the audit period, there were only 2 POs that met the criteria to be competitively procured.

#### Purchasing Process

DOB has established and implemented the *Contract Management Guide and Handbook* (CMGH), which contains the Administrative Memorandum 2025 (AM2025), *Internal Purchasing Procedures*, which is available to, and should be used by, all employees, when purchasing goods and/or services. All purchase requests must be initiated by a requestor with a completed Material and Services Request Form (MSR). The requestor must certify the need for the requested goods or service by signing the MSR, and obtain their division director's approval. Additional approval(s) must be obtained from the MIS Director, if IT-related; and, from the Deputy Commissioner, if over \$500.

A properly completed and approved MSR is sent to the Purchasing Officer who determines proper procurement method and Purchase Category Code (PCC) based on the type and amount of the purchase. For purchase of commodity goods or services, state agencies must first consider purchasing from the following:

- Set-aside programs (the Purchasing from People with Disabilities Program, commonly referred to as the State Use program, and the Texas Correctional Industries (TCI) Program)
- Department of Information Resources (DIR) contracts
- SPD term contracts (Texas SmartBuy)

Purchases from the set-aside programs and term contracts do not require competitive procurement; while, purchases of an IT-related commodity through a DIR contract require certain competition based on the contract value. DIR contracts must be utilized for all IT-related purchases unless exempted by DIR.

If suitable vendors are not found in the preferred methods above, the Purchasing Officer follows the SPD’s *Delegated Purchase Method*, up to the delegation limits of \$50,000 for goods and \$100,000 for services. A delegation request must be individually approved by the SPD for purchases that exceed the delegation limit. Under the Delegated Purchase Method, the solicitation requirements below apply, unless explicitly exempted by statute. In such cases, the Purchasing Officer must document the underlying legal citation for the exemption.

<b>Purchase/Contract Value</b>	<b>Solicitation Requirement</b>
Up to \$10,000 (“spot” purchases)	Competitive process not required.
\$10,000.01 - \$25,000	Informal competitive solicitation required.
Over \$25,000	Formal competitive solicitation required.

State agencies must utilize the Centralized Master Bidders List (CMBL) and the Historically Underutilized Businesses (HUB) Directory Search to identify vendors for solicitation. Specific purchasing rules apply to certain purchases other than commodity; such as, IT, professional and consulting services. The Purchasing Officer utilizes a procurement checklist as a tool to ensure performance of all state-required procurement steps applicable to the given PCC, as required by TGC Sec. 2262.053, and maintains all procurement supporting documentation in the respective procurement file.

*Purchasing Card (P-Card)*

In accordance with 34 TAC §5.57, *Use of Payment Cards by State Agencies*, state agencies must adopt reasonable procedures governing the issuance and security of payment cards and the use of those cards by the agency’s officers and employees. DOB has incorporated P-Card policies and procedures into AM2025 to comply with the state requirements. Under the policy, 3 individuals at Headquarters and 1 individual at each Regional Office are designated as authorized P-Card holders. The policy also determines daily and monthly transaction limits and other safeguards, which are automatically enforced through the card profile setting.

Each P-Card holder must submit, to the CFO, a monthly transaction listing, receipts, and any other applicable supporting documentation; such as, approval. The CFO maintains an internal card transaction log (Log) as required by the TPCMG. The CFO reviews all P-Card transactions to ensure each transaction is allowable and supported by a receipt, and reconciles the transaction listings submitted by the P-Card holders to the Log and monthly card statement.

*Vendor Compliance Verification*

Prior to finalizing a purchase, with the exception of P-Card purchases, state agencies must perform the following vendor compliance verification checks:

- SPD Debarment Check
- System for Award Management (SAM) Exclusion Check
- Iran, Sudan, & Foreign Terrorist Organization Check
- Boycott Israel Check
- Warrant/Payment Hold Check

A warrant hold/payment hold check must also be performed prior to P-Card purchases exceeding \$500.

*Contracts Posting and Reporting*

To ensure transparency, DOB must post/report the following information for certain contracts during solicitation and/or post-award, depending on the contract type and dollar value.

- **Electronic State Business Daily (ESBD)** – Solicitation and award of all contract types greater than \$25,000.
- **Texas Register** –Solicitation and award of certain contract types specified by applicable statute; such as, consulting services procured under the Governor’s emergency compliance waiver, and certain construction and real estate-related contracts.
- **Legislative Budget Board (LBB) Reporting** – Major contracts as defined by TGC §322.020(a)(1).
- **Agency Website Postings** – All contracts not reported to the LBB.

**Contract Management**

DOB’s contract management primarily consists of inclusion of state-required clauses in the contract, and a review and approval of the vendor invoice. The user division is responsible for immediately notifying the CFO of any issues and discrepancies related to deliverables.

Within 30 days of completion or termination of a contract valued at \$25,000 or greater, other than those procured through the state’s set-aside programs and DIR, a vendor performance evaluation is submitted by the Purchasing Officer, to the Comptroller, using the Comptroller’s Vendor Performance Tracking System.

**HUB Compliance**

TGC Chapter 2161 outlines the statewide HUB compliance requirements and grants responsibility to the Comptroller for adopting rules to administer the statewide HUB Program for businesses owned by minority, women, and certain service-connected disabled veterans. DOB has established AM 2012, *Policy on Utilization of Historically Underutilized Business*, and the Purchasing Officer is the designated HUB coordinator. State agencies must track HUB purchases, and plan and make good-faith efforts in meeting the statewide HUB purchasing goals specified in 34 TAC §20.284. The table below reflects DOB’s fiscal year 2022 HUB purchases, which is the most recent annual data available, as reported by the Comptroller:

Procurement Category	Statewide Goal	DOB FY22		
		Total \$	HUB \$	HUB %
Heavy Construction	11.20%	\$ -	\$ -	0.00%
Building Construction	21.10%	\$ -	\$ -	0.00%
Special Trade	32.90%	\$ 35,689	\$ 2,965	8.31%
Professional Services	23.70%	\$ 59,425	\$ 48,220	81.14%
Other Services	26.00%	\$ 666,168	\$ 75,397	11.32%
Commodity Purchases	21.10%	\$ 331,806	\$ 160,082	48.25%
Overall	--	\$ 1,093,088	\$ 286,663	26.23%

State agencies are also required to semiannually report to the Comptroller, the HUB Supplemental Data, by ethnic and gender categories:

- Total number of bids/proposals received
- Number of competitive and non-competitive contracts awarded

In accordance with TGC Chapter 2161, Subchapter C. *Planning and Reporting Requirements*, DOB has included, in its 2023-2027 Strategic Plan, a written plan for increasing the agency's use of HUBs in purchasing.

## AUDIT OBJECTIVE, SCOPE, AND METHODOLOGY

### Objective

The objective of our audit was to determine whether DOB’s policies and procedures and internal controls in place over the Procurement/Contract Management/HUB Area (Area) adequately ensure that procurement of goods and services comply with applicable state statute and rules; and, whether such policies and procedures and internal controls are operating as designed.

### Scope

The scope of this audit was to review and/or test the Area’s selected activities performed, for the 8-month period from September 1, 2022 through April 30, 2023 (audit period); to include, a review of the implementation status for the recommendations made by the Texas Comptroller in the Post-Payment Audit (report #451-21-01).

### Methodology

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

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

- A. Texas Government Code, Title 10, Subtitle D. *State Purchasing and General Services* and Subtitle F. *State and Local Contracts and Fund Management*.
- B. Title 34 Texas Administrative Code Chapter 20. *Statewide Procurement and Support Services*.
- C. State of Texas Procurement and Contract Management Guide version 2.1 (TPCMG) developed by the Texas Comptroller of Public Accounts (the Comptroller) Statewide Procurement Division (SPD).
- D. DOB Contract Management Guide and Handbook (January 2022) which includes Administrative Memorandum (AM) 2025), *Internal Purchasing Procedures*; and, AM 2012, *Policy on Utilization of Historically Underutilized Businesses (HUB)*.
- E. Texas Comptroller Post-Payment Audit Report #451-21-01 dated September 8, 2022.
- F. DOB’s fiscal year 2023 Agency Procurement Plan and submission record.
- G. The Area’s organizational chart.
- H. Non-Disclosure and Conflict of Interest certification signed by the Area’s staff.
- I. Listing of purchases and contracts (collectively “purchases”) made during the audit period.
- J. Procurement files of selected purchases during the audit period.
- K. State Use Program monthly reports for the audit period.
- L. FY22 Consolidated Annual HUB Report and FY23 Supplemental Semi-Annual HUB Report.
- M. DOB’s fiscal year 2023-2027 Strategic Plan.

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

1. Reviewed and updated our understanding of the sections of the Texas Government Code, the Texas Administrative Code, and the State of Texas Procurement and Contract Management Guide, as applicable to the Area.
2. Reviewed the Area's policies and procedures and other internal documentation; and, conducted interviews, to obtain an understanding of controls, processes and current practices in place over the Area.
3. Verified that Area staff maintain an active CTCD/CTCM certification status and signed the Non-Disclosure and Conflict of Interest form for fiscal year 2023.
4. Verified that DOB's contract management handbook is available on its website in accordance with TGC §2261.256.
5. Selected 24 purchases, which included 1 competitively procured contract and 11 P-Card transactions, made during the audit period to test for the following attributes, as applicable, to assess compliance with state requirements and adherence to DOB's established policies, procedures, and internal controls applicable to the Area (attributes with asterisk had a finding in the Post-Payment Audit Report):

### Tests of Compliance

- a. The purchase was reasonable.
- b. Appropriate procurement method was selected.\*
- c. Proper PCC and NIGP codes were used.
- d. The procurement file included all required documentation listed in applicable checklist.
- e. Preferred vendors were utilized when available
- f. Bid solicitation was sent to all vendors in the CMBL search result.\*
- g. Solicitation and award notice were posted to the ESBD in accordance with the timeline determined by the Comptroller.\*
- h. Non-disclosure agreements and conflict of interest statements were signed by the individuals participating in the evaluation.\*
- i. All required vendor compliance verification checks were performed prior to the purchase.\*
- j. The CFO signed a written statement acknowledging DOB's compliance with all procurement requirements set by the state and the department.\*
- k. Contract included all *required* clauses provided in the TPCMG.\*
- l. Contract was reported or posted to all required entities or locations.
- m. P-Card transaction was recorded in an internal log and supported by receipts.
- n. Vendor performance report was properly completed for contracts over \$25,000.\*
- o. A checklist for the correct PCC was completed.

### Tests of Controls

- p. Proper approval was obtained for the purchase.
- q. Receipt of goods was documented.
- r. P-Card transaction was reconciled to internal log and card statement by the CFO, and check-marked on the internal log and card statement, denoting the CFO's review for allowability.

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6. Reviewed submission records of the fiscal year 2023 Agency Procurement Plan and FY23 Semi-Annual HUB Supplemental Data to verify timely submission.
7. Selected the following external reports and traced the reported numbers to supporting documentation:
  - a. State Use reporting for the months of November 2022, December 2022, and April 2023.
  - b. HUB Supplemental Data reporting for the 6-month period ended February 28, 2023.



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**VI. Observations/Findings and Recommendations**

SUMMARY and RELATED RATING of OBSERVATIONS/FINDINGS and RECOMMENDATIONS

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

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

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**OBSERVATIONS/FINDINGS and RECOMMENDATIONS**

Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Fiscal Impact/ Other Impact
2	6/7/23	Procurement/ Contract Management/ HUB	<p><b>1. LBB Reporting</b></p> <p>DOB is required to report certain contracts to LBB’s Contracts Database; including, a major information system (IS) over \$100,000, and professional and consulting services over \$50,000. Of the 24 purchases tested, 4 contracts were required to be reported to the LBB; however, 1 contract for which reporting was required under TGC §2054.008 since it was for a major IS over \$100K, was not reported.</p> <p><b>Recommendation</b> We recommend that the Area strengthen its internal controls to ensure DOB remains compliant with the LBB state reporting requirements.</p> <p><b>Management’s Response</b> The initial rule interpretation was that such contracts were not reportable to the LBB as they were procured through a State agency (DIR in this case). In addition, at the time of the original award in June 2021, the Department did not have a purchaser and the CFO took on that additional role to at least ensure procurement of such services. The Department has since employed a purchaser who has improved compliance with reporting requirements.</p> <p><b>2. HUB Supplemental Data Reporting</b></p> <p>State agencies are required by TGC §2161.122(c) to semi-annually submit to the Comptroller, HUB Supplemental Data; such as, the number of contracts awarded, and the number of bids/proposals received, by ethnicity, gender, and disabled veteran status. In DOB’s semi-annual Supplemental Data reporting for the 6-month period ended February 28, 2023, the number of bids/proposals received was under-reported by 10 since DOB did not report the bids/proposals received, but not awarded.</p> <p><b>Recommendation</b> We recommend that DOB update its HUB Supplemental Data collection methodology to ensure accurate data will be submitted to the Comptroller.</p> <p><b>Management’s Response</b> While this is an oversight, agencies have the opportunity to finalize and correct any data discrepancies when reporting year-end data. In this instance, the Department will have the opportunity to revise the bids/proposals received.</p>	<p>Compliance with TGC §2054.008(b).</p> <p>Compliance with TGC §2161.122(c).</p>

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### **VII. External Audit Services Procured in Fiscal Year 2023**

DOB procured the internal audit services documented in the approved Internal Audit Plan for fiscal year 2023. No other external audit services were performed.

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

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

### **IX. Proposed Internal Audit Plan for Fiscal Year 2024**

The risk assessment performed during fiscal year 2023 was used to identify the following *proposed* areas that are recommended for internal audit and other tasks to be performed for fiscal year 2024. The Internal Audit Plan for Fiscal Year 2024 will be developed and presented to the Audit Committee and Finance Commission, for acceptance and approval, at a meeting to be determined at a later date.

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

ATTACHMENT

**TEXAS DEPARTMENT OF BANKING**  
**History of Areas Audited**  
**For Fiscal Year 2023**

	POTENTIAL AUDIT TOPIC	Fiscal Year Audited/Reviewed										
		2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
1	Bank Examinations	B*				A/B*	E				A	
2	Consumer Assistance						E			A		
3	Corporate Activities	A					E					A
4	Financial Reporting					B	E*					
5	Fixed Asset Management		C*			A	C*			C*		
6	Imaging and Records Management				A				A			
7	IT Examinations				A		E				A	
8	Management Information Systems [(MIS) Includes Disaster Recovery Plan] <sup>1</sup>	D	A			B	E*	A1*/D		A*/D		
9	Money Service Businesses		A			B*	E	A1*	A*			
10	Payroll and Human Resources		C*				C*/F*	F*		C*		
11	Perpetual Care Cemeteries			A		B*	E	A1*	A*			
12	Prepaid Funeral Contracts	A				B*	E	A1*	A*			
13	Prepaid Funeral Guaranty Fund						A/E	A1*	A*			
14	Procurement/Contract Management/HUB		C*			B*	C*			C*		A
15	Revenue Accounting Process			A		B	E	A1*	A			
16	Travel		C*			B*	C*/E*			C*		
17	Trust Examinations						A/E					

<sup>1</sup> Quarterly vulnerability scans are performed by the DIR or a third-party procured through the DIR, which are considered standardized reviews and therefore not reflected in this schedule by year.

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

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

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

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## **K. Activities Relating to the Texas Financial Endowment Fund:**

The 2022-2023 TFEE third grant cycle semi-annual reports were due at the end of July, along with the longitudinal reports for one-year grantees. Reimbursement requests are under review and are being processed. The complete third semi-annual report will be available during the October Finance Commission meeting.

The application window for TFEE's 2024-2025 grant cycle opened on June 28, 2023. TFEE is currently soliciting applications through its website, by direct targeted email, and via social media. An informational webinar is scheduled for September 6<sup>th</sup>, with more than 50 individuals registered to date. The deadline to submit applications is September 22, 2023. Grant applications will then be reviewed by the Grant Advisory Committee (GAC), and recommendations for grant awards will be made during the October Finance Commission meeting. The 2024-2025 grant cycle will begin January 1, 2024.

## **L. Appointment of a New Grant Advisory Committee Member Ashley Minaudo**

The recommendation is to appoint Ashley Minaudo as the Credit Access Business Representative to the GAC. Ashley Minaudo would replace Rachael Peters, who was appointed in April 2023, and fill her unexpired term.

Ashley Minaudo is the Senior Director of Internet Strategy at Community Choice Financial (CCFI). In this capacity, Ashley leads a robust team of SEO, Content, and Web Product professionals. A strong dedication to both content and financial literacy have allowed her to lead and leverage education campaigns and to influence the new customer experience while adhering to compliance and state regulations. Ashley's strong commitment to work and to her team have provided users with a seamless journey through the personal lending application process. She has played a key role in the digital transformation strategy and expansion of CCFI branded websites, allowing for omnichannel lending across the organization and providing consumers with access to products via phone, online, and in-person at one of 700+ stores throughout the U.S.



## **Mortgage Grant Fund Activities Report – July 31, 2023**

### **Activities relating to the Mortgage Grant Fund (MGF)**

The 2023 – 2024 MGF Grant Cycle has concluded its first semi-annual reporting and reimbursement period. Grant award recipients are submitting reports, and the coordinator is currently reviewing reimbursement requests.