

FINANCE COMMISSION OF TEXAS AUDIT COMMITTEE MEETING

Friday, August 16, 2024

8:30 a.m.

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

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

- A. Review and Approval of the Minutes of the June 21, 2024 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' 2024 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' 2024 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 2025 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 to Approve the Renewal of the Internal Auditor Contract for Garza/Gonzalez and Associates for Fiscal Year 2025
- H. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Office of Consumer Credit Commissioner's 2024 Annual Internal Audit and Follow-Up on Prior Year Recommendations 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 Department of Savings and Mortgage Lending's 2024 Annual Internal Audit and Follow-Up on Prior Year Recommendations 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 2024 Trust Examinations Report and Follow-Up on Prior Year Recommendations 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 Texas Department of Banking's 2024 Annual Internal Audit Report as Prepared and Presented by Garza/Gonzalez and Associates
- L. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Activities of the Texas Financial Education Endowment Fund
- M. Discussion of the Activities of the Mortgage Grant Fund
- N. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Department of Savings and Mortgage Lending's Mortgage Grant Administration Manual Pursuant to 7 TAC, Part 4, § 51.402(c)
- O. Discussion of and Consultation on Security Audit, Possible Issue Related to Confidential or Sensitive Information, Security Breach Audit and Assessment, or Security Assessments or Deployment Related to Information Resources Technology as Authorized by §§ 551.076 and 551.089, Texas Government Code

NOTE: The Audit Committee of the Finance Commission of Texas may go into executive session (close its meeting to the public) on any agenda item if appropriate and authorized by the Open Meetings Act, Texas Government Code, Chapter 551.

Meeting Accessibility: Under the Americans with Disabilities Act, the Finance Commission of Texas will accommodate special needs. Those requesting auxiliary aids or services should notify the Texas Department of Banking, 2601 North Lamar Boulevard, Austin, Texas 78705, (512) 936-6222, as far in advance of the meeting as possible.

MINUTES OF THE AUDIT COMMITTEE MEETING Friday, June 21, 2024

The Audit Committee of the Finance Commission of Texas convened at 8:30 a.m., on Friday, June 21, 2024, with the following members present:

Audit Committee Members in Attendance:

Phillip Holt, Interim Chairman (Chairman, Finance Commission of Texas)
Hector Cerna
Marty Green

Audit Committee Members Absent:

Roselyn "Rosie" Morris

Chairman Holt announced there was a quorum of the Audit Committee of the Finance Commission of Texas with three (3) members present. *(0.28 on audio file).*

AGENDA ITEM	ACTION	LOCATION ON AUDIO FILE
A. Review and Approval of the Minutes of the April 19, 2024 Audit Committee Meeting	Marty Green made a motion to Approve the Minutes of the April 19, 2024 Audit Committee Meeting. Hector Cerna seconded, and the motion passed.	0:46 Start of Discussion 0:56 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.	1:15 Start of Discussion
C. Discussion of the 2025 Budget Process	No Action Required.	5:40 Start of Discussion
D. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Texas Department of Banking's 2024 Payroll and Human Resources Report as Prepared and Presented by Garza/Gonzalez and Associates	Hector Cerna made a motion to recommend that the Finance Commission Approve the Texas Department of Banking's 2024 Payroll and Human Resources Report as Prepared and Presented by Garza/Gonzalez and Associates. Marty Green seconded, and the motion passed.	8:44 Start of Discussion 16:19 Vote
E. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Activities of the Texas Financial Education Endowment Fund	No Action Required.	16:40 Start of Discussion

AGENDA ITEM	ACTION	LOCATION ON AUDIO FILE
F. Discussion of the Activities of the Mortgage Grant Fund	No Action Required.	17:31 Start of Discussion
G. 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	No Discussion	n/a

There being no further business of the Audit Committee of the Finance Commission of Texas, Chairman Phillip Holt adjourned the meeting at 8:49 a.m. *(19:02 on the audio file)*.

Phillip Holt, Interim Chairman, Audit Committee
Finance Commission of Texas

Charles G. Cooper, Executive Director
Finance Commission of Texas

Ruth Wright, Executive Assistant
Finance Commission of Texas

Texas Office of Consumer Credit Commissioner
Audit Activities Report
As of July 31, 2024

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Auditor: <i>Garza/Gonzalez</i>	Audit Report Date: June 14, 2024
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Audit Area: <i>Internal Audit – Examinations</i>	
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Findings: Exam Review Status – <i>The OCCC should strengthen its current monitoring process to ensure exam review discrepancies are detected and addressed in a timely manner.</i>	Status Update: <i>Completed. The OCCC has completed a review of the work items identified in the report. Consumer Protection staff have implemented monthly procedures to identify and correct any exam review discrepancies. As of July 2024, there are no exam review discrepancies.</i>
ALECS Account Deletion – <i>The OCCC should clarify ALECS account deletion procedures to ensure network access is disabled on an employees’ last day of physical work.</i>	<i>Completed. In the instances noted in the report, employees had completed the exit process through HR and were expending accrued leave. The OCCC has updated the network termination form to note access must be terminated on the last day of physical employment and added a checklist item on the termination form to note the date ALECS permissions are disabled.</i>
Risk Score Calculation – <i>The OCCC should strengthen its current monitoring procedures to identify unusual risk score values.</i>	<i>Completed. The OCCC has studied the conditions which caused the unusual risk scores. Consumer Protection staff have implemented monthly procedures to identify and correct any unusual risk scores. As of July 2024, there are no unusual risk scores.</i>
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Auditor: <i>DIR/AT&T Cybersecurity Consulting</i>	Audit Report Date: <i>NA</i>
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Audit Area: <i>Controlled Penetration Test and Web Application Vulnerabilities Scan</i>	
Findings: <i>NA</i>	Status Update: <i>Initial Scan Completed. Rescan Pending.</i>
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Auditor: <i>Department of Public Safety</i>	Audit Report Date: <i>May 18, 2022</i>
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Audit Area: <i>Non-Criminal Justice Audit – Licensing</i>	
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Findings: <i>Evaluate IT Access. IT should be fingerprinted or access should be limited.</i>	Status Update: <i>Pending. Coordinating with DPS and awaiting clarification.</i>
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Department of Savings and Mortgage Lending

Audit Activities Report as of July 31, 2024

Auditor:	<i>Department of Information Resources – AT&T Cybersecurity Consulting</i>	Audit Report Date:	<i>July 19, 2024</i>
Audit Area:	<i>Information Resources – Controlled Penetration Test and Web Application Vulnerability Scan</i>		
Findings:	Status Update: <i>Completed. Results to be presented in an executive session.</i>		

Auditor:	<i>Graza/Gonzales and Associates</i>	Audit Report Date:	<i>June 24, 2024</i>
Audit Area:	<i>Mortgage Grant Fund</i>		
Recommendations:	Status Update:		
<i>Implement a review process for Semi-Annual Report Summaries</i>	<i>Implemented. Review process in place since May 2024.</i>		
<i>Consider use of an online form for Semi-Annual Reports</i>	<i>Completed. Alternative options made available to grantees.</i>		
<i>Develop and implement a discrepancy form</i>	<i>Implemented. An MGF Reimbursement Request Discrepancy Form developed in July 2024.</i>		
<i>Implement procedures for addressing risks of a grantee</i>	<i>Completed. Procedures developed in June 2024 to be used in the 2025-2026 grant cycle.</i>		
<i>Provide training to the MGAC members on completing Reviewing Matrix Forms</i>	<i>In progress. Training course is being developed and training will be provided in October 2024.</i>		
<i>Develop and implement procedures for applicant selection.</i>	<i>In progress. Procedures to be finalized and implemented in October 2024.</i>		
<i>Ensure application checklist is submitted.</i>	<i>Implemented. Checklist incorporated into the application form.</i>		
<i>Develop procedures for applicant eligibility verification</i>	<i>Implemented. Procedures in place for the 2025-2026 grant cycle.</i>		
<i>Develop and implement a calendar for the next grant cycle</i>	<i>Completed. A calendar developed and an application deadline announced.</i>		
<i>Develop and implement a standardized grantee expense spreadsheet</i>	<i>Completed. A spreadsheet developed in June 2024 to be used in the 2025-2026 grant cycle.</i>		
<i>Assess necessity of variance reporting procedures and requirements.</i>	<i>Completed. Variance reporting evaluated in June 2024 and is no longer required. Additional procedures and forms developed to allow grantees to request budget changes.</i>		

Auditor:	<i>Comptroller of Public Accounts</i>	Audit Report Date:	<i>N/A</i>
Audit Area:	<i>Post-Payment and Procurement Audit</i>		
Findings:	Status Update:		
<i>N/A</i>	<i>In progress. Field work began on March 18, 2024. Report is pending.</i>		

Texas Department of Banking

Audit Activities Report

As of July 31, 2024

Auditor:	Garza/Gonzalez & Associates	Audit Report Date: July 9, 2024
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Audit Area: *Trust Examinations and Follow-up*

Findings:	Status Update:
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Completeness of Work Papers

Recommendation:

Ensure examiners follow the Examiners' Council recommendations to ensure complete and accurate work papers are prepared to support the Report of Examination.

Management recognizes the oversight. A discussion was held with the trust examination team at their July 24, 2024, staff meeting to discuss the importance of completing and accurately documenting work papers to support the Report of Examination. In addition, emphasis on the quality control review was discussed.

Observations:

Policies and Procedures

Observation:

Recommend that policies be reviewed periodically to assess whether procedures and/or processes should be updated for improvement.

Our agency has a process to periodically review all policies and procedures, which includes memorandums and examiner bulletins. Generally, all policies and procedures are reviewed on a five-year cycle. Policies are continuously monitored and reviewed for accuracy. Many of the policies / procedures related to examinations are coordinated with state and federal counterparts that reflect agreed upon processes. As such, these policies are updated when a change in the process occurs or is necessary and agreed upon.

Quality Control Procedures

Observation:

Recommend that DOB ensure the quality control procedures are followed to ensure completion of all embedded documents.

The document in question was the official officer's questionnaire. An incorrect version was erroneously uploaded into the Table of Content (TOC). However, the trust team has a backup process where all files pertaining to an examination can be recovered. A correct version was subsequently located and uploaded to the TOC. Per policy, each RO and specialty area maintains examination procedures on the LAN for two examination periods where the Department is the lead allowing for documents to be retrieved from a secondary source aside from Document Manager.

Auditor:	Garza/Gonzalez & Associates	Audit Report Date: July 9, 2024
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Audit Area: *Follow-Up on Corporate Activities*

Findings:	Status Update:
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Monitoring Overall – Processing Time	Fully Implemented.
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Filing Processing Deviations	Fully Implemented.
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Observations:	Fully Implemented.
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Texas Department of Banking
Audit Activities Report Continued
As of July 31, 2024

Auditor:	Garza/Gonzalez & Associates	Audit Report Date: <i>July 9, 2024</i>
Audit Area:	<i>Follow-Up on Procurement/Contract Management/HUB</i>	
Findings:	Status Update:	
<i>LBB Reporting</i>	<i>Substantially Implemented.</i>	
<i>HUB Supplemental Data Reporting</i>	<i>Fully Implemented.</i>	

Auditor:	Comptroller of Public Accounts	Audit Report Date: <i>N/A</i>
Audit Area:	<i>Routine Follow-Up to September 2022 Post Payment Audit</i>	
Findings:	Status Update:	
<i>N/A</i>	<i>Fieldwork to begin August 19, 2024.</i>	

July 3, 2024

Dear Agency Head:

The Texas Comptroller of Public Accounts has completed its first annual Commercial Charge Card Rebate Program desk audit for 99 state agencies (agencies). The objective of this audit was to determine whether agencies complied with the requirement in [Texas Government Code, Section 2251.030](#) for agencies to take advantage of early payment discounts and/or rebates. Attached please find the related statewide report.

In the past, this review was conducted as part of a post-payment audit. Starting in fiscal 2023, the Fiscal Management Division of the Comptroller's office began to receive the semiannual Citibank rebate reports and to report results annually at the end of the review period.

This first annual report covered agency rebates earned from September 2022 through August 2023. The audit scope included a review of:

- Semiannual Citibank rebate reports.
- Uniform Statewide Accounting System (USAS) late payment interest paid, waived interest and fiscal 2023 payment ad hoc reports.

Auditors also compared agencies' actual paid rebates to the minimum and maximum potential rebates under the program.

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

We would like input from you or your designee on the audit report. Please take our [Audit Survey](#) to rate and comment on the rebate program desk audit report. Your feedback is greatly appreciated.

Thank you for your cooperation. If you have any questions or comments regarding this audit, contact Chris Taylor at (512) 463-4258 or Somaia Farag at (512) 475-0479, or email exp.audit@cpa.texas.gov.

Sincerely,



Jennifer Smith
Payment Operations Area Manager
Fiscal Management Division

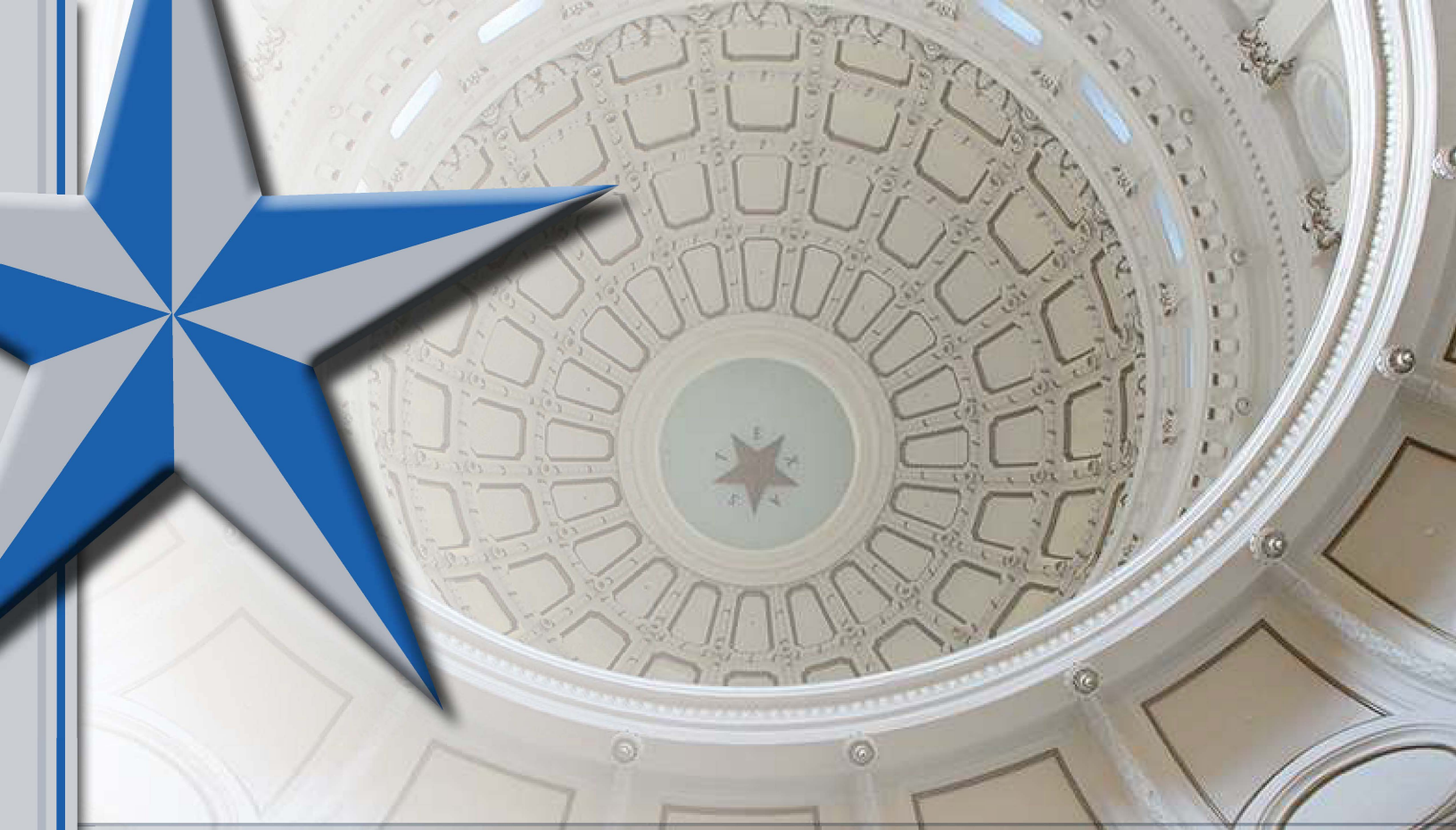
Attachments

cc: Rob Coleman, Fiscal Management Division Director, Texas Comptroller of Public Accounts
Agency heads and CFOs at all audited agencies



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A Statewide Desk Audit

Commercial Charge Card Rebate Program

Audit Report #001-24-01
July 3, 2024

Glenn Hegar
Texas Comptroller of Public Accounts





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Executive Summary

Purpose and Scope

The Texas Comptroller of Public Accounts (Comptroller's office) performed a desk audit of the Commercial Charge Card Rebate Program and rebates earned at state agencies (agencies).

The objective of the audit was to determine whether agencies complied with the requirement of [Texas Government Code, Section 2251.030](#) for agencies to take advantage of early payment discounts and/or rebates. The audit was conducted in accordance with Texas Government Code, Section 403.071.

The audit scope included review of the semiannual rebate reports from the charge card program provider, Citibank, and comparisons of the actual rebates earned to the minimum and maximum rebates that could have been earned if agencies had paid their Citibank statements within the required 30 days or as early as three days after the receipt of the credit card statements. Auditors also ran and reviewed three Uniform Statewide Accounting System (USAS) ad hoc reports for audited agencies for payment dates, prompt payment interest paid to Citibank for late payments, and payments agencies waived interest on by overriding the interest payment calculations during fiscal 2023.

Background

Citibank, N.A. is the current state of Texas commercial charge card services provider for procurement and travel purchases and related services. The Citibank charge card contract [946-M2](#) contains a rebate program based on the total annual expenditures of all participating entities. In addition to the rebate percentage, an early payment incentive increases for each day a payment is received in full before 30 days from Citibank's statement date. Statements are issued on the third of every month and are available to the agencies on the Citibank online website the next day, the fourth. The discount rebate calculation starts the day after the statement is available on the website. Additionally, since charge-offs for delinquent accounts are deducted from the rebate as credit losses at the rebate-payable level, agencies should pay account balances as quickly as possible.

Transaction Rates

- Standard transactions: **193 basis points**
- Large-ticket rebate: **60 basis points**
- Merchant-negotiated transactions: **25 basis points**

Citibank currently pays a base rebate of 1.93 percent on payments received 30 days after the statement date, which increases by .75 basis points for each day a payment is processed before 30 days from the statement date. The first day for calculating the



rebate for the semiannual period is the next calendar day after the billing cycle date for each billing account provided for a state agency. If a cycle date falls on a weekend or New Year's Day, Thanksgiving or Christmas, Citibank will cycle on the previous business day and the statement will be available the following calendar day. For example, if the cycle date falls on a Saturday, the account would cycle on the Friday before and the statement would be available the following day, Saturday. At 31 or more days from the statement date, no rebate is paid.

Rebates accrue from the first dollar of spend on all card products including Virtual Card and ePayables (excluding individual charge cards issued to employees). Citibank also pays rebates on large-ticket transactions with merchants typically considered business-to-business, and offers a lower interchange rate on merchant-negotiated transactions with merchants who have negotiated a lower interchange rate.

Citibank pays a semiannual rebate based on spend in March through August and September through February, starting at a base rebate of 1.93 percent with possible additional rebate tiers and a bonus for early payment.

Citibank pays rebates for balances paid up to 30 days from the statement date. If a partial payment is paid within 30 days, that partial payment will earn a rebate. If agencies make multiple payments until the 30-day point, the amounts paid will receive the respective payment incentives based on the timeliness of each payment.

Early Payment Incentive Chart	
Days Paid After Statement Becomes Available	Basis Points
3	213.25
5	211.75
10	208
15	204.25
20	200.50
25	196.75
26	196
27	195.25
28	194.50
29	193.75
30	193
31	0

Audit Results

Auditors reviewed fiscal 2023 Citibank rebate earned reports for 99 agencies. Because agencies paid late and did not take advantage of the early rebate incentives, the state lost nearly \$1,518,236, or 50 percent of the minimum rebates that would have been earned if statements had been paid within the required 30 days.

Chart 1: Number of Agencies in Each % Group of Actual Earned to Minimum Rebates

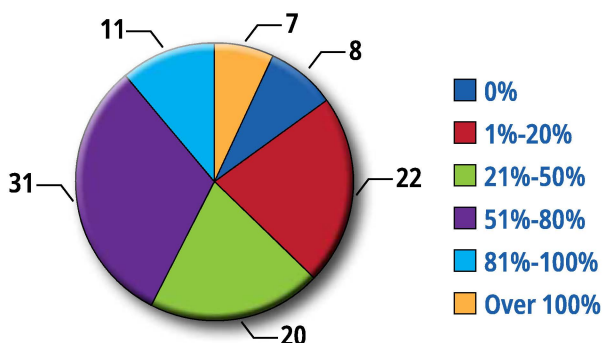
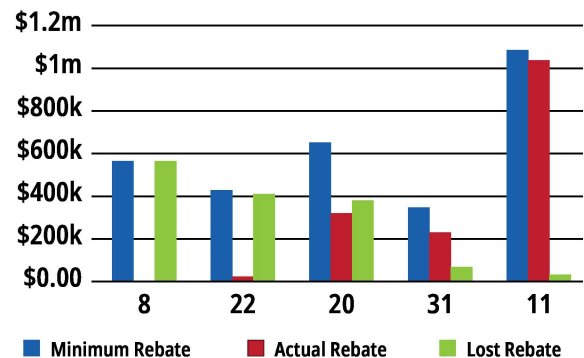


Chart 2: Minimum/Actual/Lost Rebates for Each % Group From Chart 1





Seven agencies did earn rebates consistently by paying their Citibank statements within the required 30 days or less to earn the minimum rebate. Some earned a little more than the minimum. One other agency earned 99 percent of the minimum rebate offered.

According to [eXpendit – Prompt Payment](#) and [Texas Government Section 2251.021](#), a state agency's payment is due on the 30th day after the latest of:

- The date the agency receives the goods under the contract.
- The date the performance of the contracted service is completed.
- The date the agency receives an invoice for the goods or services.

In fiscal 2023, agencies paid \$34,993.05 in prompt payment interest to Citibank because the agencies paid their statements late.

See [Table 1](#) for a list of audited agencies, total annual credit card spending using Citibank charge cards for each agency, and the actual amount of rebate earned by each agency. The table also shows the minimum and maximum rebates that agencies could have earned if Citibank statements had been paid at three and 30 days after receipt. Citibank statements are issued on the third of every month and are available to the agencies on the Citibank online website the next day, the fourth. The table also shows the percentage of actual rebates earned to the minimum rebate (30 days).

See [Table 2](#) for the average number of days it took to pay the monthly Citibank statements, late payment interest that agencies paid, and the separate rebates earned by some agencies due to large-ticket and merchant-negotiated transactions.

Citibank determines an agency's rebate amount based on "turn days," the average number of days after the statement date that Citibank has to fund the receivable on the account. "File turn" is calculated by dividing the sum of the daily balance by the net charge volume. See [Table 3](#) for each agency's spend amount that was paid after more than 30 turn days (in dollars and percent). This explains why an agency is not receiving even the minimum rebate amount, since payments made after 30 days earn no rebate.

The rebate is paid on net charge volume. Annual net charge volume is calculated as purchases less returns, credits, cash advances and convenience checks. It does not include adjustments unless the adjustment is related to the transfer of a purchase or cash advance between accounts. In addition, net charge volume does not include Citibank credit cards that are individually billed to and are the responsibility of agency employees, so spending with these types of cards is not included in the tables.



Detailed Findings

Loss to the Rebate Payment Card Program

Of the 99 agencies audited, 92 were not in full compliance with the early payment discount and/or rebate requirements for state agencies because they failed to fully take advantage of early discounts and/or rebates offered by the payment card vendor.

Based on the Citibank semiannual rebate reports and the analysis in Table 1 and Table 2, auditors noted:

- 99 agencies lost a combined discount/rebate amount ranging from the minimum of \$1,518,235.80 to the maximum of \$1,846,796.47.
- 92 agencies did not meet the prompt payment requirement of paying on the 30th day.
- 49 agencies paid a total of \$34,399.05 in late payment interest to the credit card vendor.

In addition, \$30,391,638.30 of credit card spending was paid to the credit card vendor without interest being calculated. Auditors did not verify if interest on some of these payments should have been paid because confirming the validity of agencies' recorded statement/invoice dates, payment dates or override reason codes for not calculating interest was not within the scope of this audit. However, it should be noted that for some of these payments, reports showed that agencies may have used incorrect statement/invoice dates that allowed the payments to be processed without a late interest being calculated. Other payments were processed without interest being calculated due to agencies overriding the system by indicating that interest is not applicable to their transactions. Some of these cited reason codes appeared to be inappropriate, such as paying a "state agency" or "no invoice received," while the payment was for Citibank and the statements/invoices are always available to agencies on Citibank's website.

The agencies did not take advantage of the discounts and/or rebates offered by Citibank and paid their invoices over 90 days after the statement dates and/or paid their largest payments after 30 turn days. In addition to costing the state money in lost interest payments and unearned rebates, when these agencies fail to take advantage of the rebates, they also hinder the Comptroller's Statewide Procurement Division's ability to negotiate rebates on future contracts.

According to [Texas Government Code, Section 2251.030](#), the Legislature expects government agencies to take advantage of early payment discounts, so agencies must submit payment documents to the Comptroller's office in time to do so. See Table 2 for agencies that are not complying.



Recommendation/Requirement

Agencies must change their payment processes to comply with requirements, take advantage of rebates, and avoid the double penalty of lost rebates and late payment interest. Agencies should:

- Receive Citibank Commercial Card account statements online. Citibank statements are issued on the third of every month and are available to the agencies on the Citibank online website the next day, the fourth.
- Work with Citibank to develop automated reconciliation for travel and purchase receipts as transactions occur or shortly after the statement is issued.
- Make partial payments based on supporting documentation received and reconcile and pay as costs arise.



Tables

Table 1: Audit Results by Agency – Spend and Rebate

Agy Nbr	Agency Name	Spend Amount	Regular Rebate (Does Not Include Other Refunds)			% of Actual to Min.
			Actual	Min. (30 days)	Max. (3 Days)	
101	Senate	\$66,817.21	\$673.54	\$1,289.57	\$1,424.88	52%
102	House of Representatives	\$239,688.47	\$0.00	\$4,625.99	\$5,111.36	0%
103	Texas Legislative Council	\$337,005.81	\$6,702.73	\$6,504.21	\$7,186.65	103%
104	Legislative Budget Board	\$9,250.07	\$139.49	\$178.53	\$197.26	78%
105	Legislative Reference Library	\$8,739.64	\$150.65	\$168.68	\$186.37	89%
116	Sunset Advisory Commission	\$8,830.49	\$128.77	\$170.43	\$188.31	76%
201	Supreme Court	\$66,509.53	\$915.50	\$1,283.63	\$1,418.32	71%
202	State Bar of Texas	\$137,425.64	\$2,703.66	\$2,652.31	\$2,930.60	102%
203	Board of Law Examiners	\$42,857.33	\$662.71	\$827.15	\$913.93	80%
211	Court of Criminal Appeals	\$11,034.79	\$87.61	\$212.97	\$235.32	41%
212	Office of Court Administration	\$99,793.33	\$134.30	\$1,926.01	\$2,128.09	7%
215	Office of Capital and Forensic Writs	\$67,757.19	\$1,024.27	\$1,307.71	\$1,444.92	78%
222	Court of Appeals – Second Court of Appeals District	\$2,965.67	\$0.00	\$57.24	\$63.24	0%
224	Court of Appeals – Fourth Court of Appeals District	\$1,684.65	\$10.58	\$32.51	\$35.93	33%
225	Court of Appeals – Fifth Court of Appeals District	\$40,219.49	\$331.20	\$776.24	\$857.68	43%
233	Court of Appeals – Thirteenth Court of Appeals District	\$6,811.98	\$10.05	\$131.47	\$145.27	8%
242	State Commission on Judicial Conduct	\$48,351.00	\$522.95	\$933.17	\$1,031.09	56%
243	State Law Library	\$9,898.50	\$199.19	\$191.04	\$211.09	104%
301	Governor – Executive	\$139,392.25	\$648.05	\$2,690.27	\$2,972.54	24%
302	Attorney General	\$908,220.33	\$3,989.46	\$17,528.65	\$19,367.80	23%
303	Texas Facilities Commission	\$1,350,934.46	\$19,059.59	\$26,073.04	\$28,808.68	73%
304	Comptroller of Public Accounts	\$297,391.73	\$3,930.32	\$5,739.66	\$6,341.88	68%
305	General Land Office	\$437,557.57	\$1,532.34	\$8,444.86	\$9,330.92	18%
306	Texas State Library and Archives Commission	\$50,669.01	\$308.47	\$977.91	\$1,080.52	32%
307	Secretary of State	\$43,783.33	\$469.57	\$845.02	\$933.68	56%
308	State Auditor	\$162,876.82	\$2,453.69	\$3,143.52	\$3,473.35	78%
312	State Securities Board	\$16,058.56	\$239.66	\$309.93	\$342.45	77%
313	Department of Information Resources	\$119,362.50	\$816.47	\$2,303.70	\$2,545.41	35%
320	Texas Workforce Commission	\$706,706.82	\$5,512.96	\$13,639.44	\$15,070.52	40%
323	Teacher Retirement System of Texas	\$825,441.47	\$369.87	\$15,931.02	\$17,602.54	2%
325	Firefighter's Pension Commissioner	\$25,381.01	\$64.69	\$489.85	\$541.25	13%
327	Employees Retirement System of Texas	\$360,258.74	\$4,640.45	\$6,952.99	\$7,682.52	67%
329	Texas Real Estate Commission	\$40,717.92	\$634.33	\$785.86	\$868.31	81%
332	Texas Department of Housing and Community Affairs	\$208,913.08	\$2,381.15	\$4,032.02	\$4,455.07	59%
338	State Pension Review Board	\$16,819.75	\$13.24	\$324.62	\$358.68	4%
347	Texas Public Finance Authority	\$479.97	\$9.41	\$9.26	\$10.24	102%



Agy Nbr	Agency Name	Spend Amount	Regular Rebate (Does Not Include Other Refunds)			% of Actual to Min.
			Actual	Min. (30 days)	Max. (3 Days)	
352	Bond Review Board	\$451.98	\$8.86	\$8.72	\$9.64	102%
356	Texas Ethics Commission	\$4,668.91	\$0.47	\$90.11	\$99.56	1%
359	Office of Public Insurance Counsel	\$9,965.32	\$0.00	\$192.33	\$212.51	0%
360	State Office of Administrative Hearings	\$3,924.17	\$81.42	\$75.74	\$83.68	108%
362	Texas Lottery Commission	\$65,210.93	\$105.91	\$1,258.57	\$1,390.62	8%
364	Health Professions Council	\$9,228.09	\$143.24	\$178.10	\$196.79	80%
401	Texas Military Department	\$3,711,206.77	\$3,583.49	\$71,626.29	\$79,141.48	5%
403	Texas Veterans Commission	\$427,861.78	\$11.27	\$8,257.73	\$9,124.15	0%
405	Department of Public Safety	\$29,477,254.25	\$249,208.26	\$568,911.01	\$628,602.45	44%
407	Texas Commission on Law Enforcement	\$46,200.35	\$161.72	\$891.67	\$985.22	18%
409	Commission on Jail Standards	\$13,404.96	\$168.84	\$258.72	\$285.86	65%
411	Texas Commission on Fire Protection	\$37,708.34	\$37.62	\$727.77	\$804.13	5%
448	Office of Injured Employee Counsel	\$6,220.69	\$62.81	\$120.06	\$132.66	52%
450	Department of Savings and Mortgage Lending	\$38,532.79	\$534.91	\$743.68	\$821.71	72%
451	Texas Department of Banking	\$108,743.40	\$1,486.91	\$2,098.75	\$2,318.95	71%
452	Texas Department of Licensing and Regulation	\$170,462.90	\$944.88	\$3,289.93	\$3,635.12	29%
454	Texas Department of Insurance	\$193,930.91	\$837.96	\$3,742.87	\$4,135.58	22%
455	Railroad Commission of Texas	\$354,603.68	\$665.53	\$6,843.85	\$7,561.92	10%
456	Texas State Board of Plumbing Examiners	\$20,877.34	\$92.90	\$402.93	\$445.21	23%
457	Texas State Board of Public Accountancy	\$2,851.07	\$37.37	\$55.03	\$60.80	68%
458	Texas Alcoholic Beverage Commission	\$42,254.32	\$60.96	\$815.51	\$901.07	7%
459	Texas Board of Architectural Examiners	\$24,936.99	\$410.98	\$481.28	\$531.78	85%
460	Texas Board of Professional Engineers and Land Surveyors	\$47,331.27	\$744.58	\$913.49	\$1,009.34	82%
466	Office of Consumer Credit Commissioner	\$100,795.46	\$1,221.06	\$1,945.35	\$2,149.46	63%
469	Credit Union Department	\$45,706.48	\$702.14	\$882.14	\$974.69	80%
473	Public Utility Commission of Texas	\$37,348.97	\$408.57	\$720.84	\$796.47	57%
475	Office of Public Utility Counsel	\$1,615.02	\$20.29	\$31.17	\$34.44	65%
476	Texas Racing Commission	\$112,494.93	\$496.88	\$2,171.15	\$2,398.95	23%
477	Commission on State Emergency Communications	\$33,649.54	\$434.58	\$649.44	\$717.58	67%
479	State Office of Risk Management	\$3,360.54	\$70.52	\$64.86	\$71.66	109%
481	Texas Board of Professional Geoscientists	\$2,845.92	\$28.59	\$54.93	\$60.69	52%
503	Texas Medical Board	\$35,987.02	\$253.14	\$694.55	\$767.42	36%
504	State Board of Dental Examiners	\$41,185.83	\$674.83	\$794.89	\$878.29	85%
507	Texas Board of Nursing	\$32,421.55	\$47.68	\$625.74	\$691.39	8%
508	Texas Board of Chiropractic Examiners	\$12,289.79	\$0.00	\$237.19	\$262.08	0%
514	Texas Optometry Board	\$9,000.00	\$0.00	\$173.70	\$191.93	0%
515	Texas State Board of Pharmacy	\$25,984.52	\$360.75	\$501.50	\$554.12	72%
520	Texas State Board of Examiners of Psychologists	\$5,089.30	\$92.17	\$98.22	\$108.53	94%
529	Health and Human Services Commission	\$12,561,962.64	\$176,820.88	\$242,445.88	\$267,883.85	73%



Agy Nbr	Agency Name	Spend Amount	Regular Rebate (Does Not Include Other Refunds)			% of Actual to Min.
			Actual	Min. (30 days)	Max. (3 Days)	
530	Department of Family and Protective Services	\$14,856,399.76	\$238,789.51	\$286,728.52	\$316,812.72	83%
533	Executive Council of Physical and Occupational Therapy Examiners	\$2,984.13	\$38.07	\$57.59	\$63.64	66%
537	Department of State Health Services	\$1,494,760.94	\$25,788.26	\$28,848.89	\$31,875.78	89%
542	Cancer Prevention and Research Institute of Texas	\$23,182.64	\$0.00	\$447.42	\$494.37	0%
551	Department of Agriculture	\$349,624.68	\$3,859.18	\$6,747.76	\$7,455.75	57%
554	Texas Animal Health Commission	\$559,604.05	\$310.96	\$10,800.36	\$11,933.56	3%
578	State Board of Veterinary Medical Examiners	\$7,018.56	\$50.48	\$135.46	\$149.67	37%
580	Texas Water Development Board	\$509,782.20	\$1,457.86	\$9,838.80	\$10,871.11	15%
582	Texas Commission on Environmental Quality	\$1,884,661.56	\$590.26	\$36,373.97	\$40,190.41	2%
592	Soil and Water Conservation Board	\$60,809.87	\$204.87	\$1,173.63	\$1,296.77	17%
601	Texas Department of Transportation	\$40,326,804.32	\$770,131.04	\$778,307.32	\$859,969.10	99%
608	Texas Department of Motor Vehicles	\$281,708.70	\$5,046.94	\$5,436.98	\$6,007.44	93%
644	Texas Juvenile Justice Department	\$836,348.64	\$1,907.17	\$16,141.53	\$17,835.13	12%
696	Texas Department of Criminal Justice	\$28,925,756.08	\$0.00	\$558,267.09	\$616,841.75	0%
701	Texas Education Agency	\$217,927.67	\$1,950.43	\$4,206.00	\$4,647.31	46%
706	Texas Permanent School Fund Corporation	\$10,807.07	\$20.04	\$208.58	\$230.46	10%
771	Texas School for the Blind and Visually Impaired	\$1,149,942.93	\$10,467.67	\$22,193.90	\$24,522.53	47%
772	Texas School for the Deaf	\$911,253.09	\$8,181.20	\$17,587.18	\$19,432.47	47%
781	Texas Higher Education Coordinating Board	\$135,346.51	\$548.77	\$2,612.19	\$2,886.26	21%
802	Parks and Wildlife Department	\$13,902,766.96	\$28,838.89	\$268,323.40	\$296,476.51	11%
808	Texas Historical Commission	\$624,531.99	\$7,094.14	\$12,053.47	\$13,318.14	59%
809	State Preservation Board	\$329,204.08	\$5,296.95	\$6,353.64	\$7,020.28	83%
813	Texas Commission on the Arts	\$8,505.78	\$59.99	\$164.16	\$181.39	37%
930	Texas Treasury Safekeeping Trust Company	\$46,273.38	\$104.71	\$893.08	\$986.78	12%
Total — 99 State Agencies		\$162,252,180.42	\$1,613,231.28	\$3,131,467.08	\$3,460,027.75	

*Minimum Lost Rebate \$1,518,235.80

*Maximum Lost Rebate \$1,846,796.47



Table 2: Audit Results by Agency – Other Refunds and Prompt Payment Interest

Agy Nbr	Agency Name	% of Actual to Min.	Average # of Days From Statement to Payment	Other Refunds		Late Payment Interest Paid
				Large Tickets	Merchant Negotiated	
101	Senate	52%	35	\$0.00	\$12.32	\$17.53
102	House of Representatives	0%	39	\$0.00	\$0.00	\$38.88
104	Legislative Budget Board	78%	39	\$0.00	\$3.07	
105	Legislative Reference Library	89%	23	\$0.00	\$3.17	
116	Sunset Advisory Commission	76%	26	\$0.00	\$3.99	\$1.13
201	Supreme Court	71%	26	\$0.00	\$0.00	\$0.27
203	Board of Law Examiners	80%		\$0.00	\$17.94	
211	Court of Criminal Appeals	41%	26	\$0.00	\$113.43	
212	Office of Court Administration	7%	48	\$0.00	\$23.22	\$85.50
215	Office of Capital and Forensic Writs	78%	61	\$0.00	\$5.88	
222	Court of Appeals – Second Court of Appeals District	0%	33	\$0.00	\$3.37	
224	Court of Appeals – Fourth Court of Appeals District	33%	40	\$0.00	\$31.75	
225	Court of Appeals – Fifth Court of Appeals District	43%		\$0.00	\$0.00	
233	Court of Appeals – Thirteenth Court of Appeals District	8%	15	\$0.00	\$5.24	
242	State Commission on Judicial Conduct	56%	24	\$0.00	\$2.08	\$0.08
301	Governor – Executive	24%	76	\$0.00	\$0.00	\$36.60
302	Attorney General	23%	61	\$0.00	\$0.00	\$1,944.68
303	Texas Facilities Commission	73%	17	\$0.00	\$1.12	
304	Comptroller of Public Accounts	68%	25	\$0.00	\$45.44	\$14.78
305	General Land Office	18%	31	\$0.00	\$77.75	\$15.14
306	Texas State Library and Archives Commission	32%	38	\$0.00	\$179.05	\$29.88
307	Secretary of State	56%	43	\$0.00	\$54.62	\$1.49
308	State Auditor	78%	20	\$0.00	\$34.79	
312	State Securities Board	77%	29	\$0.00	\$0.00	
313	Department of Information Resources	35%	36	\$0.00	\$2.58	
320	Texas Workforce Commission	40%	30	\$0.00	\$10.95	\$0.56
323	Teacher Retirement System of Texas	2%	29	\$0.00	\$0.89	\$73.55
325	Firefighter's Pension Commissioner	13%		\$0.00	\$5.04	
327	Employees Retirement System of Texas	67%	24	\$0.00	\$61.38	\$40.22
329	Texas Real Estate Commission	81%	15	\$0.00	\$33.98	
332	Texas Department of Housing and Community Affairs	59%	29	\$0.00	\$2.43	\$102.13
338	State Pension Review Board	4%	60	\$0.00	\$0.00	
356	Texas Ethics Commission	1%	41	\$0.00	\$0.00	\$0.16
359	Office of Public Insurance Counsel	0%	50	\$0.00	\$0.00	\$38.88
362	Texas Lottery Commission	8%	24	\$0.00	\$0.00	\$5.29
364	Health Professions Council	80%	13	\$0.00	\$0.00	
401	Texas Military Department	5%	170	\$0.00	\$1.26	\$17,692.08
403	Texas Veterans Commission	0%	51	\$0.00	\$21.40	\$15.26



Agy Nbr	Agency Name	% of Actual to Min.	Average # of Days From Statement to Payment	Other Refunds		Late Payment Interest Paid
				Large Tickets	Merchant Negotiated	
405	Department of Public Safety	44%	90	\$0.00	\$6.31	\$4,751.17
407	Texas Commission on Law Enforcement	18%	56	\$0.00	\$25.48	
409	Commission on Jail Standards	65%	29	\$0.00	\$0.00	
411	Texas Commission on Fire Protection	5%	35	\$0.00	\$653.13	\$0.07
448	Office of Injured Employee Counsel	52%	24	\$0.00	\$0.00	\$0.50
450	Department of Savings and Mortgage Lending	72%	43	\$0.00	\$0.00	
451	Texas Department of Banking	71%	57	\$0.00	\$0.71	
452	Texas Department of Licensing and Regulation	29%	131	\$0.00	\$0.00	\$446.46
454	Texas Department of Insurance	22%	29	\$0.00	\$7.07	\$0.87
455	Railroad Commission of Texas	10%	147	\$0.00	\$109.00	\$1,120.52
456	Texas State Board of Plumbing Examiners	23%	50	\$0.00	\$2.94	
457	Texas State Board of Public Accountancy	68%	26	\$0.00	\$28.11	
458	Texas Alcoholic Beverage Commission	7%	47	\$0.00	\$13.79	
459	Texas Board of Architectural Examiners	85%	10	\$0.00	\$0.00	
460	Texas Board of Professional Engineers and Land Surveyors	82%	22	\$0.00	\$3.66	
466	Office of Consumer Credit Commissioner	63%	43	\$0.00	\$6.32	
469	Credit Union Department	80%	23	\$0.00	\$5.64	
473	Public Utility Commission of Texas	57%	18	\$0.00	\$8.70	
475	Office of Public Utility Counsel	65%	28	\$0.00	\$12.19	
476	Texas Racing Commission	23%	113	\$0.00	\$0.05	
477	Commission on State Emergency Communications	67%	105	\$0.00	\$1.13	\$95.17
481	Texas Board of Professional Geoscientists	52%	25	\$0.00	\$0.00	
503	Texas Medical Board	36%	47	\$0.00	\$6.68	
504	State Board of Dental Examiners	85%	15	\$0.00	\$10.12	
507	Texas Board of Nursing	8%	43	\$0.00	\$9.21	
508	Texas Board of Chiropractic Examiners	0%	31	\$0.00	\$0.00	
514	Texas Optometry Board	0%	27	\$0.00	\$0.00	
515	Texas State Board of Pharmacy	72%	19	\$0.00	\$5.83	
520	Texas State Board of Examiners of Psychologists	94%		\$0.00	\$2.48	
529	Health and Human Services Commission	73%	57	\$0.00	\$5,471.62	\$1,917.36
530	Department of Family and Protective Services	83%	36	\$0.00	\$6,305.31	\$1,996.26
533	Executive Council of Physical and Occupational Therapy Examiners	66%	18	\$0.00	\$0.00	
537	Department of State Health Services	89%	24	\$0.00	\$247.55	\$53.73
542	Cancer Prevention and Research Institute of Texas	0%	90	\$0.00	\$0.00	\$0.15
551	Department of Agriculture	57%	42	\$0.00	\$28.64	\$24.43
554	Texas Animal Health Commission	3%	66	\$0.00	\$1.73	\$10.14
578	State Board of Veterinary Medical Examiners	37%	54	\$0.00	\$14.96	\$2.62
580	Texas Water Development Board	15%	47	\$0.00	\$0.00	\$70.60
582	Texas Commission on Environmental Quality	2%	41	\$0.00	\$11.62	\$28.59
592	Soil and Water Conservation Board	17%	34	\$0.00	\$0.00	\$12.43



Agy Nbr	Agency Name	% of Actual to Min.	Average # of Days From Statement to Payment	Other Refunds		Late Payment Interest Paid
				Large Tickets	Merchant Negotiated	
601	Texas Department of Transportation	99%	24	\$61.49	\$661.19	\$1,725.85
608	Texas Department of Motor Vehicles	93%	17	\$0.00	\$70.57	\$104.44
644	Texas Juvenile Justice Department	12%	41	\$0.00	\$25.74	\$1,449.06
696	Texas Department of Criminal Justice	0%	28	\$0.00	\$0.00	
701	Texas Education Agency	46%	50	\$0.00	\$19.29	\$487.15
706	Texas Permanent School Fund Corporation	10%	19	\$0.00	\$3.46	
771	Texas School for the Blind and Visually Impaired	47%	32	\$0.00	\$170.94	\$219.30
772	Texas School for the Deaf	47%	32	\$0.00	\$184.76	\$95.84
781	Texas Higher Education Coordinating Board	21%	29	\$0.00	\$5.94	\$2.49
802	Parks and Wildlife Department	11%	27	\$0.00	\$299.37	\$152.72
808	Texas Historical Commission	59%	24	\$0.00	\$119.16	\$20.99
809	State Preservation Board	83%	29	\$0.00	\$79.61	\$24.95
813	Texas Commission on the Arts	37%	27	\$0.00	\$0.16	\$25.10
930	Texas Treasury Safekeeping Trust Company	12%		\$0.00	\$14.66	



Table 3: Audit Results by Agency – Payments and Turn Days

Agy Nbr	Agency Name	Total Spend	Annual Payment by Turn Days		% of \$ Paid in > 30 Turn Days
			\$ Paid in <= 30 Turn Days	\$ Paid in > 30 Turn Days	
102	House of Representatives	\$239,688.47	\$0.00	\$239,688.47	100%
222	Court of Appeals – Second Court of Appeals District	\$2,965.67	\$0.00	\$2,965.67	100%
359	Office of Public Insurance Counsel	\$9,965.32	\$0.00	\$9,965.32	100%
508	Texas Board of Chiropractic Examiners	\$12,289.79	\$0.00	\$12,289.79	100%
514	Texas Optometry Board	\$9,000.00	\$0.00	\$9,000.00	100%
542	Cancer Prevention and Research Institute of Texas	\$23,182.64	\$0.00	\$23,182.64	100%
696	Texas Department of Criminal Justice	\$28,925,756.08	\$0.00	\$28,925,756.08	100%
403	Texas Veterans Commission	\$427,861.78	\$525.00	\$427,336.78	100%
582	Texas Commission on Environmental Quality	\$1,884,661.56	\$28,452.04	\$1,856,209.52	98%
323	Teacher Retirement System of Texas	\$825,441.47	\$18,884.65	\$806,556.82	98%
554	Texas Animal Health Commission	\$559,604.05	\$16,049.39	\$543,554.66	97%
401	Texas Military Department	\$3,711,206.77	\$171,767.14	\$3,539,439.63	95%
338	State Pension Review Board	\$16,819.75	\$800.69	\$16,019.06	95%
411	Texas Commission on Fire Protection	\$37,708.34	\$1,882.85	\$35,825.49	95%
356	Texas Ethics Commission	\$4,668.91	\$240.10	\$4,428.81	95%
212	Office of Court Administration	\$99,793.33	\$6,802.68	\$92,990.65	93%
233	Court of Appeals – Thirteenth Court of Appeals District	\$6,811.98	\$468.18	\$6,343.80	93%
507	Texas Board of Nursing	\$32,421.55	\$2,433.74	\$29,987.81	92%
458	Texas Alcoholic Beverage Commission	\$42,254.32	\$3,256.46	\$38,997.86	92%
362	Texas Lottery Commission	\$65,210.93	\$5,738.94	\$59,471.99	91%
455	Railroad Commission of Texas	\$354,603.68	\$32,614.35	\$321,989.33	91%
706	Texas Permanent School Fund Corporation	\$10,807.07	\$1,014.94	\$9,792.13	91%
802	Parks and Wildlife Department	\$13,902,766.96	\$1,446,944.52	\$12,455,822.44	90%
644	Texas Juvenile Justice Department	\$836,348.64	\$95,204.26	\$741,144.38	89%
325	Firefighter's Pension Commissioner	\$25,381.01	\$3,322.56	\$22,058.45	87%
930	Texas Treasury Safekeeping Trust Company	\$46,273.38	\$6,241.97	\$40,031.41	87%
580	Texas Water Development Board	\$509,782.20	\$74,277.52	\$435,504.68	85%
592	Soil and Water Conservation Board	\$60,809.87	\$10,317.40	\$50,492.47	83%
305	General Land Office	\$437,557.57	\$77,328.38	\$360,229.19	82%
407	Texas Commission on Law Enforcement	\$46,200.35	\$8,251.52	\$37,948.83	82%
781	Texas Higher Education Coordinating Board	\$135,346.51	\$27,950.42	\$107,396.09	79%
454	Texas Department of Insurance	\$193,930.91	\$42,950.06	\$150,980.85	78%
476	Texas Racing Commission	\$112,494.93	\$25,193.47	\$87,301.46	78%
456	Texas State Board of Plumbing Examiners	\$20,877.34	\$4,732.44	\$16,144.90	77%
301	Governor – Executive	\$139,392.25	\$32,917.92	\$106,474.33	76%
452	Texas Department of Licensing and Regulation	\$170,462.90	\$47,145.24	\$123,317.66	72%
302	Attorney General	\$908,220.33	\$260,056.97	\$648,163.36	71%
306	Texas State Library and Archives Commission	\$50,669.01	\$15,520.84	\$35,148.17	69%
224	Court of Appeals – Fourth Court of Appeals District	\$1,684.65	\$540.00	\$1,144.65	68%



Agy Nbr	Agency Name	Total Spend	Annual Payment by Turn Days		% of \$ Paid in > 30 Turn Days
			\$ Paid in <= 30 Turn Days	\$ Paid in > 30 Turn Days	
313	Department of Information Resources	\$119,362.50	\$41,487.10	\$77,875.40	65%
813	Texas Commission on the Arts	\$8,505.78	\$3,177.16	\$5,328.62	63%
211	Court of Criminal Appeals	\$11,034.79	\$4,201.98	\$6,832.81	62%
320	Texas Workforce Commission	\$706,706.82	\$274,693.49	\$432,013.33	61%
503	Texas Medical Board	\$35,987.02	\$14,080.04	\$21,906.98	61%
578	State Board of Veterinary Medical Examiners	\$7,018.56	\$2,783.86	\$4,234.70	60%
225	Court of Appeals – Fifth Court of Appeals District	\$40,219.49	\$16,071.66	\$24,147.83	60%
405	Department of Public Safety	\$29,477,254.25	\$12,171,398.05	\$17,305,856.20	59%
701	Texas Education Agency	\$217,927.67	\$96,560.11	\$121,367.56	56%
772	Texas School for the Deaf	\$911,253.09	\$406,691.07	\$504,562.02	55%
771	Texas School for the Blind and Visually Impaired	\$1,149,942.93	\$528,701.46	\$621,241.47	54%
481	Texas Board of Professional Geoscientists	\$2,845.92	\$1,454.54	\$1,391.38	49%
101	Senate	\$66,817.21	\$34,258.22	\$32,558.99	49%
448	Office of Injured Employee Counsel	\$6,220.69	\$3,215.99	\$3,004.70	48%
242	State Commission on Judicial Conduct	\$48,351.00	\$26,148.10	\$22,202.90	46%
473	Public Utility Commission of Texas	\$37,348.97	\$20,317.57	\$17,031.40	46%
307	Secretary of State	\$43,783.33	\$24,117.57	\$19,665.76	45%
332	Texas Department of Housing and Community Affairs	\$208,913.08	\$119,451.11	\$89,461.97	43%
551	Department of Agriculture	\$349,624.68	\$200,970.31	\$148,654.37	43%
808	Texas Historical Commission	\$624,531.99	\$363,854.92	\$260,677.07	42%
466	Office of Consumer Credit Commissioner	\$100,795.46	\$61,284.26	\$39,511.20	39%
477	Commission on State Emergency Communications	\$33,649.54	\$20,761.18	\$12,888.36	38%
409	Commission on Jail Standards	\$13,404.96	\$8,559.50	\$4,845.46	36%
533	Executive Council of Physical and Occupational Therapy Examiners	\$2,984.13	\$1,907.66	\$1,076.47	36%
327	Employees Retirement System of Texas	\$360,258.74	\$233,815.35	\$126,443.39	35%
475	Office of Public Utility Counsel	\$1,615.02	\$1,051.52	\$563.50	35%
451	Texas Department of Banking	\$108,743.40	\$72,291.39	\$36,452.01	34%
304	Comptroller of Public Accounts	\$297,391.73	\$199,733.54	\$97,658.19	33%
457	Texas State Board of Public Accountancy	\$2,851.07	\$1,922.07	\$929.00	33%
515	Texas State Board of Pharmacy	\$25,984.52	\$18,064.09	\$7,920.43	30%
450	Department of Savings and Mortgage Lending	\$38,532.79	\$26,946.55	\$11,586.24	30%
303	Texas Facilities Commission	\$1,350,934.46	\$952,309.67	\$398,624.79	30%
529	Health and Human Services Commission	\$12,561,962.64	\$8,941,821.70	\$3,620,140.94	29%
215	Office of Capital and Forensic Writs	\$67,757.19	\$49,849.19	\$17,908.00	26%
116	Sunset Advisory Commission	\$8,830.49	\$6,523.40	\$2,307.09	26%
312	State Securities Board	\$16,058.56	\$11,882.05	\$4,176.51	26%
469	Credit Union Department	\$45,706.48	\$33,850.38	\$11,856.10	26%
308	State Auditor	\$162,876.82	\$121,262.30	\$41,614.52	26%
203	Board of Law Examiners	\$42,857.33	\$32,260.31	\$10,597.02	25%
104	Legislative Budget Board	\$9,250.07	\$7,024.74	\$2,225.33	24%



Agy Nbr	Agency Name	Total Spend	Annual Payment by Turn Days		% of \$ Paid in > 30 Turn Days
			\$ Paid in <= 30 Turn Days	\$ Paid in > 30 Turn Days	
201	Supreme Court	\$66,509.53	\$51,784.09	\$14,725.44	22%
364	Health Professions Council	\$9,228.09	\$7,208.90	\$2,019.19	22%
460	Texas Board of Professional Engineers and Land Surveyors	\$47,331.27	\$37,125.36	\$10,205.91	22%
329	Texas Real Estate Commission	\$40,717.92	\$32,158.53	\$8,559.39	21%
530	Department of Family and Protective Services	\$14,856,399.76	\$11,754,442.12	\$3,101,957.64	21%
459	Texas Board of Architectural Examiners	\$24,936.99	\$20,084.56	\$4,852.43	19%
504	State Board of Dental Examiners	\$41,185.83	\$33,225.19	\$7,960.64	19%
809	State Preservation Board	\$329,204.08	\$268,527.21	\$60,676.87	18%
537	Department of State Health Services	\$1,494,760.94	\$1,304,253.30	\$190,507.64	13%
105	Legislative Reference Library	\$8,739.64	\$7,673.78	\$1,065.86	12%
608	Texas Department of Motor Vehicles	\$281,708.70	\$251,970.25	\$29,738.45	11%
520	Texas State Board of Examiners of Psychologists	\$5,089.30	\$4,666.76	\$422.54	8%
601	Texas Department of Transportation	\$40,326,804.32	\$38,562,378.50	\$1,764,425.82	4%
103	Texas Legislative Council	\$337,005.81	\$337,005.81	\$0.00	0%
202	State Bar of Texas	\$137,425.64	\$137,425.64	\$0.00	0%
243	State Law Library	\$9,898.50	\$9,898.50	\$0.00	0%
347	Texas Public Finance Authority	\$479.97	\$479.97	\$0.00	0%
352	Bond Review Board	\$451.98	\$451.98	\$0.00	0%
360	State Office of Administrative Hearings	\$3,924.17	\$3,924.17	\$0.00	0%
479	State Office of Risk Management	\$3,360.54	\$3,360.54	\$0.00	0%
Total — 99 State Agencies		\$162,252,180.42	\$80,454,626.96	\$81,797,553.46	

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**Office of Consumer Credit Commissioner
Fiscal Year 2024 - 3rd Quarter**

Residential Mortgage Loan Originator Recovery Trust Fund #3008

<u>Beginning Balance at 2/29/2024</u>	<u>Additions / *(Deductions)</u>	<u>Interest Paid</u>	<u>Paid Bank Fees</u>	<u>Ending Balance at 05/31/2024</u>	<u>Current Interest Rate</u>
\$ 213,562.76	\$ 3,025.00	\$ 2,902.91	\$ (51.05)	\$ 219,439.62	5.29%

Prepared By: /s/ Chris Churchill

Date: 07/03/2024

Investment Officer: Mirand Diamond

Date: 7/10/24

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 2024 - 3rd Quarter

Texas Financial Education Endowment Fund #3071								
	Beginning Balance at 2/29/2024	Additions	Interest Paid	Transfers	Grant Disbursements	Paid Bank Fees	Ending Balance at 05/31/2024	Current Interest Rate
Cash	\$ 1,204,704.04	\$ 38,313.21	\$ 16,037.07	\$ -	\$ (37,465.13)	\$ (7,660.79)	\$ 1,213,928.40	5.29%
Invested Portfolio	Beginning Balance at 02/29/2024	Additions	*Change in Value	Transfers	Transfer Out	Paid Fees	Ending Balance at 05/31/2024	
Cash in Bank	\$ -	\$ -	\$ 11,154.19	\$ -	\$ -	\$ -	\$ 11,154.19	
Investments - STIF	1,325,056.56	-	(12,878.39)			-	1,312,178.17	
Investments - Short Term	-		-			-	-	
Interest & Dividends Receivable	6,133.40		19.83				6,153.23	
Trade Receivables	36,539.45		(36,539.45)				-	
Investments - Equities**	867,696.13		522,173.82				1,389,869.95	
Investments - Alternatives	6,710,164.02		(364,743.65)				6,345,420.37	
Investments - Fixed Income	759,191.44		(2,283.14)				756,908.30	
Investments - Futures	-		-				-	
Investments - SWAPS, at Fair Value	18,391.42		(12,519.41)				5,872.01	
Total Assets-Invested Portfolio	\$ 9,723,172.42	\$ -	\$ 104,383.80	\$ -	\$ -	\$ -	\$ 9,827,556.22	
Liabilities								
Accounts Payable	\$ (3,697.88)		\$ (144.13)	\$ -	\$ -	\$ -	\$ (3,842.01)	
Interest Payable	(12,057.95)		4,495.35				(7,562.60)	
Trade Payables	(33,909.15)		33,909.15				-	
Futures Contracts, at Fair Value	-	-					-	
Swaps, at Fair Value	-	-					-	
Total Liabilities	\$ (49,664.98)	\$ -	\$ 38,260.37	\$ -	\$ -	\$ -	\$ (11,404.61)	
Total Net Fiduciary Assets-Invested Portfolio	\$ 9,673,507.44						\$ 9,816,151.61	
Total Endowment Funds	\$ 10,878,211.48						\$ 11,030,080.01	

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

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

** The 2/29/2024 balance was subsequently increased by TTSTC from the previously reported amount by \$17,079.11 due to an error.

Prepared By: /s/ Chris Churchill

Date: 7/9/2024

Investment Officer: /s/ Mirand Diamond

Date: 7/9/2024

Department of Savings and Mortgage Lending

Investment Officer Report as of May 31, 2024

Recovery Fund

	Beginning Balance 3/1/2024	Additions/ Reductions	Interest Received	Bank Fees	Ending Balance 5/31/2024
Cash & Cash Equivalents	\$5,232,992.86	(201,560.00)	65,283.29	(328.65)	\$5,096,387.50
Mortgage Grant Program Balance (12/31/2021)					690,489.78
Mortgage Grant Program Balance (12/31/2022)					601,479.17
Mortgage Grant Program Balance (12/31/2023)					374,186.80
Recovery Balance					\$3,430,231.75

Bank Name	Type	Maturity Date	Interest Rate	Book/Market Value	Accrued Interest
Tx Treasury Safekeeping Trust Co	Overnight Repurchase Agreements	6/1/2024	5.36%	\$4,846,387.50	\$712.15
Dalhart Federal Savings	CD - 24 months	10/18/2024	2.50%	250,000.00	10,260.42
				\$5,096,387.50	\$10,972.57

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: 7/3/2024

Date: 7/3/2024

Department of Savings and Mortgage Lending

Investment Officer Report as of May 31, 2024

Mortgage Grant Fund

	Beginning Balance 3/1/2024	Additions/ Reductions	Interest Received	Bank Fees	Ending Balance 5/31/2024
Cash & Cash Equivalents	\$117,311.42	\$114,069.53	\$2,781.55	(\$41.18)	\$234,121.32

Bank Name	Type	Maturity Date	Interest Rate	Book/Market Value	Accrued Interest
Tx Treasury Safekeeping Trust Co	Overnight Repurchase Agreements	6/1/2024	5.36%	\$234,121.32	\$34.40
				\$234,121.32	\$34.40

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: 7/3/2024

Date: 7/3/2024

Texas Department of Banking Quarterly Investment Report
February 29, 2024 to May 31, 2024

Seized Prepaid Funeral Funds Held in <u>a Financial Institution</u>	Book Value at <u>February 29, 2024</u>	Interest Income <u>Received</u>	Trustee <u>Fees Paid</u>	Other <u>Deductions</u>	Other <u>Additions</u>	Book Value at <u>May 31, 2024</u>	<u>Financial Institution</u>	Investment <u>Type</u>	Maturity <u>Date</u>	Interest <u>Rate</u>
None	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00		N/A	N/A	N/A
Total Seized Funds	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00				

Notes:

<div> <div>/s/ Jesse Saucillo</div> <div>Investment Officer</div> </div>	<div> <div>7/5/2024</div> <div>Date</div> </div>
<div> <div>/s/ Sami Chadli</div> <div>Investment Officer</div> </div>	<div> <div>7/7/2024</div> <div>Date</div> </div>

Trust-Funded Prepaid Funeral Guaranty Fund Quarterly Investment Report
February 29, 2024 to May 31, 2024

<u>Book Value at February 29, 2024</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, 2024</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Accrued Interest on CDs</u>
\$1,482,681.59	\$19,924.95	\$78.35	\$0.00	\$111,386.39	\$1,613,914.58	--	--	\$938.14

Trust Account Balances at Trustee/Depositories

Texas Treasury Safekeeping Trust Company *	\$881,841.30	6/1/2024	5.29%	--
State Bank of Texas, Dallas, Texas (CD)	\$240,000.00	12/16/2024	5.70%	\$412.27
Texas Bank Financial, Weatherford, Texas (CD)	\$246,992.73	12/24/2024	5.375%	\$254.60
American Bank of Commerce, Wolfforth, Texas (CD)	\$245,080.55	11/23/2024	5.05%	\$271.27
Subtotal	\$1,613,914.58			

(1) Other addition contains \$111,386.39 payment received from the Estate of Lina Ruedes related to El Paso Mission Funeral Home.

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

<u>/s/ Jesse Saucillo</u>	<u>7/5/2024</u>
Investment Officer	Date
 <u>/s/ Sami Chadli</u>	 <u>7/7/2024</u>
Investment Officer	Date

Insurance-Funded Prepaid Funeral Guaranty Fund Quarterly Investment Report
February 29, 2024 to May 31, 2024

<u>Book Value at February 29, 2024</u>	<u>Interest Income Received</u>	<u>Trustee Fees Paid</u>	<u>Other Deduction(s)</u>	<u>Other Addition(s)</u>	<u>Book/Market Value at May 31, 2024</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Accrued Interest on CDs</u>
\$1,020,515.85	\$13,575.43	\$ 78.06			\$1,034,013.22	--	--	\$528.60

Account Balances at Trustee/Depositories

Texas Treasury Safekeeping Trust Company *	\$789,013.22	6/1/2024	5.29%	--
Spring Hill State Bank, Longview, Texas (CD)	<u>\$245,000.00</u>	5/12/2025	5.25%	\$528.60
Subtotal	\$1,034,013.22			

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

<u>/s/ Jesse Saucillo</u> Investment Officer	<u>7/5/2024</u> Date
 <u>/s/ Sami Chadli</u> Investment Officer	 <u>7/7/2024</u> Date

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OFFICE OF CONSUMER CREDIT COMMISSIONER
INVESTMENT POLICY STATEMENT
[Effective ~~August 16, 2024~~ ~~August 18, 2023~~]

1. Overview

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

The Finance Commission met on ~~August 16, 2024~~ ~~August 18, 2023~~ to re-approve this policy as revised to clarify content within this policy. Previously, this policy was reviewed and approved on ~~August 18, 2023~~ ~~August 19, 2022~~.

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

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

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

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

2. Identification of Covered Funds

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

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

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

Texas Financial Education Endowment Fund (TTSTC #3071)	
Enabling Legislation	§393.628, TEX. FIN. CODE, until 8/31/2023 §14.113, TEX. FIN. CODE, effective 9/1/2023
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 <u>March 31</u> 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 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 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/20/2024-01-01%20Endowment%20IPS.pdf> [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%
- 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 below¹.

¹ 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.

- 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 maturity² 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

² 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 agreement³, 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 account⁴ 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

³ 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).

⁴ 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.

- 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.⁴
- G. Investments in companies that are prohibited by law or have been barred from participating in State of Texas contracts.⁵

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);

⁵ 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 40

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 organization⁶ 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.

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

Appendix #1

Acknowledgment

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

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

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

Signature of Qualified Representative

Date

OFFICE OF CONSUMER CREDIT COMMISSIONER
INVESTMENT POLICY STATEMENT
[Effective August 16, 2024]

1. Overview

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

The Finance Commission met on August 16, 2024 to re-approve this policy as revised to clarify content within this policy. Previously, this policy was reviewed and approved on August 18, 2023.

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

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

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

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

2. Identification of Covered Funds

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

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

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

Texas Financial Education Endowment Fund (TTSTC #3071)	
Enabling Legislation	§14.113, TEX. FIN. CODE
Distribution Policy	Annual distributions, payable quarterly or annually, are calculated as 3.5% times the twenty-quarter, moving-average value of the Fund as of March 31 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 under the prudent person standard described by Section 11b, Article VII, Texas Constitution. 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 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/20/2024-01-01%20Endowment%20IPS.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 below¹.

¹ 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.

- 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 maturity² 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
 - 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

² 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

of the listed alternatives.

Bids for certificates of deposit may be solicited:

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

J. A repurchase agreement³, 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 account⁴ 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 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

³ 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).

⁴ 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.

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.⁴
- G. Investments in companies that are prohibited by law or have been barred from participating in State of Texas contracts.⁵

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);
- C. The maturity date of each separately invested asset that has a maturity date;
- D. The fund for which each individual investment was acquired;

⁵ 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>

- 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 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 organization⁶ 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.

⁶ 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

Staff Member	Date	Course	Sponsor	Hours
Chris Churchill	8/4/2023	PFIA	Univ North Texas	5
Mirand Diamond	8/22/2024*	PFIA	Univ North Texas	5
Leslie Pettijohn	8/4/2023	PFIA	Univ North Texas	5

*scheduled

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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 76th Legislature and organized pursuant to Finance Code Chapter 156 Subchapter F. The Mortgage Grant Fund was created by the 87th 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 87th 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~~ 16, 2024. ~~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~~ 18, 2023.

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.

DEPARTMENT OF **SAVINGS AND MORTGAGE LENDING**

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.

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 period¹ 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

¹ "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.

DEPARTMENT OF **SAVINGS AND MORTGAGE LENDING**

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*² – 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 account³ 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 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

² 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).

³ 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**

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.⁴
6. All investments in companies that are prohibited by law or have been barred from participating in State of Texas contracts.⁵

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~~ TTSTC, 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.

⁴ 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>.

⁵ 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>

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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~~ **TTSTC**, 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~~ **and** 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.

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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~~ is 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 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.

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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 organization⁶ 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
 - 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.

⁶ 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.

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Appendix

Acknowledgment

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

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

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

Signature of Qualified Representative

Date

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 76th Legislature and organized pursuant to Finance Code Chapter 156 Subchapter F. The Mortgage Grant Fund was created by the 87th 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 87th 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 16, 2024. Previous changes to this policy were approved on August 18, 2023.

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

DEPARTMENT OF **SAVINGS AND MORTGAGE LENDING**

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.

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 period¹ 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

¹ "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.

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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*² – 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 account³ 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 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.

² 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).

³ 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.

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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.⁴
6. All investments in companies that are prohibited by law or have been barred from participating in State of Texas contracts.⁵

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 TTSTC, 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.

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 TTSTC, with amounts and maturities

⁴ 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>.

⁵ 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>

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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 understand the suitability of the investments and 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.

DEPARTMENT OF **SAVINGS AND MORTGAGE LENDING**

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 is 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 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

DEPARTMENT OF **SAVINGS AND MORTGAGE LENDING**

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 organization⁶ 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
 - 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.

⁶ 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
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HECTOR RETTA, COMMISSIONER

**Investment Officer Training
Report August 2024**

Name/Designation	Date	Course	Provider	Hours
Antonia Antov – Primary Investment Officer	August 2023	Texas Public Funds Investment Act	Texas State University	5
Anis Golshan – Secondary Investment Officer	August 2024	Texas Public Funds Investment Act	University of North Texas Center for Public Management	5
According to Government Code Sec. 2256.007, investment officer training requirements are on a state fiscal biennium basis.				

DEPARTMENT OF
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Appendix

Acknowledgment

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

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

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

Signature of Qualified Representative

Date

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TEXAS DEPARTMENT OF BANKING

★ Dedicated to Excellence in Texas Banking ★

ADMINISTRATIVE MEMORANDUM – 2027

August ~~18~~16, ~~2024~~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

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 16, 2024, 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~~18, 2023.

Investment Policy

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

In addition to operating funds, this policy~~Funds covered by this policy~~ includes 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 funds or a portion of the funds 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 funds or a portion of the funds¹ isare deposited in a financial institution, ~~as authorized by Texas Finance Code Section 154.353,~~ the Department may utilize the investment securities listed below, which closely follows the requirements in the Gov't Code Chapter 2256.

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 maturity² 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.

¹ Includes funds seized under Chapter 154.353.

² "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.

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 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,³ 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 account⁴ 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

³ 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).

⁴ 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.

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 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;⁵ and
7. Investments in companies that are prohibited by law or have been barred from participating in State of Texas contracts.⁶

Strategies for Covered Funds

The investment strategy for funds acquired through seizure of a trust-funded prepaid funeral

⁵ 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>.

⁶ 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>

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

Safekeeping of Investments

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

Reporting

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

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 organization⁷ 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:

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.

⁷ A "business organization" means an investment pool or investment management firm that has contractual authority granted by an investing entity to exercise investment discretion in regard to the investing entity's funds.

Appendix

Acknowledgment

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

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

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

Signature of Qualified Representative

Date



TEXAS DEPARTMENT OF BANKING

★ *Dedicated to Excellence in Texas Banking* ★

ADMINISTRATIVE MEMORANDUM – 2027

August 16, 2024

TO: Finance Commission Members

FROM: Charles G. Cooper, Banking Commissioner

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

Overview

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

The Finance Commission met August 16, 2024, to re-approve this policy. Previously, this policy was reviewed and approved August 18, 2023.

Investment Policy

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

In addition to operating funds, this policy includes 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 funds or a portion of the funds 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 funds or a portion of the funds¹ are deposited in a financial institution, the Department may utilize the investment securities listed below, which closely follows the requirements in the Gov't Code Chapter 2256.

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 maturity² 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

¹ Includes funds seized under Chapter 154.353.

² "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,³ 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 account⁴ 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;

³ 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).

⁴ 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
 - 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;⁵ and
7. Investments in companies that are prohibited by law or have been barred from participating in State of Texas contracts.⁶

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

⁵ 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>.

⁶ 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>

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 organization⁷ 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

⁷ 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.

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 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.

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 Investment Officer Training

Name of Investment Officer	Date Training Completed	Course Name	Course Sponsor	Hours
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

Investment officer training is required once each state fiscal biennium per Texas Government Code § 2256.007 (d).

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Office of Consumer Credit Commissioner
Operating Statement and Budget Analysis
For the Quarter Ending May 31, 2024

	FY 2023 ACTUAL	FY 2024 BUDGET	QUARTER PERFORMANCE				FY 2024 PERFORMANCE			
			2nd Quarter BUDGET	2nd Quarter ACTUAL	(Over)/Under BUDGET	Percent BUDGET	YTD BUDGET	YTD ACTUAL	(Over)/Under BUDGET	Percent BUDGET
REVENUES										
Industry										
Consumer Lending Industry	\$ 1,906,361	\$ 2,020,130	\$ 33,262	\$ 51,891	\$ (18,628)	156.0%	\$ 1,996,426	\$ 2,205,863	\$ (209,437)	110.5%
Credit Access Industry	782,040	824,000	31,716	13,050	18,666	41.1%	794,333	882,800	(88,467)	111.1%
MVSF Industry	4,173,413	4,301,370	287,124	147,361	139,763	51.3%	4,020,027	4,135,182	(115,155)	102.9%
Pawn	688,941	728,560	178,529	277,330	(98,801)	155.3%	198,850	301,551	(102,701)	151.6%
Registered Entities	332,080	326,280	35,815	31,620	4,195	88.3%	302,646	335,480	(32,834)	110.8%
Penalties	54,131	-	0	6,080	(6,080)	0.0%	0	23,543	(23,543)	0.0%
Miscellaneous Revenue	590,162	504,000	125,950	202,826	(76,876)	161.0%	378,045	592,169	(214,123)	156.6%
TOTAL REVENUES	\$ 8,527,130	\$ 8,704,340	\$ 692,396	\$ 730,157	\$ (37,761)	105.5%	\$ 7,690,328	\$ 8,476,588	\$ (786,260)	110.2%
EXPENDITURES										
Personnel Costs										
Employee Compensation	\$ 4,766,803	\$ 5,219,845	\$ 1,294,609	\$ 1,231,199	\$ 63,411	95.1%	\$ 3,858,633	\$ 3,729,480	\$ 129,153	96.7%
Employee Benefits	1,574,293	1,715,710	428,157	403,935	24,222	94.3%	1,282,433	1,224,967	57,467	95.5%
Add'l Health/Retirement	71,261	78,297	19,574	18,330	1,245	93.6%	58,723	55,371	3,352	94.3%
Other Personnel Costs	116,678	123,814	31,105	17,197	13,908	55.3%	92,387	51,020	41,367	55.2%
Subtotal Personnel Costs	\$ 6,529,035	\$ 7,137,666	\$ 1,773,446	\$ 1,670,660	\$ 102,786	94.2%	\$ 5,292,177	\$ 5,060,838	\$ 231,339	95.6%
Travel										
In-State Travel	\$ 516,923	\$ 535,500	\$ 133,875	\$ 131,204	\$ 2,671	98.0%	\$ 401,625	\$ 345,192	\$ 56,433	85.9%
Out of State - Travel	21,361	26,500	6,625	5,053	1,572	76.3%	19,875	11,046	8,829	55.6%
Subtotal Travel	\$ 538,284	\$ 562,000	\$ 140,500	\$ 136,257	\$ 4,243	97.0%	\$ 421,500	\$ 356,239	\$ 65,262	84.5%
Operating Costs										
Professional Services & Fees	\$ 68,617	\$ 87,200	\$ 21,800	\$ 2,542	\$ 19,258	11.7%	\$ 65,400	\$ 23,911	\$ 41,488	36.6%
Consumables	3,748	3,500	875	1,612	(737)	184.2%	2,625	4,364	(1,739)	166.3%
Office Utilities	17,738	16,700	4,175	4,455	(280)	106.7%	12,525	11,482	1,043	91.7%
Rent - Building/Space	27,261	6,274	1,000	0	1,000	0.0%	5,274	3,525	1,749	66.8%
Rent - Equipment/Other	2,611	2,800	700	729	(29)	104.2%	2,100	2,079	21	99.0%
Communications	75,387	79,700	19,925	18,471	1,454	92.7%	59,775	54,813	4,962	91.7%
Information Technology	356,323	512,600	81,670	81,010	661	99.2%	351,830	234,401	117,429	66.6%
Employee Training	11,723	26,000	6,500	11,024	(4,524)	169.6%	19,500	15,238	4,262	78.1%
Misc. Operating Costs	226,774	269,900	67,475	28,612	38,863	42.4%	202,425	185,924	16,501	91.8%
Subtotal Operating Costs	\$ 790,183	\$ 1,004,674	\$ 204,120	\$ 148,455	\$ 55,665	72.7%	\$ 721,455	\$ 535,737	\$ 185,717	74.3%
TOTAL EXPENDITURES	\$ 7,857,502	\$ 8,704,340	\$ 2,118,066	\$ 1,955,372	\$ 162,694	92.3%	\$ 6,435,132	\$ 5,952,814	\$ 482,317	92.5%
EXPENDITURES (OVER) / UNDER REVENUES	\$ 669,628	\$ -	\$ (1,425,670)	\$ (1,225,215)	\$ (200,455)		\$ 1,255,196	\$ 2,523,773	\$ (1,268,577)	

Office of Consumer Credit Commissioner
Budget Variance Analysis
For the Quarter Ending May 31, 2024

Revenues: Overall revenues are 110% of the budget.

Consumer Lending (↑10%). The increased revenue is due primarily to late filing fees required to reinstate expired licenses. A significant number of regulated lender licenses were reinstated following the expiration of the renewal period.

Credit Access Industry (↑14%). The positive variance results from more licensees renewing (98%) than anticipated (92%).

Pawn (↑52%). This variance relates to the timing of the receipt of revenue across the renewal period. More renewals were completed in May than projected and the renewal period closes at the end of June.

Registered Entities (↑11%). The positive variance is due to higher than anticipated revenue collected for registered creditors and refund anticipation loan facilitators. Registered creditors renewed at a higher rate (81%) than anticipated (75%) and submitted more applications than estimated.

Misc Revenue (↑57%). Miscellaneous revenue is comprised primarily of interest earned on fund balances. Due to the continued heightened interest rate environment, these amounts exceeded projections.

Expenditures: Overall expenditures are 93% of the budget.

Travel (↓15%). These expenditures are under budget because of deliberate scheduling of less frequent overnight examination travel in the first half of the fiscal year and turnover.

Expenditure Type	In-State	Out of State	Total
	FY24	FY24	
Regulatory Supervision	270,352	5,053	275,405
Development & Training	73,311	5,994	79,305
Non-Employee	1,529	-	1,529
Total	345,192	11,046	356,239

Professional Services (↓63%). This category is under budget due to timing of expenditures as well as lower than anticipated costs for legal, architectural, and accounting services. The expenditure related to accounting services is expected to be incurred in Q4 and the expenditure related to architectural services is expected to be deferred to FY25.

Miscellaneous Operating Costs (↓8%). This category is under budget due to the timing of the SWCAP reimbursement. The reimbursement payment will occur later in the fiscal year.

Information Technology (↓33%). This category is under budget due to the timing and change in scope of IT projects and purchases. Automated testing, ALECS change requests, and certain network hardware improvements were budgeted for but will likely not be completed in FY24. Certain costs have been budgeted as a retainer for cybersecurity services and have not been incurred in FY24.

Office of Consumer Credit Commissioner
Liquidity Report
For the Quarter Ending May 31, 2024

	Actual
Cash at Beginning of Period	\$ 16,609,535
Revenues Over (Under) Expenditures	\$ (1,225,216)
Increase (Decrease) in Payables/Encumbrances	\$ (59,914)
(Increase) Decrease in Receivables	\$ (13,155)
Other source of funds (transfer)	\$ -
Cash at End of Period	\$ 15,311,249

Reserved Cash Balance:	
Building Maintenance/IT	\$ -
Long-term facilities planning	\$ 10,004,103
Payables (net of receivables)	\$ 648,657
Lump sums for Retirements	\$ 263,434
Program Funds	\$ -
Other	\$ -
Total Reserved Cash Balance	\$ 10,916,194

Unreserved Cash Balance:	
Future Operations	\$ 4,395,056
Total Unreserved Cash Balance	\$ 4,395,056

Total Cash Balance	\$ 15,311,249
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Unreserved Cash / FY 2024 Monthly Budget	6.1
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Department of Savings and Mortgage Lending

**Operating Statement and Budget Analysis
For the Quarter Ending May 31, 2024**

	FY2023 ACTUAL	FY 2024 BUDGET	QUARTER PERFORMANCE				FY 2024 PERFORMANCE			
			3rd Quarter BUDGET	3rd Quarter ACTUAL	(Over)/Under BUDGET	Percent BUDGET	YTD BUDGET	YTD ACTUAL	(Over)/Under BUDGET	Percent BUDGET
REVENUES										
Thrift Industry										
Assessments	\$ 4,881,660	\$ 4,767,743	\$ 1,255,910	\$ 1,162,483	\$ 93,427	92.6%	\$ 3,847,256	\$ 3,738,552	\$ 108,704	97.2%
Application Fees	25,900	16,000	5,000	1,600	3,400	32.0%	11,000	3,800	7,200	34.5%
Mortgage Industry										
Licensing Fees	3,746,460	4,959,195	336,725	393,875	(57,150)	117.0%	4,622,370	4,586,000	36,370	99.2%
Administrative Penalties	117,160	-	-	18,346	(18,346)	0.0%	-	37,758	(37,758)	0.0%
Misc. Revenues	534,825	505,000	125,500	207,681	(82,181)	165.5%	376,500	581,340	(204,840)	154.4%
TOTAL REVENUES	\$ 9,306,004	\$ 10,247,938	\$ 1,723,135	\$ 1,783,984	\$ (60,849)	103.5%	\$ 8,857,126	\$ 8,947,450	\$ (90,324)	101.0%
EXPENDITURES										
Personnel Costs										
Employee Compensation	\$ 5,137,826	\$ 6,347,998	\$ 1,650,624	\$ 1,383,210	\$ 267,414	83.8%	\$ 4,721,374	4,149,157	\$ 572,217	87.9%
Employee Benefits	1,589,155	1,905,784	491,491	432,233	59,258	87.9%	1,410,323	1,281,461	128,862	90.9%
Add'l Health/Retirement	71,645	93,826	24,197	19,887	4,310	82.2%	69,629	58,880	10,749	84.6%
Other Personnel Costs	217,454	106,393	26,200	20,945	5,255	79.9%	75,990	67,027	8,963	88.2%
Subtotal Personnel Costs	\$ 7,016,079	\$ 8,454,001	\$ 2,192,512	\$ 1,856,274	\$ 336,238	84.7%	\$ 6,277,316	\$ 5,556,526	\$ 720,790	88.5%
Travel										
In-State	\$ 112,501	\$ 108,000	\$ 24,000	\$ 32,733	\$ (8,733)	136.4%	\$ 84,000	101,899	\$ (17,899)	121.3%
Out-of-State	15,297	42,000	15,000	20,455	(5,455)	136.4%	27,000	23,991	3,009	88.9%
Subtotal Travel	\$ 127,797	\$ 150,000	\$ 39,000	\$ 53,188	\$ (14,188)	136.4%	\$ 111,000	\$ 125,890	\$ (14,890)	113.4%
Operating Costs										
Professional Fees	\$ 72,408	\$ 90,039	\$ 2,000	\$ 933	\$ 1,067	46.7%	\$ 37,739	33,808	\$ 3,931	89.6%
Consumables	6,532	8,500	2,125	1,072	1,053	50.4%	6,375	4,845	1,530	76.0%
Office Utilities	14,574	13,114	3,300	3,894	(594)	118.0%	9,630	9,832	(202)	102.1%
Rent - Space & Equipment	6,882	11,500	2,500	2,035	465	81.4%	10,500	8,616	1,884	82.1%
Communications	93,889	100,365	17,973	16,431	1,542	91.4%	82,491	79,610	2,882	96.5%
Information Technology	241,521	336,210	86,600	79,660	6,940	92.0%	220,910	204,574	16,336	92.6%
Employee Training	31,604	68,000	17,000	22,792	(5,792)	134.1%	51,000	49,759	1,241	97.6%
Misc. Operating Costs	112,081	140,483	32,286	24,307	7,979	75.3%	87,994	70,906	17,088	80.6%
Subtotal Operating Costs	\$ 579,491	\$ 768,211	\$ 163,784	\$ 151,125	\$ 12,659	92.3%	\$ 506,639	\$ 461,949	\$ 44,690	91.2%
TOTAL EXPENDITURES	\$ 7,723,367	\$ 9,372,212	\$ 2,395,296	\$ 2,060,587	\$ 334,709	86.0%	\$ 6,894,955	\$ 6,144,365	\$ 750,590	89.1%
EXPENDITURES (OVER)/ UNDER REVENUES	\$ 1,582,637	\$ 875,726	\$ (672,161)	\$ (276,603)	\$ (395,558)		\$ 1,962,171	\$ 2,803,085	\$ (840,914)	

Department of Savings and Mortgage Lending

Budget Variance Analysis For the Quarter Ending May 31, 2024

Revenues: Overall revenues are 1.0% over budget.

Thrift Application Fees – Amounts collected are 34.5% of budget due to lower application activity year-to-date.

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

Expenditures: Overall expenditures are 10.9% under budget.

Personnel Costs – The category is 11.5% under budget due to unfilled vacancies.

Travel – Travel costs incurred are 13.4% over budget, due to the higher volume of travel to exam locations and training events.

Travel Breakdown YTD - 3rd Qtr FY24			
Category	In-State	Out-of-State	Total
Regulation and Supervision	\$63,648.88	\$0.00	\$63,648.88
Development and Training	36,311.07	23,991.21	60,302.28
Other Regulatory Activities	315.00	0.00	315.00
Non-Employee Travel	1,624.17	0.00	1,624.17
Total	\$101,899.12	\$23,991.21	\$125,890.33

Professional Fees – The category is 10.4% under budget and is impacted by lower than budgeted legal fees to the Office of Attorney General.

Miscellaneous Operating Costs – The category is 19.4% under budget mainly due to lower than budgeted costs for maintenance and repairs of the building, and other contracted services.

Department of Savings and Mortgage Lending

Liquidity Report For the Quarter Ending May 31, 2024

	ACTUAL
Cash at Beginning of Period	15,934,124
Revenues Over (Under) Expenditures	(276,667)
Increase (Decrease) in Payables	1,519
(Increase) Decrease in Receivables	13,692
Cash at End of Period	<u>15,672,669</u>
Reserved Cash Balance:	
Bldg. maintenance/IT	\$ -
Long-term facilities planning	10,026,187
Payables (net of receivables)	699,402
Lump Sums for Retirements	144,602
Program Funds	-
Other	-
Total Reserved Cash Balance	<u>\$ 10,870,191</u>
Unreserved Cash Balance:	
Future Operations	<u>\$ 4,802,478</u>
Total Unreserved Cash Balance	<u>\$ 4,802,478</u>
Total Cash Balance	<u>\$ 15,672,669</u>
Unreserved Cash/FY2024 Monthly Budget	6.15 months

Texas Department of Banking
Operating Statement and Budget Analysis
For Period Ending May 2024

	FY 2023 ACTUAL	FY 2024 BUDGET	QUARTER PERFORMANCE				FY 2024 PERFORMANCE			
			3rd Quarter BUDGET	3rd Quarter ACTUAL	(Over)/Under BUDGET	Percent BUDGET	YTD BUDGET	YTD ACTUAL	(Over)/Under BUDGET	Percent BUDGET
REVENUES										
Bank & Trust Regulation	\$26,191,521	\$31,577,971	\$9,011,054	\$9,152,112	(\$141,058)	101.6%	\$26,633,840	\$26,740,862	(\$107,022)	100.4%
Penalties - Bank & Trust Regulation	0	0	0	0	0	0.0%	0	13,000	(13,000)	0.0%
Non-Depository Supervision	3,093,981	3,983,938	1,032,841	942,590	\$90,251	91.3%	3,255,848	3,146,585	109,263	96.6%
Penalties - Non-Depository Supervision	714,249	154,600	11,900	23,400	(11,500)	196.6%	142,700	501,031	(358,331)	351.1%
Miscellaneous Revenues	811,514	963,400	240,850	311,791	(70,941)	129.5%	722,550	852,015	(129,465)	117.9%
TOTAL REVENUES	\$30,811,266	\$36,679,909	\$10,296,645	\$10,429,893	(\$133,249)	101.3%	\$30,754,938	\$31,253,493	(\$498,555)	101.6%
EXPENDITURES										
Personnel Costs										
Employee Compensation	\$19,147,451	\$23,513,891	\$5,786,051	\$5,162,188	\$623,863	89.2%	\$16,528,143	\$15,053,313	\$1,474,830	91.1%
Employee Benefits	5,301,086	6,275,031	1,605,049	1,447,596	157,453	90.2%	\$4,593,938	\$4,200,229	393,709	91.4%
Add'l Health/Retirement	268,558	345,091	86,791	72,934	13,856	84.0%	\$247,772	\$213,477	34,295	86.2%
Other Personnel Costs	679,987	852,847	85,607	72,694	12,912	84.9%	316,018	358,718	(42,700)	113.5%
Subtotal Personnel Costs	\$25,397,083	\$30,986,860	\$7,563,497	\$6,755,412	\$808,085	89.3%	\$21,685,871	\$19,825,736	\$1,860,135	91.4%
Travel										
In-State	\$1,106,923	\$1,856,074	\$511,321	\$362,653	\$148,668	70.9%	\$1,358,585	\$1,003,491	\$355,094	73.9%
Out-of-State	385,574	663,055	185,407	139,358	46,049	75.2%	427,793	313,315	114,478	73.2%
Subtotal Travel	\$1,492,497	\$2,519,129	\$696,727	\$502,010	\$194,717	72.1%	\$1,786,377	\$1,316,805	\$469,572	73.7%
Operating Costs										
Professional Fees	\$338,359	\$632,766	\$117,631	\$82,728	\$34,903	70.3%	\$244,645	\$213,270	\$31,375	87.2%
Consumables	79,570	55,000	7,800	7,517	284	96.4%	56,619	61,356	(\$4,737)	108.4%
Office Utilities	34,247	32,670	8,333	10,752	(2,419)	129.0%	31,146	33,818	(\$2,672)	108.6%
Rent - Building/Space	430,846	497,582	132,634	103,559	29,075	78.1%	399,800	371,981	\$27,819	93.0%
Rent - Equipment/Other	25,705	39,516	8,148	5,488	2,660	67.4%	29,162	25,889	\$3,273	88.8%
Communications	266,617	313,761	79,162	79,822	(660)	100.8%	223,131	222,291	\$841	99.6%
Information Technology	591,947	709,573	192,650	63,203	129,447	32.8%	525,133	398,705	\$126,428	75.9%
Employee Training	194,505	310,509	95,306	68,409	26,897	71.8%	189,369	129,909	\$59,460	68.6%
Misc. Operating Costs	497,393	582,543	61,957	80,836	(18,878)	130.5%	271,714	337,910	(66,196)	124.4%
Subtotal Operating Costs	\$2,459,190	\$3,173,920	\$703,623	\$502,314	\$201,309	71.4%	\$1,970,719	\$1,795,129	\$175,590	91.1%
TOTAL EXPENDITURES	\$29,348,770	\$36,679,909	\$8,963,847	\$7,759,736	\$1,204,111	86.6%	\$25,442,967	\$22,937,671	\$2,505,296	90.2%
EXPENDITURES (OVER) / UNDER REVENUES	\$1,462,496	\$0	\$1,332,797	\$2,670,157	(\$1,337,359)		\$5,311,971	\$8,315,823	(\$3,003,852)	

Texas Department of Banking

Overview of Budget Variances for the Third Quarter of Fiscal Year 2024 - (Variances in excess of \$1,000 and 5% from budget are reported).

Non-Depository Supervision – The variance is related to: (1) lower collected travel reimbursements and examination fees due to vacancies and (2) lower collect assessments due to money services businesses closures.

Penalties - Non-Depository Supervision – The variance is due to an unanticipated collected penalty from a prepaid funeral contract seller.

Miscellaneous Revenue – The variance is due to a higher interest rate of return than budgeted for deposited funds.

Employee Compensation and Benefits – The positive variance relates to vacant staff positions. Vacancies in terms of FTEs as of May 31, 2024 are listed below:

Administrative	12
Examiners	22

Other Personnel Costs – The positive variance is mainly due to a lower retirement lump sum payment than anticipated.

Travel Breakdown

	In-State Travel	Out-of-State Travel
Regulatory Supervision	\$204,094	\$47,998
Development and Training	141,522	89,135
Other Regulatory Activities	15,498	2,225
Non-Employee	1,539	0
Total	\$362,653	\$139,358

In-State Travel – The positive variance is due to: (1) realized efficiencies related to examiner assignments; (2) conducting off-site examinations; (3) examiner vacancies; and (4) townhall meetings and training related travel that did not materialize.

Out-of-State Travel – The positive variance is related to vacancies and training events that were cancelled or not attended as scheduled.

Professional Fees – The positive variance is due to lower expenditures than budgeted for Department conference speaker fees and reserved professional services funds that will not be needed.

Office Utilities – The negative variance is due to higher expenditures than estimated as based on history.

Rent - Building/Space – The positive variance is due to townhall meetings and recruiting events that did not take place.

Rent - Equipment/Other – The positive variance is due to audio/video equipment for townhall meetings that did not take place.

Information Technology – The positive variance is mainly due to a large budgeted laptop order that will not materialize this fiscal year.

Employee Training – The positive variance is due to: (1) training events that were cancelled or not attended as scheduled and (2) courses that are no longer charged for by the training provider.

Misc. Operating Costs – The negative variance is due to the retention of unbudgeted contractors to assist with administrative operations and unbudgeted unemployment claims. This variance was offset by lower expenditures than budgeted for employee awards.

TEXAS DEPARTMENT OF BANKING
Liquidity Report
For the Period Ending May 31, 2024

	Actual
Cash at Beginning of Period	\$24,702,391
Revenues Over (Under) Expenditures	2,670,157
Increase (Decrease) in Payables/Encumbrances	(114,952)
(Increase) Decrease in Receivables	(30,409)
Cash at End of Period	<u>\$27,227,187</u>
Reserved Cash Balance:	
Bldg. maintenance/IT	\$0
Long-term facilities planning	10,020,171
Payables (net of receivables)	2,432,517
Lump Sums for Retirements	705,433
Program Funds	0
Other	0
Total Reserved Cash Balance	<u>\$13,158,121</u>
Unreserved Cash Balance:	
Future Operations	14,069,067
Total Unreserved Cash Balance	<u>\$14,069,067</u>
Total Cash Balance	<u>\$27,227,187</u>
Unreserved Cash/FY2024 Monthly Budget	4.6 months

Office of Consumer Credit Commissioner
Proposed Budget Fiscal Year 2025

	Budget 2024	Budget 2025
REVENUE:		
Regulated Lenders	\$ 2,020,130	\$ 1,975,150
Credit Access Industry	824,000	859,800
MV Industry	4,301,370	4,283,650
Pawn Industry	728,560	752,385
Registered Industry	326,280	320,350
Miscellaneous Revenues	504,000	663,500
TOTAL REVENUES:	\$ 8,704,340	\$ 8,854,835
EXPENDITURES:		
Personnel Costs		
Employee Compensation	\$ 5,219,845	\$ 5,642,194
Employee Benefits	1,715,710	1,781,341
Add'l Health/Retirement	78,297	84,633
Other Personnel Costs	123,814	117,494
Subtotal Personnel Costs	\$ 7,137,666	7,625,662
Travel		
In-State	535,500	587,602
Out-of-State	35,500	43,052
Out-of-State Reimbursements	(9,000)	(16,000)
Subtotal Travel	562,000	614,654
Other Expenditures		
Professional Fees & Services	87,200	97,694
Consumable Supplies	3,500	4,800
Office Utilities	16,700	19,875
Rent - Buildings/Space	6,274	1,500
Rent - Equipment/Other	2,800	2,700
Communications	79,700	77,572
Information Technology	512,600	538,136
Employee Training	26,000	25,605
Misc. Operating Costs	269,900	291,941
Subtotal Operating Costs	1,004,674	1,059,822
TOTAL EXPENDITURES:	\$ 8,704,340	\$ 9,300,138
EXPENDITURES (OVER)/UNDER REVENUE:	\$ -	\$ (445,303)
Sources & Uses:		
RESERVE SURPLUS FROM FY24 OPERATIONS:		\$ 445,303
FY 25 NET EXPENDITURES (OVER)/UNDER REVENUE		\$ 0

FTE's

75

75

Office of Consumer Credit Commissioner
Proposed Budget Fiscal Year 2025

	Budget 2024	Estimated FY 2024	% of 2024 Budget		Budget 2025	\$ Change Budget 2024 to Budget 2025	% Change Budget 2024 to Budget 2025
REVENUE:							
Regulated Lenders	\$ 2,020,130	\$ 2,266,713	112.2%		\$ 1,975,150	\$ (44,980)	-2.2%
Credit Access Industry	824,000	906,500	110.0%		859,800	35,800	4.3%
MV Industry	4,301,370	4,344,014	101.0%		4,283,650	(17,720)	-0.4%
Pawn Industry	728,560	731,826	100.4%		752,385	23,825	3.3%
Registered Industry	326,280	351,865	107.8%		320,350	(5,930)	-1.8%
Miscellaneous Revenues	504,000	772,269	153.2%		663,500	159,500	31.6%
TOTAL REVENUES:	\$ 8,704,340	\$ 9,373,187	107.7%		\$ 8,854,835	\$ 150,495	1.7%
EXPENDITURES:							
Personnel Costs							
Employee Compensation	\$ 5,219,845	\$ 4,972,803	95.3%		\$ 5,642,194	\$ 422,349	8.1%
Employee Benefits	1,715,710	1,607,268	93.7%		1,781,341	65,631	3.8%
Add'l Health/Retirement	78,297	73,457	93.8%		84,633	6,336	8.1%
Other Personnel Costs	123,814	69,927	56.5%		117,494	(6,320)	-5.1%
Subtotal Personnel Costs	\$ 7,137,666	\$ 6,723,455	94.2%		7,625,662	487,996	6.8%
Travel							
In-State	535,500	448,537	83.8%		587,602	52,102	9.7%
Out-of-State	35,500	20,403	57.5%		43,052	7,552	21.3%
Out-of-State Reimbursements	(9,000)	-	0.0%		(16,000)	(7,000)	77.8%
Subtotal Travel	562,000	468,940	83.4%		614,654	52,654	9.4%
Other Expenditures							
Professional Fees & Services	87,200	39,711	45.5%		97,694	10,494	12.0%
Consumable Supplies	3,500	5,815	166.1%		4,800	1,300	37.1%
Office Utilities	16,700	15,357	92.0%		19,875	3,175	19.0%
Rent - Buildings/Space	6,274	3,525	56.2%		1,500	(4,774)	-76.1%
Rent - Equipment/Other	2,800	2,754	98.4%		2,700	(100)	-3.6%
Communications	79,700	72,760	91.3%		77,572	(2,128)	-2.7%
Information Technology	512,600	295,670	57.7%		538,136	25,536	5.0%
Employee Training	26,000	15,238	58.6%		25,605	(395)	-1.5%
Misc. Operating Costs	269,900	262,967	97.4%		291,941	22,041	8.2%
Subtotal Operating Costs	1,004,674	713,797	71.0%		1,059,822	55,148	5.5%
TOTAL EXPENDITURES:	\$ 8,704,340	\$ 7,906,192	90.8%		\$ 9,300,138	\$ 595,798	6.8%
EXPENDITURES (OVER)/UNDER REVENUE:	\$ -	\$ 1,466,995			\$ (445,303)	\$ (445,303)	
Sources & Uses:							
RESERVE SURPLUS FROM FY24 OPERATIONS:					\$ 445,303		
FY 25 NET EXPENDITURES (OVER)/UNDER REVENUE					\$ 0		

FTE's

75

75

BUDGET INFORMATION
FY2024-FY2025

	FY 2024 Approved Budget	FY 2025 Proposed Budget
REVENUES		
Thrift Industry		
Assessments	\$ 4,767,743	\$ 4,053,722
Application Fees	16,000	16,000
Mortgage Industry		
Licensing Fees	4,959,195	5,609,170
Administrative Penalties	-	-
Misc. Revenues	505,000	617,110
TOTAL REVENUES	\$ 10,247,938	\$ 10,296,002
EXPENDITURES		
Personnel Costs		
Employee Compensation	\$ 6,347,998	\$ 6,948,079
Employee Benefits	1,905,784	2,068,485
Add'l Health/Retirement	93,826	103,833
Other Personnel Costs	106,393	109,913
Subtotal Personnel Costs	\$ 8,454,001	\$ 9,230,310
Travel		
In-State	\$ 108,000	\$ 176,500
Out-of-State	42,000	60,000
Subtotal Travel	\$ 150,000	\$ 236,500
Operating Costs		
Professional Fees	\$ 90,039	\$ 90,509
Consumables	8,500	8,500
Office Utilities	13,114	16,200
Rent - Space & Equipment	11,500	16,500
Communications	100,365	106,598
Information Technology	336,210	378,300
Employee Training	68,000	70,000
Misc. Operating Costs	140,483	142,585
Subtotal Operating Costs	\$ 768,211	\$ 829,192
TOTAL EXPENDITURES	\$ 9,372,212	\$ 10,296,002
EXPENDITURES (OVER)/ UNDER REVENUES	\$ 875,726	\$ -

FTFs

74

76

Department of Savings and Mortgage Lending
Budget Information
FY2024-FY2025

	FY 2024	FY 2024	% of FY2024	FY2025	\$ Change	% Change
	BUDGET	ESTIMATED	BUDGET	BUDGET	FY24 Budget to FY25 Budget	FY24 Budget to FY25 Budget
REVENUES						
Thrift Industry						
Assessments	\$ 4,767,743	\$ 4,871,914	102.2%	\$ 4,053,722	\$ (714,021)	-15.0%
Application Fees	16,000	5,000	31.3%	16,000	-	0.0%
Mortgage Industry						
Licensing Fees	4,959,195	4,918,804	99.2%	5,609,170	649,975	13.1%
Administrative Penalties	-	55,000	0.0%	-	-	0.0%
Misc. Revenues	505,000	773,563	153.2%	617,110	112,110	22.2%
TOTAL REVENUES	\$10,247,938	\$ 10,624,281	103.7%	\$ 10,296,002	\$ 48,064	0.5%
EXPENDITURES						
Personnel Costs						
Employee Compensation	\$ 6,347,998	\$ 5,623,714	88.6%	\$ 6,948,079	\$ 600,081	9.5%
Employee Benefits	1,905,784	1,720,378	90.3%	2,068,485	162,701	8.5%
Add'l Health/Retirement	93,826	79,171	84.4%	103,833	10,007	10.7%
Other Personnel Costs	106,393	131,188	123.3%	109,913	3,520	3.3%
Subtotal Personnel Costs	\$ 8,454,001	\$ 7,554,452	89.4%	\$ 9,230,310	\$ 776,309	9.2%
Travel						
In-State	\$ 108,000	\$ 130,452	120.8%	\$ 176,500	\$ 68,500	63.4%
Out-of-State	42,000	37,991	90.5%	60,000	18,000	42.9%
Subtotal Travel	\$ 150,000	\$ 168,443	112.3%	\$ 236,500	\$ 86,500	57.7%
Operating Costs						
Professional Fees	\$ 90,039	\$ 50,708	56.3%	\$ 90,509	\$ 470	0.5%
Consumables	8,500	6,031	71.0%	8,500	-	0.0%
Office Utilities	13,114	13,533	103.2%	16,200	3,086	23.5%
Rent - Space & Equipment	11,500	6,837	59.5%	16,500	5,000	43.5%
Communications	100,365	97,898	97.5%	106,598	6,233	6.2%
Information Technology	336,210	295,825	88.0%	378,300	42,090	12.5%
Employee Training	68,000	59,749	87.9%	70,000	2,000	2.9%
Misc. Operating Costs	140,483	118,543	84.4%	142,585	2,102	1.5%
Subtotal Operating Costs	\$ 768,211	\$ 649,124	84.5%	\$ 829,192	\$ 60,981	7.9%
TOTAL EXPENDITURES	\$ 9,372,212	\$ 8,372,019	89.3%	\$ 10,296,002	\$ 923,790	9.9%
EXPENDITURES (OVER)/ UNDER REVENUES	\$ 875,726	\$ 2,252,262		\$ (0)	\$ (875,726)	
FTEs	74			76		

**Texas Department of Banking
Proposed Budget - FY 2025**

	Budget 2024	Budget 2025*
REVENUE		
Bank & Trust Regulation	\$31,577,971	\$33,902,880
Penalties - Bank & Trust Regulation	0	0
Non-Depository Supervision	3,983,938	4,571,913
Penalties - Non-Depository Supervision	154,600	154,600
Miscellaneous Revenues	963,400	1,226,400
TOTAL REVENUES	\$36,679,909	\$39,855,793
EXPENDITURES		
Personnel Costs		
Employee Compensation	\$23,513,891	\$25,790,757
Employee Benefits	6,275,031	6,955,025
Add'l Health/Retirement	345,091	370,731
Other Personnel Costs	852,848	944,261
Subtotal Personnel Costs	\$30,986,860	\$34,060,775
Travel		
In-State	\$1,856,074	\$1,691,339
Out-of-State	663,055	705,998
Subtotal Travel	\$2,519,129	\$2,397,337
Operating Costs		
Professional Fees	\$632,766	\$642,224
Consumables	55,000	64,327
Office Utilities	32,670	40,718
Rent - Building/Space	497,582	458,066
Rent - Equipment/Other	39,516	29,960
Communications	313,761	335,367
Information Technology	709,573	790,050
Employee Training	310,509	273,978
Misc. Operating Costs	582,543	762,992
Subtotal Operating Costs	\$3,173,920	\$3,397,681
TOTAL EXPENDITURES	\$36,679,909	\$39,855,793
EXPENDITURES (OVER) / UNDER REVENUES	\$0	\$0

FTEs

220

236

* FY 2025 budgeted assessments are net approximately \$15.4 million in Bank and Trust that are not expected to be assessed to operate the Department.

**Texas Department of Banking
Proposed Budget - FY 2025**

	Budget 2024	Estimated FY 2024*	% of 2024 Budget		Budget 2025**	\$ Change Budget 2024 to Budget 2025	% Change Budget 2024 to Budget 2025
REVENUE							
Bank & Trust Regulation	\$31,577,971	\$35,030,087	110.93%		\$33,902,880	\$2,324,909	7.36%
Penalties - Bank & Trust Regulation	0	0	0.00%		0	0	0.00%
Non-Depository Supervision	3,983,938	4,149,439	104.15%		4,571,913	587,975	14.76%
Penalties - Non-Depository Supervision	154,600	130,000	84.09%		154,600	0	0.00%
Miscellaneous Revenues	963,400	1,163,654	120.79%		1,226,400	263,000	27.30%
TOTAL REVENUES	\$36,679,909	\$40,473,180	110.34%		\$39,855,793	\$3,175,884	8.66%
EXPENDITURES							
Personnel Costs							
Employee Compensation	\$23,513,891	\$20,963,657	89.15%		\$25,790,757	\$2,276,867	9.68%
Employee Benefits	6,275,031	5,469,632	87.17%		6,955,025	679,994	10.84%
Add'l Health/Retirement	345,091	291,758	84.55%		370,731	25,641	7.43%
Other Personnel Costs	852,848	523,501	61.38%		944,261	91,413	10.72%
Subtotal Personnel Costs	\$30,986,860	\$27,248,547	87.94%		\$34,060,775	\$3,073,915	9.92%
Travel							
In-State	\$1,856,074	\$1,399,321	75.39%		\$1,691,339	(\$164,735)	-8.88%
Out-of-State	663,055	437,698	66.01%		705,998	42,943	6.48%
Subtotal Travel	\$2,519,129	\$1,837,019	72.92%		\$2,397,337	(\$121,792)	-4.83%
Operating Costs							
Professional Fees	\$632,766	\$337,356	53.31%		\$642,224	\$9,458	1.49%
Consumables	55,000	53,469	97.22%		64,327	9,327	16.96%
Office Utilities	32,670	37,168	113.77%		40,718	8,048	24.63%
Rent - Building/Space	497,582	445,877	89.61%		458,066	(39,516)	-7.94%
Rent - Equipment/Other	39,516	31,853	80.61%		29,960	(9,556)	-24.18%
Communications	313,761	283,528	90.36%		335,367	21,606	6.89%
Information Technology	709,573	595,185	83.88%		790,050	80,477	11.34%
Employee Training	310,509	173,644	55.92%		273,978	(36,531)	-11.76%
Misc. Operating Costs	582,543	609,644	104.65%		762,992	180,449	30.98%
Subtotal Operating Costs	\$3,173,920	\$2,567,725	80.90%		\$3,397,681	\$223,761	7.05%
TOTAL EXPENDITURES	\$36,679,909	\$31,653,291	86.30%		\$39,855,793	\$3,175,884	8.66%
EXPENDITURES (OVER) / UNDER REVENUES	\$0	\$8,819,889			\$0		

FTEs

220

236

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* FY 2024 forecast using a combination of estimated projections and annualized June 30, 2024 actuals.

** FY 2025 budgeted assessments are net approximately \$15.4 million in Bank and Trust that are not expected to be assessed to operate the Department.

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**OFFICE OF CONSUMER CREDIT
COMMISSIONER**

Austin, Texas

INTERNAL AUDIT ANNUAL REPORT

Fiscal Year 2024



OFFICE OF CONSUMER CREDIT COMMISSIONER
Austin, Texas

Annual Internal Audit Report
Fiscal Year 2024

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Garza/Gonzalez & Associates, LLC

CERTIFIED PUBLIC ACCOUNTANTS

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

We performed procedures to assess the effectiveness and efficiency of the Office of Consumer Credit Commissioner's (OCCC) internal control structure over Examinations: Data Collection Area (Area); and, its compliance with the Area's established policies and procedures, for the 8 months ended April 30, 2024.

The results of our procedures disclosed that OCCC's internal control structure over the Area was 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 OCCC's established policies and procedures. Based on the degree of risk or effect of these matters in relation to the audit objective, they were rated as Priority, High, Medium, or Low, as further described in the "Summary and Related Rating of Observations/Findings and Recommendations" section of this report.

We also conducted a follow-up on the findings and recommendations presented in the prior year's internal audit reports that were not fully implemented. This report reflects the results and implementation status of our follow-up procedures, and includes all information required for compliance with the State of Texas Internal Audit Annual Report requirements. It has been prepared by Garza/Gonzalez & Associates, an independent Certified Public Accounting firm, following Generally Accepted Government 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, as well as the implementation status from the follow-up procedures performed, with various OCCC personnel. We would be pleased to discuss these matters with you in further detail.



June 14, 2024

OFFICE OF CONSUMER CREDIT COMMISSIONER

Internal Audit Annual Report

Fiscal Year 2024

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 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.

2024 Internal Audit Plan

Following are the internal audit functions performed, as identified in OCCC's 2024 Internal Audit Plan, dated January 23, 2024, and approved by the Audit Committee and Finance Commission on February 16, 2024:

- Risk Assessment & Preparation of the 2024 Internal Audit Plan
- Examinations: Data Collection Area Audit
- Follow-up of Prior Year Internal Audits
- Preparation of the 2024 Internal Audit Annual Report
- Other Tasks

This report contains the results of the Examinations: Data Collection Area Audit, reflects the results of the follow-up procedures performed this year on the findings from the prior year's internal audit reports, and meets the State of Texas Internal Audit Annual Report requirements.

OFFICE OF CONSUMER CREDIT COMMISSION

Internal Audit Annual Report

Fiscal Year 2024

I. Compliance with Texas Government Code, Section 2102.015: Required Posting of Internal Audit Information

To comply with the provisions of Texas Government Code, Section 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 2025 audit plan, as provided by Texas Government Code, Section 2102.008.
- A fiscal year 2024 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 a summary of the actions 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 2024

The approved Internal Audit Plan (Plan) included one audit to be performed during fiscal year 2024. The Plan also included a follow-up on prior year internal audit recommendations that were not fully implemented as of fiscal year 2023, other tasks as may have been assigned by the Finance Commission or Audit Committee, and, preparation of the 2024 Internal Audit Annual Report.

Risk Assessment

Utilizing information obtained through the completed questionnaires received and background information reviewed, 12 areas¹ 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.

¹ Excludes the TFEE Fund Investment Portfolio Administration area, as it requires a biennial audit.

OFFICE OF CONSUMER CREDIT COMMISSION

Internal Audit Annual Report

Fiscal Year 2024

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

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

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

Fiscal Year 2023:

- Risk Assessment & Preparation of the Internal Audit Plan
- TFEE Fund Investment Portfolio Administration Audit (*Required Periodic Audit*)
- Human Resources and Payroll Audit
- Follow-up of the Prior Year Internal Audits
- Preparation of the Internal Audit Annual Report

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

OFFICE OF CONSUMER CREDIT COMMISSION
Internal Audit Annual Report
Fiscal Year 2024

The internal audits and other tasks performed for fiscal year 2024 were as follows:

Report No.	Audits/Report Titles	Report Date
1.	Examinations: Data Collection <i>Objective:</i> To assess the access levels to examination applications to ensure authorized handling of examination data, and to evaluate the design and operation of internal controls over examination data collection. This was to ensure the validity, accuracy, and completeness of the data entered into or extracted from the database, supporting monitoring and reporting activities.	6/14/2024
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 2024.</i>	6/14/2024
-	Other Tasks Assigned by the Finance Commission or the Audit Committee	None

V. Executive Summary

Examinations: Data Collection (Area)

BACKGROUND

OCCC's Consumer Protection department is responsible for examining licensed financial service providers to ensure compliance with laws and regulations designed to protect consumers. The department is also responsible for ensuring that information obtained during examinations is kept confidential. These examinations are conducted by financial examiners based in 3 regional offices: Dallas-Fort Worth, Houston, and San Antonio. Additionally, the Senior Staff and Admin Support operate from the Austin office. Effective January 1, 2022, OCCC also conducts annual examinations of at least 10 registered crafted precious metals dealers.

Examinations are typically scheduled by the supervising examiner at each regional office using a risk-based approach, considering factors such as examiner availability and travel budget. A risk score, calculated in ALECS (described below), is assigned to each licensee based on factors such as complaints, the previous examination date and results, and the entity's size. Examinations for secondary mortgage lenders regulated by the Finance Code Chapter 342, Subchapter G and the Texas Constitution, Article XVI, Sec. 50(a), and property tax lenders regulated by the Finance Code Chapter 351, collectively referred to as "mortgage examinations", are conducted at least every 5 years to meet the Conference of State Bank Supervisors (CSBS) accreditation standards.

ALECS

In March 2017, OCCC's examination module was fully integrated into the agencywide regulatory information management system, ALECS (Application, Licensing, Examination, and Compliance System). Changes to ALECS require a formal change management process, prioritizing critical changes such as cybersecurity and regulatory requirements.

Access to examination data and work papers in ALECS is controlled by the following 2 matrices:

- **User Roles:** Users are assigned the minimum roles (Examiner, Review Examiner, Exam Tech, etc.) necessary to perform their duties.
- **Examiner Permissions:** ALECS only allows examination assignments to qualified examiners who have successfully completed training for that license type.

The Austin Senior Staff reviews ALECS access for the Consumer Protection staff during the agencywide annual user account review. The most recent review occurred in October 2023.

Key ALECS controls relevant to examination data include:

- Standardized input data via pull-down selection menus.
- Automatic entry of dates triggered by user actions.
- Identification and enforcement of required field to ensure data completeness.
- Restriction of examination work paper modifications to the assigned financial examiner during the examination process, with no modifications allowed after finalization.

Supervising examiners and Austin Senior Staff use various reports extracted from ALECS to schedule, track, and monitor examinations. Examination data in ALECS is also the source for performance measures reported to the Finance Commission.

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State Examination System (SES)

SES is a supervisory platform suite developed for state financial regulatory agencies and administered by CSBS. OCCC financial examiners participating in multistate mortgage examinations are granted access to SES, as those examinations are conducted within the SES. While examination work papers are maintained in SES, all other examination data, such as examiner assignments and dates, is maintained in ALECS. OCCC's designated SES Account Administrators receive monthly notification in SES to either confirm existing user accounts or submit change requests. During the audit period, 4 examinations were initiated in SES.

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Audit Objective, Scope, and Methodology

Objective

The objective of our audit was to assess the access levels to examination applications to ensure authorized handling of examination data and to evaluate the design and operation of internal controls over examination data collection. This was to ensure the validity, accuracy, and completeness of the data entered into or extracted from the database, supporting monitoring and reporting activities.

Scope

The scope of our audit included reviewing the Area's policies, procedures, and processes, as well as testing selected user rights and reports prepared by the Area during the period from September 1, 2023 to April 30, 2024 (audit period).

Methodology

The audit methodology included reviewing applicable laws and regulations, OCCC's established policies and procedures, and other internal and external documentation. Additionally, onsite interviews and walkthroughs were conducted with OCCC personnel.

We obtained and/or reviewed the following information:

- A. Organizational charts applicable to the Area.
- B. OCCC's written policies and procedures related to the Area.
- C. ALECS and SES user account lists.
- D. Sample scheduling, monitoring, and managerial reports.

We performed various procedures to achieve the objective of our audit, including:

1. Reviewed and obtained an understanding of the laws and regulations in the Texas Finance Code, Texas Occupations Code, and Texas Administrative Code, as applicable to the Area.
2. Reviewed the Area's written policies and procedures, and conducted interviews and walkthroughs to understand the controls, processes, and current practices in place.
3. Reviewed the current ALECS user account list against the organizational chart to determine whether the following roles assigned to users are appropriate:
 - Scheduling Manager
 - Examiner
 - Review Examiner
 - Exam Tech
4. Selected all 4 employees who separated from the Consumer Protection department subsequent to the annual ALECS account review in October 2023 through April 30, 2024, to verify timely account deactivation based on the dates documented in HR's Exit Interview Checklist and IT's Employee Network Termination Request form.

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5. Reviewed a sample of the following reports to verify completeness and consistency, and to identify unusual data values:
 - ALECS ExamSchedule (InDashboard) report
 - ALECS ScheduleAnExam (CanBeScheduled) report
 - Exam Review Program Report
 - Weekly Managers Meeting Report
6. Traced the fiscal year 2024, quarter 2 performance measures reported to the Finance Commission to the monthly summary prepared by the Admin Support. Then, traced the February 2024 calculation in the monthly summary to the corresponding ALECS report.

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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.

Summary of Observations/Findings & Recommendations and Related Ratings		
Finding No.	Title	Rating
1	Exam Review Status	Medium
2	ALECS Account Deletion	Low
3	Risk Score Calculation	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 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
1	6/14/24	Examinations: Data Collection	<p>1. Exam Review Status</p> <p>The Exam Review Program Report dated May 27, 2024 contained 4 finalized examinations that were marked as “In-Review” status in ALECS but not assigned to a review examiner. The discrepancy resulted in the following delays as of May 27, 2024 for high-risk examinations:</p> <ul style="list-style-type: none">• Two 4-rated examinations were 167 days and 217 days past the Follow-Up Date.• Two 3-rated examinations were 28 days and 132 days past the Follow-Up Date. <p>OCCC identified this issue for separate examinations in fiscal year 2022 and previously addressed it by submitting IT tickets to assign review examiners to those examinations.</p> <p>Recommendation: We recommend that OCCC strengthen its current monitoring process to ensure instances described above are detected and addressed in a timely manner until a system-level solution for ALECS is implemented.</p> <p>Management’s Response: Management agrees with the recommendation. The review of the four exams identified in the report has been completed. The exam review procedures have been updated to require a monthly evaluation of potential “in-review” discrepancies. If an exam is identified as having an “in-review” status, without an assigned review examiner, exam staff will initiate a correction. As of July 2024, there are no “in-review” exam discrepancies.</p> <p>2. ALECS Account Deletion</p> <p>Our review of ALECS account deletions for 4 terminated Consumer Protection staff disclosed 3 instances where their ALECS accounts were deleted 7 to 11 days after their last day of employment. In the absence of documentation, we were unable to determine whether other preventive measures, such as changing passwords, were taken by IT sooner. Since ALECS is a web-based application, returning agency-issued equipment alone will not prevent employees who are separating from the agency from accessing ALECS after their last day of employment.</p> <p>Recommendation: We recommend that OCCC clarify ALECS account deletion procedure to ensure separating employees’ access to ALECS is disabled on their last day of employment.</p> <p>Management’s Response: Management agrees with the recommendation. In the instances identified, the terminated staff members had completed the exit process through HR but were still on the payroll expending accrued leave. The OCCC has updated the network termination request form to clarify that the last day of network access is an employee’s last day of physical employment even if the employee remains on the payroll expending accrued leave. The OCCC also added a checklist item to notate the date ALECS permissions are disabled.</p>

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Report No.	Report Date	Name of Report	Observations/Findings and Recommendations
1	6/14/24	Examinations: Data Collection	<p>3. Risk Score Calculation</p> <p>The ALECS report used to schedule examinations contained 4 licensees for which the risk score was not calculated. Subsequent to our inquiry, OCCC identified 2 separate conditions that led to the risk scores not being calculated. However, the root causes of those conditions have not yet been determined.</p> <p>Recommendation:</p> <p>We recommend that OCCC strengthen current monitoring to identify unusual risk score values until the root causes are identified and remedied.</p> <p>Management's Response:</p> <p>Management agrees with the recommendation. The OCCC has studied the conditions which caused the unusual risk scores. The exam scheduling procedures have been updated to address unusual risk scores. Exam staff will review the ALECVS scheduling report monthly to identify any unusual risk scores. If an unusual risk score is identified exam staff will initiate a correction. As of July 2024, there are no unusual risk scores on ALEC's scheduling reports.</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
1	6/14/24	2024 Follow-Up	<p><u>Follow-Up of Prior Year Internal Audits</u></p> <p>Following is the status of the recommendations made in prior years that had not been fully implemented.</p> <p><u>Human Resources and Payroll (Report date 7/6/2023)</u></p> <p>1. Applications OCCC should 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>2. HR Forms OCCC should determine whether rehires are required to complete new hire forms of 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>3. Personnel Action Form (PAF) – Employee Classification (Observation) The HR department should 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>4. Approval of Time (Observation) 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, OCCC should investigate whether supervisor approval may be bypassed to allow for payment, and, contract the Comptroller's Office to determine why the supervisor's approval was not evident.</p> <p><u>Fiscal Division (Report date 5/20/2021)</u></p> <p>1. Travel Policies & Procedures (P&P) OCCC should update its travel policies and procedures to be consistent with current requirements and practices.</p>	<p>Fully Implemented</p> <p>Fully Implemented</p> <p>Fully Implemented</p> <p>Fully Implemented</p> <p>Fully Implemented</p>

OFFICE OF CONSUMER CREDIT COMMISSION

Internal Audit Annual Report

Fiscal Year 2024

VII. External Audit Services Procured in Fiscal Year 2024

OCCC procured the internal audit services documented in the approved Internal Audit Plan for fiscal year 2024. 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 2025

The risk assessment performed during fiscal year 2024 was used to identify the following *proposed* areas that are recommended for internal audit and other tasks to be performed for fiscal year 2025. The Internal Audit Plan for Fiscal Year 2025 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.

- Legal and Enforcement
- TFEE Fund Investment Portfolio Administration Audit (Required Periodic Audit)
- 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 2024

POTENTIAL AUDIT TOPIC		Fiscal Year Audited/Reviewed										
		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
1	Business Licensing				B*	D						
2	Business Registration & Professional Licensing	A*			A*/B*	D						
3	Complaint Intake and Investigation					D				B*		
4	Examinations			A*		A*/D				A*		A
5	Fiscal Division (Includes Asset Management & Travel)				B	C*/D*		C1*	A*	B		
6	Legal and Enforcement				B*	D				B*		
7	Management Information Systems [(MIS) Includes Disaster Recovery Plan] ¹	E			B*/E	D*	A1*/E		E	B*	E	
8	Payroll and Human Resources					C*	F*				A	
9	Procurement/Contract Management/HUB				B	C*/D*						
10	Records Management							A				
11	Revenue Accounting Process				B	D				B		
12	TFEE Fund Grant Administration		A		A*	D						
<i>Required Periodic Audit</i>												
13	TFEE Fund Investment Portfolio Administration				A	D	A1		A		A	

¹ Periodic 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** Policy review performed by the Texas Workforce Commission.

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING
Austin, Texas

INTERNAL AUDIT ANNUAL REPORT

Fiscal Year 2024



DEPARTMENT OF SAVINGS AND MORTGAGE LENDING
Austin, Texas

Internal Audit Annual Report
Fiscal Year 2024

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Garza/Gonzalez & Associates, LLC

CERTIFIED PUBLIC ACCOUNTANTS

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

We performed procedures to assess the effectiveness and efficiency of the Department of Savings and Mortgage Lending's (SML) internal control structure over the Mortgage Grant Fund Administration Area (the Area) and its compliance with the applicable chapters of the Texas Finance Code, the Texas Administrative Code rules, and the Area's established policies and procedures for the 8 months ended April 30, 2024.

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, they were rated as Priority, High, Medium, or Low, as further described in the "Summary and Related Rating of Observations/Findings and Recommendations" section of this report.

We also conducted a follow-up on the findings and recommendations presented in the prior year's internal audit report that were not fully implemented. This report reflects the results and implementation status of our follow-up procedures, and includes all information required for compliance with State of Texas Internal Audit Annual Report requirements. It has been prepared by Garza/Gonzalez & Associates, an independent Certified Public Accounting firm, following Generally Accepted Government 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, as well as the implementation status from the follow-up procedures performed, with various SML personnel. We would be pleased to discuss these matters with you in further detail.



June 24, 2024

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DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

Internal Audit Annual Report

Fiscal Year 2024

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 their 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 entities it regulates and are used to fund both, direct and indirect costs. General revenue funds are not used to support SML’s operations.

2024 Internal Audit Plan

Following are the internal audit functions performed, as identified in SML’s 2024 Internal Audit Plan, dated January 23, 2024, and approved by the Audit Committee and Finance Commission on February 16, 2024:

- Risk Assessment & Preparation of the 2024 Internal Audit Plan
- Mortgage Grant Fund Administration Audit
- Follow-up of Prior Year Internal Audit
- Preparation of the 2024 Internal Audit Annual Report
- Other Tasks

This report contains the results of the Mortgage Grant Fund Administration Audit, reflects the results of the follow-up procedures performed this year on the findings from the prior year’s internal audit report, and meets the State of Texas Internal Audit Annual Report requirements.

I. Compliance with Texas Government Code 2102.015: 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 2025 audit plan, as provided by Texas Government Code, Section 2102.008.
- A fiscal year 2024 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 a summary of the actions 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 2024

The approved Internal Audit Plan (Plan) included one audit to be performed during fiscal year 2024. The Plan also included a follow-up on prior year internal audit recommendations that were not fully implemented as of fiscal year 2023, other tasks as may have been assigned by the Finance Commission or Audit Committee, and preparation of the 2024 Internal Audit Annual Report.

Risk Assessment

Utilizing information obtained through the completed questionnaires received and background information reviewed, 13 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 2024

Following are the results of the risk assessment performed for the 13 potential audit topics identified:

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

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

Fiscal Year 2023:

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

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

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING
Internal Audit Annual Report
Fiscal Year 2024

The internal audit and other tasks performed for fiscal year 2024 were as follows:

Report No.	Audits/Report Titles	Report Date
1.	Mortgage Grant Fund Administration Audit <i>Objective:</i> To determine whether SML's established policies, procedures, and internal controls are adequately designed and followed in administering the Mortgage Grant Fund in accordance with applicable state laws and regulations.	6/24/2024
1.	Internal Audit Annual Report – Follow-up on findings and recommendations that were presented in the Prior Year Internal Audit Report. <i>Includes all reported audit results for Fiscal Year 2024.</i>	6/24/2024
-	Other Tasks Assigned by the Finance Commission or the Audit Committee	None

V. Executive Summary

Mortgage Grant Fund Administration Area (the Area)

BACKGROUND

The Mortgage Grant Fund (MGF) was established by the 87th Texas Legislature by enactment of Texas Finance Code (TFC) Chapter 156, Subchapter G for the purpose of supporting mortgage financial education, literacy, and capability that lead to tangible improvements in financial health, enabling consumers to obtain and maintain mortgage loans. The MGF is also governed by SML's administrative rules contained in 7 Texas Administrative Code Chapter 51, Subchapter E.

The MGF operates on a calendar year grant cycle and is primarily funded by excess amounts transferred from the Recovery Fund and all or any portion of the amount of penalty that is collected by SML under the applicable sections of the TFC, as determined by SML's Commissioner (Commissioner); however, the balance is not to exceed \$300,000 at any time.

TFC §156.554 (b), at the Commissioner's approval, the MGF may be used for the following:

1. Providing grants in an aggregate amount of not more than \$100,000 each year to an auxiliary mortgage loan activity company or nonprofit organization for the purposes of:
 - a) Providing to consumers financial education relating to mortgage loans; and
 - b) Providing to other nonprofit organizations training in order for those organizations to provide to consumers financial education relating to mortgage loans;
2. Making disbursements to pay claims under §156.555 for fraudulent unlicensed activity.¹
3. Making disbursements to nonprofit organization, schools, or for-profit entities to provide support for statewide financial education, activities, and programs specifically related to mortgage loans for consumers.

MGF Grant Program

SML established the MGF grant program to award grants from the MGF to auxiliary mortgage loan activity companies and nonprofit organizations to provide financial education or training related to mortgage loans. In accordance with TAC §51.405(b), the MGF may have one competitive grant cycle every 2 years, with funding determined by the Commissioner by December 31 of each even-numbered year.

The MGF grant program, now in its inaugural grant cycle, is administered by the Commissioner, a Grant Coordinator, and the Mortgage Grant Advisory Committee (MGAC). The Grant Coordinator, who works under the direction and oversight of the Commissioner, acts as a liaison between the grant recipients and the MGAC. The Grant Coordinator makes presentations to the MGAC and the Audit Committee of the Finance Commission regarding grant activity. The MGAC, comprised of 4 members, serves in an advisory role to the Commissioner and the Grant Coordinator by evaluating grant applications, providing recommendations to the Commissioner, and evaluating potential candidates for appointment to the MGAC.

2023-2024 Grant Cycle Grant Awards

A total of 15 grant applications were received for the 2023-2024 grant cycle and 11 organizations were awarded a combined total of \$645,278 in grant funds.

¹ Disbursements for claims were outside the scope of this audit.

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

Internal Audit Annual Report

Fiscal Year 2024

Applicants are required to complete an application, available on the SML website, along with an eligibility checklist. Applications were submitted either online or by mail to the Grant Coordinator. The Grant Coordinator performs an initial review of the grant applications to determine eligibility by ensuring the applicant is not regulated by SML, reviewing the applicant's eligibility checklist, and ensuring all required documentation is submitted with the application. Incomplete applications or those missing required documentation are not reviewed for eligibility. The Grant Coordinator documents applicant information on the Coordinator Review Form and enters pertinent information from the application into a tracking spreadsheet.

After the initial review of the 15 applications, they were provided to the MGAC for evaluation. MGAC members are required to complete a Reviewing Matrix to score each application based on alignment with the MGF program objectives specified in the 9 questions, using a scale of 0 – 10. However, given this was the first year of the grant program's implementation, some MGAC members did not complete the Reviewing Matrix forms. All applicants were discussed and evaluated at various selection meetings attended by the MGAC, Grant Coordinator, and Commissioner. Applicants that met the program's objectives and criteria were recommended by the MGAC and approved by the Commissioner. Ultimately, the following 11 organizations were selected:

<u>ORGANIZATION</u>	<u>PROGRAM NAME</u>	<u>GRANT TERM</u>	<u>AWARD AMOUNT</u>
Brazos Valley Affordable Housing	The \$25 Solution	2 years	\$80,000
Credit Coalition	Fundamentals of Good Credit	2 years	\$50,000
Foundation Communities	Pre-Mortgage Financial Wellness Program	2 years	\$48,690
Galilee Community Development	Financial Literacy	2 years	\$51,903
Grassroots Community Development	Homebuyer, Financial Literacy Education, Counseling	2 years	\$40,000
Habitat for Humanity Abilene	Habitat College	2 years	\$71,000
Habitat for Humanity Camp County	My First House	2 years	\$50,000
Houston Habitat for Humanity	Affordable Homeownership Program	2 years	\$66,900
Habitat of Humanity of Jefferson County	Financial Literacy Course	2 years	\$33,585
Habitat for Humanity of San Antonio	Habitat's Family Services	1 year	\$75,000
Fort Worth Area Habitat for Humanity	Habitat U	2 years	\$78,200

Grantee Reporting

Grantees are required to submit a Semi-Annual Grant Report to demonstrate performance outcomes and financial information throughout the grant award term. The reports include updates on meeting program objectives, achievements, challenges encountered, and participant demographic information. The Grant Coordinator tracks, reviews, summarizes, and presents the Semi-Annual Grant Reports to the Finance Commission.

In addition to the Semi-Annual Grant Report, the Mortgage Grant Administration Manual requires each grantee to submit a final report summarizing the impact, results, and consumer follow-up surveys six months after program completion. There were no final reports due during the audit period.

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

Internal Audit Annual Report

Fiscal Year 2024

Reimbursement Requests

As part of the Semi-Annual Grant Report, grantees are permitted to submit an Expense Reimbursement Request Form for expenditures incurred during the respective grant period. The grant agreement(s) define unallowable expenditures that the grant program will not reimburse. Proof of payment, such as receipts, invoices, mileage logs, and time sheets, are required to be submitted with the reimbursement request form to support the amounts requested. Requests are reviewed and approved by the Grant Coordinator and the Commissioner. Once approved, the request is sent to the accounting department for payment processing, and funds are transferred, in accordance with the Comptroller's instructions, to the grantee for payment.

As of May 31, 2024, a total of \$270,243 was reimbursed under the MGF grant program for the 2023-2024 grant terms.

MGF Fund

SML maintains a separate MGF trust fund account and a Treasury account which are accounted for separately. The MGF trust fund is held at the Texas Treasury Safekeeping Trust Company (TTSTC). Funds are transferred from the trust fund account to the Treasury account as needed for grantee payments.

Monthly bank reconciliations are prepared by SML's Chief Accountant and are reviewed and approved by the Director of Operations. Quarterly investment reports, prepared by the Chief Accountant and the Director of Operations, are presented to the Finance Commission.

AUDIT OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The objective of our audit was to determine whether SML's established policies, procedures, and internal controls are adequately designed and followed in administering the Mortgage Grant Fund in accordance with applicable state laws and regulations.

Scope

The scope of this audit was to review and test the selected functions performed by the Area for the 2023-2024 grant terms as of April 30, 2024 (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. Additionally, remote interviews were conducted with selected SML personnel.

We obtained and/or reviewed the following information:

- A. Organizational chart of the Area.
- B. List of MGAC members.
- C. Sections of the Texas Finance Code and the Texas Administrative Code applicable to the Area.
- D. Mortgage Grant Administration Manual.
- E. Mortgage Grant Fund – Grant Program Exe 6.1 Policy and Accounting Policies and Procedures.
- F. Internal spreadsheets utilized by the Area for summarizing grant applications and tracking reimbursements.

- G. Internal forms utilized by the Area, such as, the risk assessment form and coordinator review form.
- H. Examples of the 2023-2024 grant cycle application, eligibility checklist, program guidelines and instructions, grant award agreement, letters of award and regret, and grantee reporting templates (semi-annual report, forms, logs, surveys, etc.).
- I. MGAC Conflict of Interest Policies.
- J. List of grant applications received for the 2023-2024 grant cycle and list of grant recipients.
- K. Selected Texas Treasury Safekeeping Trust Company monthly statements.
- L. Second quarter investment report for the MGF.
- M. Semi-annual reports submitted to the Audit Committee.
- N. Combining Balance Sheet and Combining Statement of Revenues, Expenditures and Changes in Fund Balances from SML's fiscal year 2023 Annual Financial Report.

We performed various procedures to achieve the objective of our audit including:

- 1. Reviewed and obtained an understanding of the laws and regulations in the Texas Finance Code and Texas Administrative Code, as applicable to the Area.
- 2. Reviewed the Area's written policies and procedures, collected available documentation, and conducted virtual interviews, to understand the controls, processes, and current practices in place. Then, evaluated whether such controls adequately ensure compliance with applicable requirements identified in procedure 1 above.
- 3. Obtained a listing of 15 applications received by the Area for the 2023-2024 grant cycle and randomly selected 5 grant recipients and 1 denied applicant to test for the following attributes, as applicable:
 - a. The completed application, signed by applicant, was submitted by the December 15th due date.
 - b. The application included the following required documentation, as applicable:
 - i. Application Eligibility Checklist
 - ii. Organizational Chart
 - iii. Organization's governing members and affiliations
 - iv. Most recent IRS Form 990
 - v. Most recent audited financial statements
 - vi. Previous 2 years of tax returns
 - vii. Program budget and budget narrative
 - c. All questions on the Application Eligibility Checklist were answered "no" by the applicant, confirming their eligibility.
 - d. The Grant Coordinator confirmed receipt of the application via email or mail.
 - e. An award or regret letter was sent to each applicant.
 - f. The Review Matrix was completed by each member of the MGAC.

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

Internal Audit Annual Report

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- g. The Grant Coordinator Risk Assessment was completed by the Grant Coordinator, and appropriate monitoring action was preformed based on the results.
 - h. The Grant Award Agreement was signed by the grantee and the Commissioner.
 - i. The Coordinator Review Form was completed by Grant Coordinator and agrees with the application.
- 4. Obtained both Semi-Annual Reports submitted by the 5 grant recipients randomly selected for procedure 3 above, to test the following attributes:
 - a. The report was submitted by the grantee by the due date, as reflected in the grant agreement, and contained all the required information.
 - b. The report was signed by the grant recipient's authorized representative.
 - c. Reported budget and actual variances of 6% or more were emailed to the Grant Coordinator, and variances of 10% or more were approved by the Grant Coordinator.
 - d. The reports agreed with the summary reports provided to the Finance Commission.
- 5. From the Semi-Annual Reports selected for procedure 4 above, we selected the most recent reimbursement request for each of the 5 grant recipients to test the following attributes:
 - a. The purchase voucher agreed with the reimbursement request and was signed by SML's Chief Accountant.
 - b. The reimbursement request was properly supported by the grantee's expenditure documentation, including mileage logs, invoices, and payroll support, and was submitted by the due date, as reflected in the grant agreement.
 - c. The reimbursement request was for allowable expenses incurred during the reporting period prior to the request.
 - d. The reimbursement request was approved by the Grant Coordinator and Commissioner prior to payment.
 - e. The reimbursement request agreed with the Grant Coordinator's tracking spreadsheet.
- 6. Obtained and reviewed the MGAC Conflict of Interest Policy form signed by each MGAC member for 2023 and 2024, ensuring the form was signed before grant applications were reviewed.
- 7. Agreed the MGF balances reported in the Annual Financial Report for fiscal year 2023 with the general ledger reports.
- 8. Obtained the 2nd quarterly investment report and ensured the following:
 - a. The reported amount agreed with the bank statement.
 - b. The report was signed by the Investment Officers.
- 9. Haphazardly selected 3 months during the audit period and obtained the monthly reconciliations, as prepared by the Chief Accountant, to test the following attributes:
 - a. The reconciliation agreed with the respective bank statement.
 - b. The reconciliation agreed with the general ledger.
 - c. The reconciliation was reviewed and approved by the Director of Operations.
 - d. The balance did not exceed \$300,000.

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 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 on 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.

Summary of Observations/Findings & Recommendations and Related Ratings		
Finding No.	Title	Rating
1	Finance Commission Reports	Medium
2	Risk Assessments	Medium
3	Grant Application Evaluations	Low
4	Application Eligibility Checklist	Low
5	Ineligible Applicant	Medium
Observation No.	Title	
1	Grant Program Due Dates	—
2	Grantee Reimbursement Tracker	—
3	Expense and Variance Reports	—
<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(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 program(s)/function(s) audited. Prompt action is essential to address the noted concern(s) and reduce risks to the audited entity.</p> <p>A finding is rated <i>Medium</i> if the issues identified present risks or effects that if not addressed could 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.</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>		

OBSERVATIONS/FINDINGS and RECOMMENDATIONS

Report No.	Report Date	Name of Report	Observations/Findings and Recommendations
1	6/24/24	MGF Administration	<p>1. Finance Commission Reports</p> <p>Our review and comparison of the semi-annual report summaries provided to the Finance Commission with the Semi-Annual Reports provided by the grantees disclosed the following:</p> <ul style="list-style-type: none"> • In 2 instances, the <i>Program Activities</i> section for the reporting period was not updated to reflect the activity reported by the grantee. Additionally, in 1 instance, the number of in-person classes and attendance were underreported by 1 and 3, respectively. • In 1 instance, the percentage of participants who made progress toward their goals reported in the <i>Achievements</i> section for the reporting period was overreported by 5%. • In 2 instances, the Grant Coordinator identified discrepancies in the information reported by the grantee and reported the revised information to the Finance Commission; however, documentation from the grantee providing explanations for the discrepancies was not provided. <p>Recommendation We recommend the following:</p> <ul style="list-style-type: none"> • SML should implement a review process for the Semi-Annual Report summaries provided to the Finance Commission to ensure accurate information is presented. • SML should consider developing and using an online form for the Semi-Annual Reports that the grantees can access, such as a Google form, to automatically summarize the information submitted by the grantee and decrease the opportunity for errors. • SML should continue its efforts in developing and implementing a discrepancy form where grantees can provide explanations for identified discrepancies. <p>Management's Response SML agrees with the finding. The first two points are attributed to manual data entry errors, and the third is to insufficient internal procedures.</p> <p>In May 2024, we implemented a second-level detailed review process documented in the internal SML MGF—Grant Program Procedures that will capture substantive discrepancies between the information reported to SML by the grantees and that which we report to the Finance Commission.</p> <p>We considered using an online form for the Semi-Annual Reports that the grantees can access to summarize the information they submit automatically, however, we have grantees that prefer not to use online forms. The Mortgage Grant Administration Manual (MGAM) and our application instructions allow applicants to submit applications via mail, and further, we allow grantees who prefer to mail documents, to mail them.</p>

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Report No.	Report Date	Name of Report	Observations/Findings and Recommendations
1	6/24/24	MGF Administration	<p>In July 2024, we implemented an MGF Reimbursement Request Discrepancy form and are updating the internal SML MGF—Grant Program Procedures requiring the use of the form. Completed discrepancy forms will be filed in the grantee’s folder for future reference.</p> <p>2. Risk Assessments</p> <p>The Mortgage Grant Administration Manual requires that monitoring actions be taken based on the results of the risk assessment (low, moderate, or high risk) conducted by the Grant Coordinator for each grantee. These monitoring actions include desk reviews, site visits, and inspection reviews.</p> <p>Although risk assessments were completed for the 6 applications selected for testing, we did not observe any monitoring actions taken to address the assessed risks.</p> <p>Recommendation We recommend that SML implement formal procedures for addressing the assessed risks of a grantee and retain documentation of the actions taken to address these risks.</p> <p>Management’s Response SML agrees with the finding. We attribute the issue to insufficient internal procedures.</p> <p>In June 2024, we updated our risk assessment and applicants and grantees will be assessed as low, medium, or high risk. All applicants will undergo a risk assessment, and all grantees will undergo a risk assessment halfway through their grant cycle. Additionally, if the Grant Coordinator identifies that a grantee is not meeting program requirements, they may conduct a risk assessment.</p> <p>The Grant Coordinator will meet with applicants more frequently, the higher their risk level. The months in which they will meet will be identified in our internal SML MGF—Grant Program Procedures. Grantees will also be required to provide written documentation that addresses actions they are taking to mitigate identified risks.</p>

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING
Internal Audit Annual Report
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Report No.	Report Date	Name of Report	Observations/Findings and Recommendations
1	6/24/24	MGF Administration	<p>3. Grant Application Evaluations</p> <p>MGAC Reviewing Matrix forms are used by the MGAC to evaluate grant applications and provide recommendations to the Commissioner and Grant Coordinator. Our review of 6 grant applications disclosed the following:</p> <ul style="list-style-type: none"> • In 5 instances, only 1 of the 4 MGAC members completed a matrix form. • In 1 instance, 2 of the MGAC members completed a matrix form. <p>In lieu of the matrix forms, several roundtable discussions involving the Grant Coordinator, Commissioner, and MGAC occurred to evaluate the applications.</p> <p>In addition, SML's policies and the Mortgage Grant Administration Manual does not include the process for selecting applications based on the MGAC Reviewing Matrix scores. Specifically, there is no guidance on whether the highest scores are awarded, if a score threshold is established, or how the rationale for determining the allocation of grants is determined.</p> <p>Recommendation We recommend that SML provide training to the MGAC members to assist them in completing the MGAC Reviewing Matrix forms and ensure that each MGAC member completes a form for every application. Additionally, we recommend that SML develop, document, and implement processes and procedures for selecting applicants based on their scores and for determining the rationale behind grant award allocations.</p> <p>Management's Response SML agrees with the finding. We attribute the issue to insufficient internal procedures.</p> <p>In June 2024, we updated the MGAC Applicant Review form. We have included the requirement for all MGAC members to complete an MGAC Applicant Review form for all eligible applicants in our internal SML MGF—Grant Program Procedures. We are building a training course to assist the members in completing the form. Additionally, we are developing, documenting, and implementing processes and procedures for selecting applicants based on multiple factors, such as the score they receive on the review form, their risk level, and the geographic location of the communities they serve. We will also include the rationale for how allocations are determined.</p> <p>4. Application Eligibility Checklist</p> <p>The Application Eligibility Checklist (checklist) is a required document for the 2023-2024 Grant Application, used to screen applicants for eligibility.</p> <p>Our testing of 6 applications disclosed 2 instances where the checklist was not provided.</p> <p>Recommendation We recommend that SML ensure all the required documents, including the checklist, are submitted with the application to verify completeness and the applicant's eligibility. Additionally, SML should consider developing an application checklist that lists all required documentation to assist the Grant Coordinator during the initial review process.</p>

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Internal Audit Annual Report
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Report No.	Report Date	Name of Report	Observations/Findings and Recommendations
1	6/24/24	MGF Administration	<p>Management's Response SML agrees with the finding. We attribute the issue to insufficient internal procedures.</p> <p>In June 2024, we implemented a new MGF Application and incorporated the Application Eligibility Checklist into the first page of the application. Applicants must review and complete the checklist as part of their application for the 2025-2026 and all future grant cycles.</p> <p>5. Ineligible Applicant</p> <p>Of the 6 applications selected for testing, 1 application was initially approved, with an award letter sent in January 2023 and a grant agreement issued in February 2023. However, the applicant was later determined to be ineligible and was denied in May 2023. SML became aware that the organization was ineligible to receive grant funds because it was licensed by SML as a mortgage company under Texas Finance Code Chapter 156 pursuant to Texas Administrative Code Section 51.405(c). SML subsequently issued a Grant Recession Agreement to notify the applicant that the agreement had been rescinded.</p> <p>Recommendation We recommend that SML develop procedures to verify applicant eligibility, including confirming that the organization is not licensed with SML, before entering into a grant agreement.</p> <p>Management's Response SML agrees with the finding. We attribute the issue to insufficient internal procedures.</p> <p>Our draft internal SML MGF—Grant Program Procedures includes a section on reviewing applications for eligibility. The procedures specifically call for the Grant Coordinator to verify that the organization is in good standing with the Secretary of State, query the Nationwide Multistate License System & Registry (NMLS) to confirm that the applicant is eligible, and document ineligible applicants in the MGF Applicant Summary Tracker for future reference.</p> <p>The search of NMLS will be expanded to include the organization, persons listed on the application, and any other relevant queries that can be made as NMLS's capabilities continue to grow.</p> <p>The updated MGF Applicant Summary Tracker is an Excel Workbook with multiple sheets that will be used every grant cycle. This ensures ineligible applicants are documented in the same location cycle after cycle. Applicants ineligible due to being licensed by SML will not be added to the ineligible list, as they may not be licensed on the next application period and would be queried again if they were to apply again.</p>

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Report No.	Report Date	Name of Report	Observations/Findings and Recommendations
1	6/24/24	MGF Administration	<p style="text-align: center;">Observations</p> <p>1. Grant Program Due Dates</p> <p>Due to delays in the grantee application and award process during the 2023 – 2024 grant cycle, which was the first year of the MGF program, award letters for 5 of the 6 applications selected for testing were not sent before the grant period began on January 1st. Additionally, an official application due date was not established for the 2023 - 2024 grant cycle. The Grant Coordinator indicated that she stopped accepting application on December 15th.</p> <p>Recommendation</p> <p>We recommend that SML continue its efforts to develop and implement a calendar for the next grant cycle, which includes establishing deadlines for both SML and applicants. Additionally, an official application due date should be set for the next grant cycle.</p> <p>Management's Response</p> <p>SML agrees with the observation. Our draft internal SML MGF—Grant Program Procedures include deadlines and milestones for even and odd years.</p> <p>SML has announced an application deadline for the next grant cycle, which applies to all future grant cycles: the last business day in August of each even-numbered year.</p> <p>2. Grantee Reimbursement Tracker</p> <p>The Grantee Reimbursement Tracker is an internally developed spreadsheet used by the Grant Coordinator to summarize data provided by grantees for expenses incurred during the reporting period, including payroll costs, travel, and supplies. Since the data is copied from the grantees' reimbursement requests, it should reconcile with the total requested.</p> <p>Our testing of 5 reimbursement requests submitted by the grantees disclosed 3 instances where payroll costs differed between the grantees' submissions and the amounts recorded in the Grantee Reimbursement Tracker. However, these discrepancies were only in the spreadsheet and did not affect the reimbursement calculations.</p> <p>Recommendation</p> <p>We recommend that SML consider developing and implementing a standardized spreadsheet for grantees to summarize their expenses. This would reduce the burden on the Grant Coordinator and minimize the likelihood of human error.</p>

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING
Internal Audit Annual Report
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Report No.	Report Date	Name of Report	Observations/Findings and Recommendations
1	6/24/24	MGF Administration	<p>Management's Response SML agrees with the observation. In June 2024, SML implemented a standardized Excel Workbook with locked cells that will be used by the Grant Coordinator starting with the 2025-2026 grant cycle. The workbook, grant application, and semi-annual reports all include the same budget categories, removing the need and capability for additional categories. Grantees must summarize their expenses using the provided budget categories. The workbook is locked down so that only dollar amounts in appropriate categories can be added, with all totals rolling to a separate spreadsheet.</p> <p>3. Expense and Variance Reports</p> <p>As part of the Semi-Annual Reports submitted by the grantees, an Expense and Variance Report was required. This report compares budgeted expenses to actual expenses to date. Variances greater than 5% required explanatory comments and email notification to the Grant Coordinator, while variances of 10% or more required approval from the Grant Coordinator.</p> <p>Our review of the 10 Semi-Annual Reports from the 5 grantees selected for testing disclosed the following:</p> <ul style="list-style-type: none"> • In 7 instances, explanatory comments for variances greater than 5% were not documented. • Email notification and approval requirements for variances were not enforced during the 2023-2024 grant cycle. <p>Recommendation We recommend that SML assess the necessity of these procedures and requirements for the administration of the MGF program. If deemed necessary, SML should provide additional training to grantees to ensure compliance with these procedures.</p> <p>Management's Response SML agrees with the observation. SML evaluated the necessity of the Expense and Variance Reports when revising the Mortgage Grant Administration Manual (MGAM), updated June 5, 2024. We determined the procedure and variance reporting requirements for the program were unnecessary. Expense reporting remains part of the reimbursement request.</p> <p>In June 2024, we implemented an MGF Budget or Goal Change Request form that becomes an addendum to a grantee's Grant Agreement if approved. The updated MGAM states that grantees requesting to change their budget +/-10% in any budget category must submit the form immediately. The internal SML MGF—Grant Program Procedures detail the procedure for processing these forms.</p>

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING
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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	6/24/24	2024 Follow-Up	<p><u>Follow-Up of the Prior Year Internal Audit</u></p> <p>Following is the status of the recommendation made during fiscal year 2023 that had not been fully implemented.</p> <p><u>Mortgage Examinations (Report date 6/9/2023)</u></p> <p>1. Examination Files Testing Training should be provided to the Mortgage Examiners to enforce the importance of compliance with established policies and procedures; and, to ensure all required procedures are consistently performed.</p> <p><i>FY 2024 Status Explanation:</i> Our testing of 15 randomly selected mortgage examinations disclosed 1 instance where, although the selection log was retained and the minimum sample size in accordance with the Loan Sample Chart was reviewed, the type of loan documented on the Report of Examination was incorrect.</p> <p>Management's Response SML agrees with the recommendation to provide supplemental training to the Mortgage Examiners. Under SML's policies and procedures, Mortgage Examiners must review a minimum number of denied applications based on the total loan universe of the mortgage company/mortgage banker. On the identified examination, the Mortgage Examiner determined that the mortgage company had no denied applications; however, the Report of Examination (ROE) incorrectly reflected that one denied application was reviewed even though the application was withdrawn. SML accepts this finding and will provide supplemental training to the Mortgage Examiners. During the next monthly examiner meeting, the Mortgage Examination's policies and procedures will be reinforced to ensure that the proper information is reflected on the work papers and examination reports in the future.</p>	Substantially Implemented

VII. External Audit Services Procured in Fiscal Year 2024

SML procured the internal audit services documented in the approved Internal Audit Plan for fiscal year 2024. No other external audit services were performed.

VIII. Reporting Suspected Fraud and Abuse

SML 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. 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 2025

The risk assessment performed during fiscal year 2024 was used to identify the following *proposed* area that is recommended for internal audit and other tasks to be performed for fiscal year 2025. The Internal Audit Plan for Fiscal Year 2025 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 or the Audit Committee

ATTACHMENT

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING
History of Areas Audited
For Fiscal Year 2024

POTENTIAL AUDIT TOPIC		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
1	Consumer Responsiveness	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] ¹			A	B*	C/D*	A1*		C		C	
5	Mortgage Examinations		A		B*	D			G*		A	
6	Mortgage Grant Fund Administration											A
7	Mortgage Licensing and Registration				B*	D			G*			
8	Payroll and Human Resources	E*				E*	F*					
9	Procurement/Contract Management/HUB	E*			B	D*/E*			A			
10	Records Management							A				
11	Revenue Accounting Process				B	D*						
12	Thrift Examinations				A	D						
13	Thrift Supervision and Compliance				B*	A/D						

¹ Periodic 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** Mortgage accreditation review performed by the Conference of State Bank Supervisors.

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TEXAS DEPARTMENT OF BANKING
Austin, Texas

INTERNAL AUDIT ANNUAL REPORT

Fiscal Year 2024



TEXAS DEPARTMENT OF BANKING
Austin, Texas

Internal Audit Annual Report
Fiscal Year 2024

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Garza/Gonzalez & Associates, LLC

CERTIFIED PUBLIC ACCOUNTANTS

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

We performed procedures to assess the effectiveness and efficiency of the Texas Department of Banking's (DOB) internal control structure over the Trust Examination Area (Area) and its compliance with the applicable chapters of the Texas Finance Code, the Texas Administrative Code rules, and the Area's established policies and procedures for the 9 months ended May 31, 2024.

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 DOB's established policies and procedures. Based on the degree of risk or effect of these matters in relation to the audit objective, they were rated as Priority, High, Medium, or Low, as further described in the "Summary and Related Rating of Observations/Findings and Recommendations," section of this report.

We also conducted a follow-up on the findings and recommendations presented in the prior year's internal audit reports that were not fully implemented. This report reflects the results and implementation status of our follow-up procedures, and includes all information required for compliance with State of Texas Internal Audit Annual Report requirements. It has been prepared by Garza/Gonzalez & Associates, an independent Certified Public Accounting firm, following Generally Accepted Government 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, as well as the implementation status from the follow-up procedures performed, with various DOB personnel. We would be pleased to discuss these matters with you in further detail.



July 9, 2024

TEXAS DEPARTMENT OF BANKING

Internal Audit Annual Report

Fiscal Year 2024

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 81st Legislative Session. As an SDSI agency, DOB is not required to have their budget approved by the Legislature; instead, the Finance Commission is responsible for setting DOB's spending authority or limits. DOB's entire 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.

2024 Internal Audit Plan

Following are the internal audit functions performed, as identified in DOB's 2024 Internal Audit Plan, dated January 23, 2024 and approved by the Audit Committee and Finance Commission on February 16, 2024:

- Risk Assessment & Preparation of the 2024 Internal Audit Plan
- Payroll and Human Resources Audit
- Trust Examinations Audit
- Follow-up of Prior Year Internal Audits
- Preparation of the 2024 Internal Audit Annual Report
- Other Tasks

This report contains the results of the Trust Examinations Audit, reflects the results of the follow-up procedures performed this year on the findings from the prior year's internal audit reports, and meets the State of Texas Internal Audit Annual Report requirements. The Payroll and Human Resources Audit report, dated April 19, 2024, was presented to and approved by the Audit Committee and Finance Commission on June 21, 2024.

TEXAS DEPARTMENT OF BANKING

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I. Compliance with Texas Government Code 2102.015: 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 2025 audit plan, as provided by Texas Government Code, Section 2102.008.
- A fiscal year 2024 internal audit annual report, as required by Texas Government Code, Section 2102.009.

The periodic and internal audit annual reports include any weaknesses, deficiencies, wrongdoings, or other concerns raised by internal audits and other functions performed by the internal auditor, as well as a summary of the actions 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 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 2024

The approved Internal Audit Plan (Plan) included two audits to be performed during fiscal year 2024. The Plan also included a follow-up on prior year internal audit recommendations that were not fully implemented as of fiscal year 2023, other tasks as may have been assigned by the Finance Commission or Audit Committee, and preparation of the 2024 Internal Audit Annual Report.

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Risk Assessment

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

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

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

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

Fiscal Year 2023:

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

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

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The internal audits and other tasks performed for fiscal year 2024 were as follows:

Report No.	Audits/Report Titles	Report Date
1.	Payroll and Human Resources <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.	4/19/2024
2.	Trust Examinations <i>Objective:</i> To assess whether DOB's established policies, procedures, processes, and internal controls in place over the Trust Examination area (Area) ensure effective and timely trust examinations. Additionally, our assessment was to verify that the trust examinations were performed in accordance with applicable laws and regulations, and to evaluate the effectiveness of internal controls.	7/9/2024
2.	Internal Audit Annual Report – Follow-up on findings and recommendations that were presented in the Prior Year Internal Audit Report.	7/9/2024
-	Other Tasks Assigned by the Finance Commission or the Audit Committee	None

V. Executive Summary

Trust Examination Area

BACKGROUND

In accordance with the Texas Finance Code (TFC) §31.105 and §181.104, the Texas Department of Banking (DOB) is responsible for examining each state-chartered trust department and trust company annually, on another periodic schedule, or as necessary, as determined by the Banking Commissioner. The TFC also authorizes DOB to accept examinations conducted by, or to conduct joint examinations with, the Federal Deposit Insurance Corporation (FDIC) or the Federal Reserve Bank (FRB) of Dallas.

Trust departments, regulated by the *Texas Banking Act*, operate under a bank charter and are granted authority to offer fiduciary services to the public. Trust companies, regulated by the *Texas Trust Company Act*, operate under a trust company charter. Exempt trust companies are exempt from certain provisions of the TFC and do not conduct business with the public. Pursuant to TFC §182.103, DOB may periodically examine or investigate an exempt trust company to verify the annual certification required to be filed with DOB.

As of May 31, 2024, DOB supervised 34 trust departments, 17 non-exempt trust companies, and 22 exempt trust companies.

Organization

The Trust Examinations Area (Area) is part of the Bank and Trust Supervision Division which is under the supervision of the Bank and Trust Supervision Director (Division Director). The Division is comprised of the Austin headquarters and 4 regional offices (RO) (Dallas, Houston, Lubbock, and San Antonio); and, is supervised by the Examination Support Activities Director (Director) and the Chief Trust Examiner (CTE). The IT and Bank Examination Areas are also part of the Division but are separate auditable areas that were not included in the scope of this audit.

Trust Examinations

The scope and frequency of examinations are determined by DOB Supervisory Memorandum (SM) 1003 for trust departments and SM 1004 for trust companies. These examinations are generally based on the entity's asset size, composite rating, and capital category to ensure higher-risk entities receive more frequent and comprehensive examinations. The CTE is responsible for scheduling examinations, typically a year in advance, by the due date determined by the respective SM using DOB's proprietary database, the Examination Division Information System On the Network (EDISON). Examination records are also tracked in EDISON. Joint examinations are scheduled in conjunction with the FDIC or FRB. The Area tracks its compliance with examination frequency and reports the status at every Finance Commission meeting.

During the planning phase, the Examiner in Charge (EIC) assigned to the examination performs planning procedures using a standardized Scope Form. The EIC determines the scope of the examination based on a risk analysis of the entity and documents the proposed examination procedures and personnel assignments in the Scope Form. The Scope Form must be initialed by the CTE, denoting their approval, before the examination commences.

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DOB has developed tailored examination work programs used to document the examination procedures performed and to support the examination conclusions included in the Report of Examination (ROE). All examination procedures are documented in work papers in accordance with DOB's internal work paper organization policy. The assigned examiner must complete all required steps included in the respective examination procedure, and if a required step is not performed, an explanation must be documented in the work paper. DOB utilizes the modified *Uniform Interagency Trust Rating System* (UITRS) to assess the conditions of the fiduciary operations by assigning a composite rating based on the evaluation of five component factors (MOECA):

- Capability of Management
- Adequacy of Operations, controls, and audits
- Quality and level of Earnings
- Quality and level of Compliance
- Management of fiduciary Assets

In addition to the modified UITRS, the *Trust Company Rating System* is used to evaluate the strength of the trust company. The five primary aspects evaluated and rated are (CAMEL):

- Capital adequacy
- Asset quality
- Management
- Earnings
- Liquidity

UITRS and CAMEL ratings are assessed based on a scale of 1 to 5, with 1 representing the strongest position.

The EIC is responsible for reviewing work papers to ensure all required procedures were completed, adequately documented, and properly organized. The EIC initials each applicable procedure on the Scope Form to indicate their review. Completed work papers are retained in DOB's document management system by importing them into Document Manager. A quality review is performed by an examiner to ensure all work papers are imported, properly indexed, and accessible in Document Manager. The EIC will complete a Turn-in-Checklist Trust Report of Examination checklist to ensure all required tasks are completed and turned in at the conclusion of the examination.

Upon completion of an examination, the EIC prepares and signs the ROE, which is then submitted to the CTE and/or Director for review. ROEs for trust departments and trust companies with fiduciary assets less than \$2 billion and UITRS and CAMEL (trust companies only) ratings of 2 or less can be signed by the CTE, if the CTE did not prepare the ROE. ROEs that do not meet these criteria require additional review and approval by the Director and/or Deputy Commissioner. The ROE must be presented to the entity's governing board and each board member must acknowledge receipt by signing the ROE. DOB has established a processing schedule to ensure ROEs are completed and submitted to entities in a timely manner. From September 1, 2023 to May 31, 2024, DOB issued 26 ROEs: 6 for trust departments and 20 for trust companies, including 4 from joint examinations with federal supervisory agencies.

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Work Paper Reviews

In addition to reviews throughout examinations and the ROE processing schedule, DOB conducts sample-based comprehensive work paper reviews to ensure high-quality work papers that comply with its established guidelines. The Work Paper Examination Support Tool (WEST) application is utilized to document and communicate review results uniformly with management, regional offices, and examiners.

DOB has established the following types of comprehensive work paper reviews:

- **Comprehensive Review:** Conducted annually by the CTE or their designee to review 20% of examinations conducted. A detailed findings report is provided to the EIC for response, and both the report and responses are imaged to Document Manager. During the audit period, 8 examinations were reviewed.
- **Examiners' Council (EC) Review:** Conducted by EC members, each serving a 2-year term. The EC includes an examiner from each regional office, a trust examiner, and an IT examiner. To ensure independence, the EC member performing the review must be separate from the examination and RO under review. DOB policy requires an annual review of at least 2 trust examinations. During the audit period, the EC reviewed 2 trust examinations.

Trust Companies Investigations

The Corporate Activities Division (CAD) is responsible for processing applications for trust company charters, conversions from exempt to non-exempt status, and conversions of trust institutions to state trust companies; and, ensuring all required fees are paid. The Area conducts investigations using a tailored investigation work program and issues an internal Report on Investigation (ROI) before DOB issues a charter. The purpose of the investigation and ROI is to determine whether conditions outlined in TFC §182.003 or §182.502 are met.

As of May 31, 2024, the Area completed an investigation and issued an ROI for one trust company.

Exempt Trust Companies

In accordance with TFC §182.013, exempt trust companies must file an annual certification form (form) with DOB by April 30th. This form confirms they maintain the conditions and limitations of their exempt status and includes a required filing fee of \$100, as required by TAC §21.2(b). On the first business day of each calendar year, the Division's financial analyst sends an email reminder to exempt trust companies, prompting them to submit their form and fee by the designated deadline. A follow-up reminder is emailed on March 15th to those who have not yet submitted their forms.

The annual certification forms are accessible through the Trust Company Call Report Portal. Upon receiving these forms, the financial analyst reviews them to confirm appropriate signatures were obtained and that the box indicating "*does not transact business with the general public*" is marked. The financial analyst then date-stamps the forms. The Administrative Services Division handles the processing of fees and notifies the financial analyst upon receipt of the fees. The financial analyst tracks the dates of form submissions and fee receipts using EDISON.

Examiner Training

DOB has established a Commissioning Process known as the Bank Examination Testing System (BETS) to develop an examiner's competency. This process is divided into 4 phases, with progression to the next phase contingent upon passing the preceding one. Entry-level financial examiners (Assistant Financial Examiners, or AFEs) are expected to attain certification as a commissioned examiners within 7 years of employment.

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Commissioned FEs seeking further advancement must complete certain training courses required by DOB's training policy. Upon hiring, a training plan is developed jointly by the AFE and the CTE or Director, which is updated annually. Any exceptions to the training policy require written approval from the Banking Commissioner and are documented and retained by Human Resources.

Performance Measures

Performance measures data is generated quarterly from EDISON by the financial analyst. The financial analyst inputs the data into a spreadsheet for review and approval by the Division Director and Deputy Commissioner. Subsequently, the approved information is sent to the Administrative Services Division for inclusion in the Finance Commission report.

AUDIT OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The objective of our audit was to assess whether DOB's established policies, procedures, processes, and internal controls in place over the Trust Examination area (Area) ensure effective and timely trust examinations. Additionally, our assessment was to verify that the trust examinations were performed in accordance with applicable laws and regulations, and to evaluate the effectiveness of internal controls.

Scope

The scope of this audit was to review and/or test the selected functions and examinations performed within the Area for the 9-month period from September 1, 2023 to May 31, 2024 (audit period).

Methodology

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

We obtained and/or reviewed the following information:

- A. Sections of the Texas Finance Code and Texas Administrative Code applicable to the Area
- B. DOB's written policies and procedures, supervisory memorandums, administrative memorandums, and examiner bulletins related to the Area.
- C. Bank & Trust Supervision Division organizational chart.
- D. A listing of ROEs issued during the audit period, and the supporting examination work papers and reports for the 6 examinations selected for testing.
- E. A list of examinations reviewed by the Examiners' Council and a list of comprehensive reviews conducted during the audit period.
- F. A list of exempt trust companies as of May 31, 2024, and selected annual certification forms for testing.
- G. Sample scheduling reports, planning documents, and work programs.
- H. Performance measures related to the Area as reported to the Finance Commission on April 19, 2024, and the related performance measures reports from EDISON.
- I. EDISON reports used to track the status of report submissions, and processing schedules.
- J. Training records for selected examiners.

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We performed various procedures to achieve the objective of our audit, including:

1. Reviewed and obtained an understanding of the laws and regulations in the Texas Finance Code, and Texas Administrative Code, as applicable to the Area.
2. Reviewed the Area's written policies and procedures, supervisory memorandums, administrative memorandums, and examiner's bulletins; collected available documentation; and, conducted interviews to understand the controls, processes, and current practices in place.
3. Obtained a list of ROEs issued during the audit period and randomly selected 6 of the 20 trust company examinations, and haphazardly selected 1 trust department examination to test for the following attributes:
 - a. Compliance with the examination scope and frequency requirements outlined in the respective SM.
 - b. ROE was approved and signed at the proper level under DOB's delegation of signatory authority.
 - c. Scope Form was completed, approved by the CTE, and initialed by the EIC for each procedure. If a procedure was not performed, an explanation was documented.
 - d. All required procedures and steps within the procedure, as documented in the Scope Form, were performed.
 - e. Completion of the Turn-in Checklist Trust Report of Examination.
 - f. The ROE was processed timely in accordance with DOB's processing schedule.
 - g. All findings noted in the Summary of Findings were included in the ROE.
 - h. Ratings documented in the work programs agreed with the ROE.
4. Selected the 5 exempt trust companies from procedure 3 and obtained the annual certification form (form) submitted during the audit period to test for the following attributes:
 - a. The form was date stamped on or before April 30th.
 - b. The form was signed by the authorized officer and 3 directors.
 - c. Received dates were properly entered in EDISON.
5. Selected the ROI completed during the audit period to test for the following attributes:
 - a. Investigation was performed prior to the approval of the charter or conversion.
 - b. Investigation fee was paid by the applicant prior to the investigation.
 - c. Respective workpapers were properly completed.
 - d. Report on Investigation was properly prepared and approved by the Division Director.
6. Obtained and agreed the performance measures presented to the Finance Commission on April 19, 2024, with the supporting reports from EDISON.

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7. Obtained the training policy to gain an understanding of the training process and requirements for trust examiners. Selected 2 commissioned examiners and tested for the following attributes:
 - a. Obtained the “personal training profile” report to ensure it reflected the completion of the courses required for the examiner’s classification.
 - b. Obtained the ITP to ensure completeness and approval by the CTE.
 - c. Verified that examiners completed the required Core Curriculum course needed for their position.
 - d. Selected a training course taken by the selected examiners and reviewed supporting documentation.
 - e. Ensured that required training was received prior to the employee’s promotion date.
8. Obtained a listing of the Examiners’ Council (EC) Trust Workpaper Reviews conducted during the audit period and haphazardly selected 1 of the 2 workpaper reviews performed to ensure:
 - a. The EC Review was conducted by an EC member who was not associated with the examination being reviewed.
 - b. EIC’s response to Critical and Important findings, if applicable, were obtained and retained with workpapers.
 - c. Ratings of each finding were in accordance with the internal guidelines described in the applicable examiner bulletin.
 - d. The number of findings reported during the review agrees with the number reported in the memo to the Division Director.
9. Obtained a listing of Peer Review comprehensive reviews conducted during the audit period and haphazardly selected 2 of the 8 reviews performed to ensure.
 - a. Ratings of each finding were in accordance with the internal guidelines described in the applicable examiner bulletin.
 - b. Trust Workpaper Critique form was properly completed and reviewed.

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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 was developed by the Texas State Auditor's Office and is based on the degree of risk or effect on 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.

Summary of Observations/Findings & Recommendations and Related Ratings		
Finding No.	Title	Rating
1	Completeness of Work Papers	Low
Observation No.		
1	Policies & Procedures	--
2	Quality Control Procedures	--
<u>Description of Rating</u> 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(s) and reduce risks to the audited entity. 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(s) and reduce risks to the audited entity. 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(s) and reduce risks to a more desirable level. 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.		

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OBSERVATIONS/FINDINGS and RECOMMENDATIONS

Report No.	Report Date	Name of Report	Observations/Findings and Recommendations
2	7/9/2024	Trust Examinations	<p>1. Completeness of Work Papers</p> <p>The Examiners' Council recommendations documented in <i>Examiner Bulletin 2024-05 TR – Work Paper Recommendation and Guidelines</i> state that examiners should answer questions completely and provide appropriate responses, such as specifically stating if something is adequate or inadequate.</p> <p>Our review of the examination work papers for 6 trust companies and one trust department examination disclosed one instance where the Summary of Findings section of the <i>E01 – Active Exempt Trust Company Examination Procedures</i>, which requires the examiner to describe all strengths and weaknesses evident from their evaluation, was not completed.</p> <p>Recommendation We recommend that DOB ensure examiners follow the Examiners' Council recommendations to ensure complete and accurate work papers are prepared to support the Report of Examination.</p> <p>Management's Response Management recognizes the oversight. A discussion was held with the trust examination team at their July 24, 2024, staff meeting to discuss the importance of completing and accurately documenting work papers to support the Report of Examination.</p> <p>Every effort will be made to comply with internal policies on documentation.</p> <p style="text-align: center;">Observations</p> <p>1. Policies & Procedures</p> <p>The Area complies with various policies, procedures, Examiner Bulletins, Supervisory Memorandums, and Administrative Memorandum. Although the procedures and processes in the following documents may reflect the Area's current practices, they have not been updated in several years:</p> <ul style="list-style-type: none"> • Trust Fee Collection Procedure (4/2018) • Examiner Bulletin XB-2018-05 (3/2018) • Examiner Bulletin XB-2011-04 (5/2011) • Examiner Bulletin XB-2020-04 (9/2020) • Supervisory Memorandum – 1001 (5/2010) • Supervisory Memorandum – 1002 (12/1998) • Administrative Memorandum – 2009 (1/2020) • Administrative Memorandum – 2040 (6/2020) • Administrative Memorandum – 2043 (9/2019) <p>Recommendation We recommend that these documents be reviewed periodically to assess whether procedures and/or processes should be updated for improvement.</p>

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Report No.	Report Date	Name of Report	Observations/Findings and Recommendations
2	7/9/2024	Trust Examinations	<p>Management's Response</p> <p>Our agency has a process to periodically review all policies and procedures, which includes memorandums and examiner bulletins. Generally, all policies and procedures are reviewed on a five-year cycle. Policies are continuously monitored and reviewed for accuracy.</p> <p>Many of the policies / procedures related to examinations are coordinated with state and federal counterparts that reflect agreed upon processes. As such, these policies are updated when a change in the process occurs or is necessary and agreed upon.</p> <p>2. Quality Control Procedures</p> <p>Administrative Memorandum – 2015 Work Paper Organization, Retention and Review requires that a Quality Control Procedure be performed once the examination documents are imported into Document Manager. The review consists of opening each procedure and verifying that each embedded document reflects its labeled contents.</p> <p>Our testing of 1 trust department examination disclosed an instance where an incomplete document, instead of the completed document, was embedded into the examination work papers. Subsequently, we were provided with the completed form.</p> <p>Recommendation</p> <p>We recommend that DOB ensure the quality control procedures are followed to ensure completion of all embedded documents.</p> <p>Management's Response</p> <p>The document in question was the official officer's questionnaire. An incorrect version was erroneously uploaded into the Table of Content (TOC). However, the trust team has a backup process where all files pertaining to an examination can be recovered. A correct version was subsequently located and uploaded to the TOC. Per Administrative Memorandum 2015, each RO and specialty area maintains examination procedures on the LAN for two examination periods where the Department is the lead allowing for documents to be retrieved from a secondary source aside from Document Manager.</p>

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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	7/9/2024	2024 Follow-Up	<p><u>Follow-Up of Prior Year Internal Audits</u></p> <p>Following is the status of the recommendations made in prior years that had not been fully implemented.</p> <p><u>Procurement/Contract Management/HUB (Report date 6/7/2023)</u></p> <p>1. LBB Reporting DOB should strengthen its controls to ensure it remains compliant with LBB state reporting requirements.</p> <p><i>Explanation for FY24 Status</i> One of the four POs over \$50,000 selected for testing was under reported to the LBB due to amendments that occurred during the year.</p> <p>2. HUB Supplemental Data Reporting DOB should update its HUB Supplemental Data collection methodology to ensure accurate data will be submitted to the Comptroller.</p> <p><u>Corporate Activities (Report date 2/27/2023)</u></p> <p>1. Monitoring Overall-Processing Time DOB should establish clear guidance and communicate management's expectations to CAs, as related to the CATS documentation; and, improve management's monitoring of long-outstanding filings.</p> <p>2. Filing Processing Deviations DOB should continue their period review and revision to AM 2031 and Manuals to ensure they are up to date and reflect current practice.</p> <p>Observations</p> <p>3. Finance Commission Reporting DOB should periodically validate the accuracy of system-generated summary report to ensure reliability of the data reported to the Finance Commission.</p> <p>4. CATS Reports DOB should re-evaluate accuracy of all frequently used CATS Reports and consider updating the CATS reporting menu to include a deletion log as a CATS Maintenance Report.</p>	<p>Substantially Implemented</p> <p>Fully Implemented</p> <p>Fully Implemented</p> <p>Fully Implemented</p> <p>Fully Implemented</p> <p>Fully Implemented</p>

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VII. External Audit Services Procured in Fiscal Year 2024

DOB procured the internal audit services documented in the approved Internal Audit Plan for fiscal year 2024. 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 2025

The risk assessment performed during fiscal year 2024 was used to identify the following *proposed* areas that are recommended for internal audit and other tasks to be performed for fiscal year 2025. The Internal Audit Plan for Fiscal Year 2025 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.

- Management Information Systems (includes Disaster Recovery Plan)
- Financial Reporting 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 2024

POTENTIAL AUDIT TOPIC		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
1	Bank Examinations				A/B*	E				A		
2	Consumer Assistance					E			A			
3	Corporate Activities					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] ¹	A			B	E*	A1*/D		A*/D		D	
9	Money Service Businesses	A			B*	E	A1*	A*				
10	Payroll and Human Resources	C*				C*/F*	F*		C*			A
11	Perpetual Care Cemeteries		A		B*	E	A1*	A*				
12	Prepaid Funeral Contracts				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						A

¹ 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

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.



Texas Financial Education Endowment (TFEE)

K. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Activities of the Texas Financial Education Endowment Fund

TFEE's 2022-2023 grant cycle ended on December 31, 2023, and the final impact report for the period will be available for review at the October FC meeting. The initial semi-annual reporting period for the 2024-2025 grant cycle ended on June 30th. Semi-annual reports from grantees are currently under review, and reimbursements are being processed. The first comprehensive semi-annual report for the 2024-2025 grant cycle will be published this fall.

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Mortgage Grant Fund Activities Report — July 31, 2024

Activities Relating to the Mortgage Grant Fund (MGF)

The Mortgage Grant Advisory Committee (MGAC) reviewed the MGF materials in May; the updated materials were approved and are published for use during the 2025-2026 grant cycle.

We welcomed Mr. Dean Inniss to the MGAC in June. Mr. Inniss has extensive mortgage and financial literacy experience, with over 35 years of experience in consumer lending and mortgage banking with several national companies and one regional mortgage bank.

The Grant Coordinator conducted a MGF Grant Application webinar on July 17, 2024. Twenty-two participants attended from 11 organizations across the state. The webinar recording is available on the MGF webpage. The application period remains open until August 30, 2024.

The 2023-2024 MGF grant cycle concluded its third semi-annual reporting and reimbursement period on June 30, 2024. Grant recipients must submit semi-annual reports, including reimbursement requests, by July 30, 2024.

In June, Garza/Gonzalez & Associates conducted an internal audit of the MGF grant program. The audit information is in the SML Internal Audit Annual Report.

The timeline for the 2025-2026 MGF grant cycle is:

2025-2026 MGF Grant Projected Timeline	
June 2024	MGF application period opened June 24, 2024
August 2024	MGF application submission deadline is August 30, 2024
September 2024	MGAC Conflict of Interest Forms are due
October 2024	MGAC members will review and score applications in the beginning of the month and meet with the Commissioner and Grant Coordinator to discuss and recommend applicants for the 2025-2026 MGF grant cycle at the end of the month.
December 2024	MGF Award Announcements are made on the MGF webpage
January 2025	Grantee orientation webinar 2025-2026 MGF grant cycle begins

Mortgage Grant Administration Manual

Effective: 10/28/2022

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PURPOSE

The Mortgage Grant Administration Manual (MGAM)'s purpose is to establish the policies and procedures for the administration of the Mortgage Grant Fund (MGF) grant program.

Background

The MGF was established by the 87th Texas Legislature by enactment of Texas Finance Code Chapter 156, Subchapter G. The MGF is also governed by SML's administrative rules (regulations) contained in 7 Texas Administrative Code Chapter 51, Subchapter E. The MGF is funded primarily by excess revenue transferred from the Recovery Fund (Texas Finance Code Chapter 156, Subchapter F) and penalties collected by SML. Funds distributed from the MGF are only used for the purposes set forth in Texas Finance Code Section 156.554.

ADMINISTRATION AND INVESTMENT

The Commissioner, as manager of the MGF, manages the fund in accordance with Texas Finance Code Chapter 156, Subchapter G.

The MGF is subject to the written Investment Policy adopted by SML.

ROLES AND RESPONSIBILITIES

Finance Commission (FC)

- a) May request reports from the Commissioner regarding the status and activities of the MGF.
- b) Makes recommendations to the Commissioner as appropriate.

Finance Commission Audit Committee (AC)

- a) Proposes program amendments to the Commissioner, including amendments to the MGAM.
- b) Approves the MGAM, and any amendments to the MGAM.
- c) Receives periodic reports from the Commissioner regarding the status and activities of the MGF grant program and makes recommendations to the Commissioner as appropriate.

Department of Savings and Mortgage Lending (SML) Commissioner (Commissioner)

- a) Serves as manager of the fund and grant coordination oversight.
- b) Administers all aspects of the fund, which includes the deposit, transfer, disbursement, allocation, investment, and reinvestment of assets of the MGF.

- c) Maintains financial records of revenue and expenditures.
- d) Appears at hearings or judicial proceedings related to the fund.
- e) Allocates funds to the MGF grant program each grant cycle.
- f) Reviews and approves recommendations regarding program improvements.
- g) Develops program objectives and identifies methods to support mortgage financial education to consumers regarding mortgage loans.
- h) Appoints members to the Mortgage Grant Advisory Committee (MGAC).
- i) Determines the final selection of grant recipients and award amounts.

Grant Coordinator

- a) Works under the direction and oversight of the Commissioner.
- b) Provides reports and presentations regarding the status of the grant program and Grantee activities.
- c) Acts as liaison between Grantees and the MGAC.
- d) Makes recommendations based on observed program needs to the MGAC and the Commissioner.
- e) Ensures compliance with the records retention policy.
- f) Recommends policy and procedure amendments to ensure successful and effective implementation of the grant program.
- g) Makes recommendations concerning MGAC membership.
- h) Publicizes and promotes MGF grant application opportunities.
- i) Ensures consistency with the Texas Grant Management Standards (TxGMS) adopted by the Texas Comptroller of Public Accounts.
- j) Maintains the MGF webpages, located on the SML website, with program information and materials.

Mortgage Grant Advisory Committee (MGAC)

- a) Recommends program improvements to the Commissioner and Grant Coordinator.
- b) Considers potential amendments to the MGAM.
- c) Evaluates potential candidates for appointment to the MGAC.
- d) Monitors ongoing grant awards to determine compliance.
- e) Reviews and recommends potential grant recipients for the MGF grant program to the Commissioner and Grant Coordinator.

MORTGAGE GRANT ADVISORY COMMITTEE POLICY

Composition

- a) The MGAC serves in an advisory role to the Commissioner and Grant Coordinator concerning administration of the fund and the grant awards to be made from the fund as stated in 7 Texas Administrative Code § 51.404.
- b) The MGAC consists of no more than six members with varied experience in mortgage lending, mortgage financial education, or grant administration. The list below is not all-inclusive, and the Commissioner reserves the right to include other appropriate backgrounds.
 - (1) Mortgage Loan Financial Education Consultant – informs the group of existing programs and advocates for the needs of the mortgage financial education community.
 - (2) Educational Consultant – understands best practices for impacting education. Assesses the program proposals for effective measures of knowledge gained.
 - (3) Office of Consumer Credit Commissioner (OCCC) Representative – Recommended by OCCC to advocate for programs that include mortgage loan education concerning loans or transactions regulated by the OCCC (secondary mortgage loans, home equity loans, residential property tax loans, and manufactured housing loans).
 - (4) Grant Administrator – Objectively assesses, evaluates, and makes recommendations regarding the grant administration process.
 - (5) Consumer Advocate – Advocates for consumers based on community engagement and needs assessment.
- c) The MGAC designates, through a majority vote, one MGAC member to serve as the presiding officer at MGAC meetings.

Conflict of Interest

- a) Members may not derive any personal profit or gain, directly or indirectly, by participating with the MGF.
- b) Members must attest to the MGAC Conflict of Interest Policy annually, prior to participating in the Grantee selection process and program discussions.
- c) Members must disclose to the Grant Coordinator any personal or professional interests that may pose a potential conflict and must refrain from participating in any discussion related to the conflict of interest or funding decisions.

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

Appointment and Terms

- a) Prospective MGAC members are recommended by the MGAC and appointed by the Commissioner.
- b) Each MGAC member is appointed to a four-year term that corresponds with grant cycles. The Commissioner may establish shorter or longer terms to maintain staggered terms. MGAC members take office immediately following their appointment.
- c) In the event of an MGAC vacancy due to a regularly expired term or vacancy during an unexpired term, the Commissioner appoint a new MGAC member(s).

Meetings

- a) Meetings are attended by:
 - (1) the Commissioner;
 - (2) the Grant Coordinator;
 - (3) MGAC Members; and
 - (4) any other participant(s) invited by the Commissioner.
- b) The MGAC meets during the grant cycle for the following purposes. This list is not all-inclusive.
 - (1) Providing consultation and technical assistance to the Grant Coordinator.
 - (2) Assisting with major project management decisions associated with awarded grants, including:
 - i. evaluating and recommending candidates for the MGF grant program to the Commissioner and Grant Coordinator;
 - ii. monitoring Grantee project's unspent funds and associated funding; and
 - iii. offering input, interviewing, and recommending new MGAC members to the Commissioner and Grant Coordinator.
 - (3) The MGAC makes recommendations to the Commissioner and Grant Coordinator for MGAC membership, consideration of specific award allocations, termination of grant agreements for noncompliance, and amendments to program policies and procedures.

MORTGAGE GRANT FUND OVERSIGHT

MGF grant funds are used to support the priority and goals for the MGF grant program set by the Commissioner. The priority of the grant fund is to promote financial literacy that enables Texans to secure home ownership.

Audits

The Commissioner, AC, or FC may request an internal or external audit to examine compliance if and when deemed necessary.

Reimbursement Requests

- a) Are executed pursuant to the grant agreement.
- b) Are based upon satisfactory compliance and performance outcomes.

MAXIMUM GRANT AWARDS

- a) The Commissioner determines the funding available and allocated to each of the purposes of Finance Code § 156.554(b).
- b) The aggregate award amount is determined by the Commissioner prior to each grant cycle.

PROCESS OVERVIEW

Intention

The MGF may have one competitive grant cycle every two years. Announcements for grant proposals are made available after the June Texas Finance Commission meeting, with submissions due by the end of August of every even numbered year.

Stage 1 – Administration

- a) The MGAC and Grant Coordinator provide the Commissioner with policy recommendations based on observed program needs.
- b) The Grant Coordinator 1) develops and revises forms for the Grant Application; Grant Agreement; grant reports; and evaluation and tracking tools; 2) establishes the timeline for the grant cycle; and 3) publicizes opportunities to apply for a grant from the MGF.

Stage 2 – Policy Development and Implementation

- a) The MGAC provides recommendations to the Commissioner to approve program development and to approve program modifications.
- b) Upon Commissioner's approval, the Grant Coordinator ensures all administrative and Grantee documentation are in place for grant

announcements, such as applications, webinars, grant reports, grant agreements, and policies and procedures; and updates the MGF webpage accordingly.

Stage 3 – Grantee Selection

- a) The Grant Coordinator receives and prepares applications for the first phase of screening by: confirming eligibility, ensuring applications are complete and have been timely submitted, logging applicant information, conducting a risk assessment, and submitting to the MGAC for evaluation.
- b) The MGAC evaluates applications and provides recommendations to the Commissioner upon review of the MGF budget, grant structure, number of awards and amounts to be funded, method of funding and reporting requirements.
- c) The Commissioner reviews recommendations from the MGAC and selects award recipients.
- d) After selections have been made, the Grant Coordinator sends each applicant an award letter or letter of regret. The Grant Coordinator sends grant recipients a grant agreement for their review and signature. The grant agreement must be fully executed by the Commissioner, or designee, and the Grantee, before grant activities may begin.

Stage 4 – Manage Grant and Measure Progress

- a) In collaboration with the MGAC, the Grant Coordinator develops a strategy for ongoing grant management and to ensure reports are timely submitted.
- b) Funding is dependent on program impact and compliance.
- c) The Grantee is responsible for tracking and reporting program progress, as well as assessing and communicating program success, challenges, and impact.
- d) The Grant Coordinator provides technical assistance to Grantees and offers opportunities for regular consultation.
- e) The Grantee submits a final report summarizing the impact, results, and consumer follow-up surveys (longitudinal report, due six months after program completion).
- f) Program evaluation addresses issues of non-compliance, identifies risks, and recommends specific deliverables.
- g) The MGAC makes recommendations to remedy issues of non-compliance.

FUNDING PRIORITIES AND GOALS

Priorities

This section identifies priorities that support statewide mortgage financial education and consumer credit building activities that lead to tangible improvements in financial health, enabling consumers to obtain and maintain mortgage loans. With recommendations from MGAC, the Commissioner selects where the program's efforts will focus prior to the start of a new grant award cycle.

Goals

The type of activities (goals) that support the MGF grant program are those that:

- a) Identify and support financial literacy education;
- b) Counseling that leads to homeownership; and
- c) Train-the-trainer programs relating to goals (a) and (b) above.

These activities must provide financial literacy that leads to home ownership by working directly with members of the community without financial prejudice.

Key areas to financial literacy that lead to home ownership include the following topics:

- a) Budgeting and saving
- b) Building and improving credit
- c) Investment - homeownership
- d) Debt management

PRE-AWARD REQUIREMENTS

Organizational Eligibility

Non-profit organizations, governmental organizations, schools, for-profit entities impacting Texans, and auxiliary mortgage loan activity companies (see Appendix A, Definitions) licensed by SML are eligible to apply for grant funding. Other than auxiliary mortgage loan activity companies, eligibility is not open to financial service providers, or any entities regulated by the Finance Commission of Texas.

Program Criteria and Grant Application

- a) The Program Guidelines and Instructions for application submission are posted on the [MGF webpage](#), located on the SML website.
- b) An Applicant's program must accomplish the following:
 - (1) Align with MGF goals or strategies.

- (2) Demonstrate effective evaluative tools and metrics, including the ability to collect and report required data in the semi-annual report.
- (3) Predict or provide evidence of program impact.
- (4) Provide longitudinal evidence of performance and outcomes at the end of the grant cycle including the ability to demonstrate adequate return on investment and documented strategic goals.
- c) Applicants must read and follow all application guidelines and instructions.
- d) Applications that do not comply with the guidelines and instructions on the MGF webpage are not considered.
- e) Meeting eligibility criteria and timely submission of a Grant Application does not guarantee award of a grant in any amount.

Application Submission

- a) Applicants may apply via mail or email. Documents submitted by email receive an automatic date stamp upon receipt; this “digital” date stamp provides sufficient and accurate evidence of timely submission. Documents received by regular mail are stamped with a date received on the day the document is physically received.
- b) A new grant programming cycle opens on January 1 of every odd-numbered year. The application submission period occurs in the even-numbered year preceding the grant programming cycle.
- c) Applicants may apply for a grant programming cycle of 1) one year, beginning on January 1 and ending December 31 of every odd-numbered year, or 2) two years, beginning on January 1 of every odd-numbered year and ending December 31 of the following even-numbered year.
- d) The Grant Coordinator confirms receipt via email to Applicants, of Grant Applications received. Applications are only accepted on or before the due date. Late or incomplete applications are not considered.

Application Review and Selection Process

- a) Funding consideration is given to organizations whose programs align with MGF grant program priorities and goals. Successful applicants must demonstrate evidence-based programming that increases financial education, literacy, and capability that leads to long-term, tangible improvements in financial health that would enable the consumer to obtain and maintain a mortgage loan.
- b) The application review and selection process consist of the following steps.
 - (1) The Grant Coordinator collects and reviews each application for eligibility.

- (2) The Grant Coordinator conducts a risk assessment.
- (3) The Grant Coordinator submits eligible applications to the MGAC for evaluation.
- (4) The MGAC evaluates applications and recommends funding for programs.
- (5) The Commissioner makes the final selections of award recipients and award amounts.
- c) Upon completion of the competitive application and review process, the Grant Coordinator sends each applicant an award letter or letter of regret no later than the end of December of the year preceding the grant cycle year.

Public Records

- a) Texas Public Information Act: All information, documentation, and other materials submitted are subject to public disclosure under the Texas Public Information Act (Texas Government Code Chapter 552).
- b) A full list of individuals and organizations selected for an award is published on the MGF webpage, located on the SML website.
- c) Information may be publicly available and published online (MGF webpage, SML website, or Finance Commission website).

POST-AWARD REQUIREMENTS

Grant Agreements

- a) Grant Agreement has the meaning assigned in Appendix A, Definitions.
- b) Once a Grantee has been selected, and prior to initiating any grant-funded activities, the Grantee and the Commissioner or the Commissioner's designee, must sign the Grant Agreement.
- c) The terms of the grant award are defined in the Grant Agreement and end either one or two years after the grant has been awarded unless it ends earlier in accordance with another provision.
- d) Expenses incurred before the beginning or after the Grant Agreement ends are not eligible for reimbursement.
- e) Grantee must collect required data and report grant-funded activities until the end of the grant cycle unless otherwise specified by the Grant Agreement.

Mortgage Grant Fund's (Grantor) Obligation

- a) The Grantor reimburses the Grantee for actual, allowable, and allocable costs incurred by the Grantee pursuant to the Grant Agreement up to the maximum amount of the grant award.

- b) The Grantor is not obligated to pay unauthorized costs. The Grantee must obtain prior written approval from Grantor, if the Grantee anticipates any of the following:
 - (1) altering the scope of the grant;
 - (2) adding funds to previously unapproved budget categories;
 - (3) changing funds in any awarded budget category by more than 10% of the total amount awarded; or
 - (4) adding new line items to any awarded budget category.
- c) The Grantor's maximum liability under the Grant Agreement is the "Amount Awarded."
- d) Reimbursement of awarded funds is not an entitlement or right. Reimbursement depends on, among other things, strict compliance with all terms, conditions, and provisions of the Grant Agreement.
- e) The Grantor monitors a Grantee's performance and expenditures. The Grantor may conduct virtual or on-site audits of grant programs.

Grantee's Obligation

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

- (4) Changes to Grantee's non-profit status with the Internal Revenue Service, if applicable
- e) Failure to give the required 30-day notice of significant change or events is grounds for termination of the Grant Agreement.
- f) The Grantee's fiscal and programmatic management includes accountability for all funds and materials received from the Grantor; compliance with Grantor's rules, policies, and procedures, as well as applicable federal and state laws and regulations; and correction of fiscal and program deficiencies identified through self-evaluation or the Grantor's monitoring processes.
- g) Grantee must develop, implement, and maintain all the following:
 - (1) financial management and control systems that include appropriate financial planning, including the development of budgets that adequately reflect all functions and resources necessary to carry out authorized activities and the adequate determination of costs;
 - (2) financial management systems, including accurate and complete payroll, accounting, and financial reporting records;
 - (3) cost source documentation such as receipts, bills, invoices, and statements;
 - (4) effective internal and budgetary controls to trace the use of MGF funds specifically and separately from other funds used to support the same program;
 - (5) documentation evidencing determination of reasonableness, allocation of costs, and timely and appropriate audits and resolution of any findings; and
 - (6) annual financial statements, including statements of financial position, activities, and cash flows, prepared on an accrual basis in accordance with Generally Accepted Accounting Principles (GAAP) or other recognized accounting principles deemed acceptable to the Grantor.
- h) Grantee must submit reimbursement requests using the semi-annual report. Each reimbursement request must contain legible supporting documentation for all amounts shown in the request.
- i) Grantee must comply with all laws, regulations, requirements, and guidelines applicable to a Grantee providing services to the State of Texas, as these laws, regulations, requirements, and guidelines currently exist and as they are amended throughout the term of the Grant Agreement.
- j) If a Grantee fails to use grant funds to create, deliver, or expand financial education, literacy, and capability building programs as described in the Grantee's application, the Grantor reserves the right to do one or more of the following:

- (1) terminate the Grant Agreement;
- (2) withhold the grant funds;
- (3) require that the Grantee refund grant funds received;
- (4) submit an amended report to the Coordinator; and
- (5) determine that the Grantee is ineligible for future awards from the MGF.

Grantee's Reporting Requirements

- a) MGF Semi-Annual Report: Grantee must submit the completed MGF Semi-Annual Report covering the period of January 1st through June 30th, no later than July 30th; and covering the period of July 1st through December 31st, no later than January 30th of each grant year. This report includes the reimbursement requests.
- b) Supporting documentation: Grantee must submit legible supporting documentation for all expenditures with the submission of the MGF Semi-Annual Report. Examples of supporting documentation include but are not limited to:
 - (1) Pay stubs covering the hours and days worked **on MGF related activities** during the reimbursement request period.
 - (2) Dated and itemized invoices, receipts, and contracts indicating services were rendered and payment was made during the semi-annual reporting period.
- c) MGF Personnel Time Tracker: Grantee must use and submit the MGF Personnel Time Tracker provided by the Grantor and submit the tracker and pay stubs, with their MGF Semi-Annual Report only if submitting for reimbursement of salaries, wages, or fringe. Pay stubs may be redacted to remove personal information.
- d) Sign-In Sheets: Grantees who offer mortgage financial education programs must submit copies of sign-in sheets, physical or electronic, listing the name or initials of attendees, and title, date, and length of the education course. The MGF does not prescribe a format for sign-in sheets and accepts any format submitted by Grantee so long as it contains the information listed in this section.
- e) Inventory Report: Grantee must submit a current inventory report listing all equipment purchased with grant funds. The MGF does not prescribe a format for inventory reports and accepts any format submitted by Grantee so long as it contains the following information: item, date of purchase, cost, where the equipment is being used (location of the property), percentage of time the equipment is being used for the program; and make, model, and serial number, if applicable.

- f) MGF Budget or Goal Change Request: Grantee must submit the MGF Budget or Goal Change Request immediately if the Grantee requests a +/-10% change to any approved budget category or their goals.
- g) MGF Longitudinal Report: Grantee must submit this report to the Grantor no later than six months after the end of the grant cycle or as otherwise stated in the Grant Agreement.
- h) Pre- and Post- Program Surveys: Survey data is included in and is submitted with each MGF Semi-Annual Report. Grantee must also submit the completed surveys to the Grant Coordinator. Surveys may be completed on paper or using an electronic survey mechanism such as Survey Monkey, provided by the Grant Coordinator. Surveys should be provided to persons who attend the supported MGF program prior to the class, seminar, or similar event (pre-program survey), and after completion of the class, seminar, or similar event (post-program survey).
- i) The Grantee must promptly answer any questions by the Grantor, whether in writing or otherwise, in connection with the reports presented to the Grantor.
- j) If Grantee fails to comply with any of the reporting requirements as set forth in the MGAM, Grantor may do one or more of the following:
 - (1) terminate the Agreement;
 - (2) withhold Grant reimbursements;
 - (3) require that Grantee refund Grant reimbursements;
 - (4) require that Grantee submit amended report(s) to Grantor; and
 - (5) determine that Grantee is ineligible for future MGF grant awards.
- k) If the Grantee exhausts all funds prior to the completion of the grant term the Grantee is obligated to continue to track, and report grant related activities for the remaining duration of the term outlined in the Grant Agreement.

RECORDKEEPING AND MONITORING

Duty to Maintain Records

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

Record Retention

- a) For a period of three years after the end of the grant cycle, or until full and final resolution of all audit or litigation matters that arise after the expiration of the term, whichever is later, Grantee must maintain any records that are necessary to fully disclose the extent of services provided under the Grant Agreement. There are no exceptions to this requirement.
- b) The three-year count begins on the date the Grant Coordinator provides notification to the Grantee that all administrative functions have been closed out for the grant cycle. The notification includes language advising the Grantee that the retention period has started, and disposition instructions of equipment purchased, using grant funds, during the grant cycle.

Access by Grantor and State Auditor's Office

- a) During the term of the Grant Agreement and for at least three years thereafter, Grantee must allow the Grantor and the State Auditor's Office access to and the right to examine the organization, program, premises, books, accounts, records, files, and other papers or property belonging to or in use by the Grantee and pertaining to the Grant Agreement or the use of funds pursuant to the Grant Agreement, in order to ascertain full compliance with the provisions of the Grant Agreement and with Mortgage Grant Fund program guidelines.
- b) The Grantee must maintain these records at a location that is readily accessible to the Grantor.
- c) The Grantor has the right to make a visual inspection of any assets, goods, or products purchased with grant funds.

Audits and Investigations

- a) Acceptance of grant funds under the Grant Agreement acts as acceptance of the authority of the Grantor to conduct an audit or investigation in connection with grant funds.
- b) The Grantee agrees to cooperate fully with the Grantor and the State Auditor's Office, or their successors, in the conduct of any audit or investigation, including providing all records requested.
- c) The Grantee must ensure that this clause concerning the authority to audit the funds received by the Grantee is included in any subcontract it awards.
- d) Any audit of records may be conducted at Grantee's principal place of business or a location of the Grantee's operations during the Grantee's normal business hours.

Disallowance of Grant Funds

The Grantee is liable to the Grantor for any costs disallowed as a result of an audit or investigation, and must, upon demand, immediately reimburse the Grantor for

disallowed costs. See Grant Agreement Termination and Adverse Actions for more information.

RISK ASSESSMENTS

- a) The MGF Risk Assessment is a risk-based monitoring system applicable to MGF Applicants and each Grantee, used to analyze a program's potential risk levels and establish effective monitoring processes.
- b) The Grant Coordinator performs a risk assessment for each Applicant after the completed application is received and before the MGAC reviews the application.
- c) The Grant Coordinator performs a risk assessment for each Grantee approximately halfway through their grant cycle.
 - (1) Grantees on a one-year grant cycle undergo a risk assessment approximately six months into their grant cycle.
 - (2) Grantees on a two-year grant cycle undergo a risk assessment approximately one year into their grant cycle.
- d) The Grant Coordinator may conduct subsequent additional analyses as needed to ensure the Grantee's program meets the requirements of the grant.
- e) Monitoring actions are taken based on the low-risk, moderate-risk, or high-risk assessment provided by the risk assessment.
- f) Grantee is required to provide explanations to the Grant Coordinator, upon request and within 5 business days (business days are considered Monday through Friday) of the request, on how the Grantee plans to minimize risks identified by the assessment.
- g) Grantees are not automatically disqualified based on their risk level or if their risk level increases from a prior risk assessment. The risk level is considered when establishing effective monitoring practices. Higher risk levels may warrant increased scrutiny to ensure the program goals are met.

USE OF GRANT FUNDS AND PROPERTY

Disbursement of Grant Funds

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

Allowable Expenditures

- a) Grantees may use the grant funds only for allowable expenditures as identified in the Grantee's application and authorized agreement pursuant to the Texas Grant Management Standards (TxGMS) adopted by the Texas Comptroller of Public Accounts pursuant to Chapter 783 of the Texas Government Code.
- b) Grant funds may not be used for general operating or capital expenditures (e.g., real estate, or any item with a useful life of more than one year and valued over \$5,000).
- c) Grantees must produce proof of payment (stamped paid invoices or receipts) of all allowable expenditures.
- d) All costs must be directly attributable to the project that is the subject of the Grant Agreement.

Salaries

Salary costs are reimbursed for direct program activity only. Any salary expenses sought for reimbursement must be accurately recorded. Grantees must submit timesheets with specific duties performed in relation to grant activity for salary to be considered for reimbursement. This documentation is submitted with the Semi-Annual Report.

Consultant Services

- a) Grantees normally are expected to utilize the services of their own officers or employees to the maximum extent in managing and performing the activities supported by the MGF grant award. Where it is necessary for a Grantee to contract for the services of persons who are not its officers or employees, it is expected to do so in accordance with its own written organizational standards.
- b) If the need for consultant services is anticipated, the proposal narrative should provide appropriate rationale, and the summary proposal budget should estimate the amount of funds that may be required for this purpose. To the extent possible, consultant rates should show separate amounts for actual services and each of the components of the rate (such as fringe benefits, indirect costs, and other expenses).
- c) Costs of professional and consultant services rendered by persons who are members of a particular profession or possess a special skill and who are not officers or employees of the performing organization are allowable when reasonable in relation to the services rendered. However, payment for a consultant's services may not exceed more than 20% of actual award.

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

Travel Expenditures

- a) Travel costs are reimbursed for certain expenses at the rates authorized by the Grant Agreement and limited by [rules](#) and [rates](#) promulgated by the Texas Comptroller of Public Accounts (Comptroller).
- b) All travel must be performed in conjunction with official MGF related business. It is the responsibility of each Grantee to track and submit (with grant reports) the completed Mileage Log for travel reimbursement. Failure to comply with the travel guidelines will result in delay of payment or rejection of travel reimbursement. When tracking mileage, Grantees must use the Mileage Log included with the grant report.
- c) Grantees should use online mapping tools to compare and compute point-to-point mileage. The allowable reimbursement is determined using the lower of the actual miles driven or the mileage calculated, point to point. The Grantor is not required to reimburse Grantees at the maximum rate. The Grantor's maximum mileage reimbursement rate for travel by Grantees is in accordance

- with the Comptroller. Mileage to and from ordinary in-town errands are not reimbursed.
- d) Mileage is consistent with state reimbursement rates set by the Comptroller and is subject to change. Refer to TxGMS for conditions related to all travel, lodging, and food related reimbursement expenses. Refer to the Comptroller for specific travel allowances, definitions, and restrictions.
 - e) Parking is eligible for reimbursement if it is incurred in connection with official MGF related business.
 - f) Grantees are encouraged to compare airline costs and use the least costly option available, also considering the efficiency of such travel and employee compensation. To be reimbursed for airline travel a Grantee must submit receipts that contain the following information: Grantee (employee) name, airline, cost of airfare, travel dates, destinations, ticket number, and seating class. Grantees must also show proof of payment for airfare.

Property

Use of Property

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

Records of Property

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

Purchase of Equipment; Title Upon Termination

- a) Grantee may not give any security interest, lien or otherwise encumber any item of equipment purchased with grant funds.
- b) Grantee must permanently identify all equipment purchased using grant funds with appropriate tags or labels affixed to the equipment.
- c) Grantee must maintain a current inventory of all equipment, or assets acquired using grant funds and always make said inventory available to Grantor upon request. Grantee must administer a program of maintenance, repair, and protection of equipment or assets to ensure the full availability and usefulness of the equipment or assets.
- d) If the Grantee is indemnified, reimbursed, or otherwise compensated for any loss of, destruction of, or damage to the assets obtained using grant funds, it must use the proceeds to repair or replace such equipment or assets. To the

extent that Grantor reimburses Grantee for its purchase of equipment and supplies using grant funds, upon termination of the Grant Agreement, title to or ownership of all purchased equipment and supplies, at the sole option of Grantor, will remain with Grantor.

Intellectual Property

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

Non-allowable Expenditures

Grantees may not use grant funds for any of the following (this is not an exhaustive list):

- a) Advertising, except for hiring and contracting (does not include information sharing and promotion critical to program implementation);
- b) Alcoholic beverages;
- c) Any salary or compensation for an elected or appointed city, county, or state government official;
- d) Costs incurred outside the project period;
- e) Fundraising;
- f) Mortgage payments;

See Appendix 7, Selected Items of Cost Supplement Chart, in the [Texas Grant Management Standards \(TxGMS\)](#) for more information. The Grant Coordinator is available to address questions regarding expense eligibility.

Unlawful use of Grant Funds

- a) Grantor may require a refund of grant funds already disbursed to Grantee if one or more of the following events occur.
 - (1) Grant funds are misused
 - (2) Grant funds are used in an illegal manner
 - (3) Grant funds are used for non-allowable expenses

- (4) Grantee violates the terms or conditions of the Grant Agreement
- (5) Grantor discovers that Grantee made any misrepresentations to Grantor in obtaining the grant award.
- b) This provision is not exclusive of other grounds for withholding or requiring the refunding of funds, or any other remedy, civil or criminal, which may be available to Grantor.

GRANT AGREEMENT TERMINATION AND ADVERSE ACTIONS

Grant Agreement Termination

Termination for Convenience

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

Termination for Cause

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

No Reimbursement Upon Termination

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

Adverse Actions

Misuse of Grant Funds

If a Grantee fails to comply with reporting requirements or use grant funds to create, deliver, or expand financial education, literacy, and capability building programs as described in the Grantee's application, the Grantor may do one or more of the following:

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

Refund of Grant Funds

The Grantor may require the Grantee to refund grant funds already disbursed to the Grantee if one or more of the following events occur. This provision is not exclusive of other grounds for withholding or requiring the refunding of funds, or any other remedy, civil or criminal, which may be available to Grantor.

- a) Grant funds are misused.
- b) Grant funds are used in an illegal manner.
- c) Grant funds are used for non-allowable expenses.
- d) The Grantee violates the terms or conditions of the Grant Agreement.
- e) The Grantor discovers the Grantee made any misrepresentations to Grantor in obtaining the grant award.

Tax Delinquent Status

If the Texas Comptroller of Public Accounts or Texas Secretary of State (SoS) forfeits a Grantee's right to transact business in Texas because the Grantee is in a tax delinquent status with the SoS, the Grantor may do one or more of the following:

- a) Terminate the Grant Agreement.
- b) Suspend the Grant Agreement until Grantee restores its right to transact business in Texas.
- c) Take any other action provided for in the Grant Agreement.

DISPUTE RESOLUTION – MEDIATION; NONCOMPLIANCE ACTIONS

- a) To the extent authorized by law, Grantor and Grantee may use a dispute resolution process before pursuing termination or litigation.
- b) Grantor and Grantee may sign an amended Grant Agreement or noncompliance action plan agreeing to the amended terms.
- c) The noncompliance action plan may include increased communications between Grantor and Grantee, site visits, audits, and additional reporting requirements.
- d) The dispute may be mediated by a mutually acceptable third party.
- e) If mediation occurs, Grantor and Grantee (without using funds derived from the MGF) will pay all costs of any mediation equally.
- f) Grantor's participation in any mediation or nonbinding dispute resolution process will not be construed as a waiver (by Grantor) of any of the following:
 - (1) any rights, privileges, defenses, remedies, or immunities available to Grantor as an agency or governmental unit of the State of Texas, or otherwise available to Grantor;
 - (2) Grantor's termination rights; or
 - (3) other termination provisions or expiration dates of the Grant Agreement.

DEFINITIONS

Auxiliary mortgage loan activity company: has the meaning assigned by [Finance Code § 156.002](#).

Financial education, literacy, and capability: acquired consumer behaviors and knowledge that lead to tangible improvements in financial health, enabling the consumer to obtain and maintain a mortgage loan.

Grant Agreement: the written contract between the Grantor and Grantee governing the terms and conditions of the grant award.

Grantee: a recipient of Mortgage Grant Funds awarded pursuant to a fully executed Grant Agreement.

Grantor: the Department of Savings and Mortgage Lending (SML) and the Mortgage Grant Fund. The Commissioner may authorize one or more persons, including the Grant Coordinator, to perform any action that the Commissioner is authorized to perform as Grantor under the Grant Agreement.