

**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

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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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## 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.

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

<b>HIGH RISK</b>	<b>MODERATE RISK</b>	<b>LOW RISK</b>
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

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

<b>Report No.</b>	<b>Audits/Report Titles</b>	<b>Report Date</b>
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 87<sup>th</sup> 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.<sup>1</sup>
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.

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<sup>1</sup> Disbursements for claims were outside the scope of this audit.



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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.

### 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.

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- 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 15<sup>th</sup> 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.

- 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 2<sup>nd</sup> 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.

<b>Summary of Observations/Findings &amp; Recommendations and Related Ratings</b>		
<b>Finding No.</b>	<b>Title</b>	<b>Rating</b>
1	Finance Commission Reports	Medium
2	Risk Assessments	Medium
3	Grant Application Evaluations	Low
4	Application Eligibility Checklist	Low
5	Ineligible Applicant	Medium
<b>Observation No.</b>	<b>Title</b>	
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><b>1. Finance Commission Reports</b></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"> <li>• 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.</li> <li>• 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%.</li> <li>• 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.</li> </ul> <p><b>Recommendation</b></p> <p>We recommend the following:</p> <ul style="list-style-type: none"> <li>• SML should implement a review process for the Semi-Annual Report summaries provided to the Finance Commission to ensure accurate information is presented.</li> <li>• 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.</li> <li>• SML should continue its efforts in developing and implementing a discrepancy form where grantees can provide explanations for identified discrepancies.</li> </ul> <p><b>Management’s Response</b></p> <p>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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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><b>2. Risk Assessments</b></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><b>Recommendation</b>          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><b>Management’s Response</b>          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>

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1	6/24/24	MGF Administration	<p><b>3. Grant Application Evaluations</b></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"> <li>• In 5 instances, only 1 of the 4 MGAC members completed a matrix form.</li> <li>• In 1 instance, 2 of the MGAC members completed a matrix form.</li> </ul> <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><b>Recommendation</b>  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><b>Management’s Response</b>  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><b>4. Application Eligibility Checklist</b></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><b>Recommendation</b>  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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Report No.	Report Date	Name of Report	Observations/Findings and Recommendations
1	6/24/24	MGF Administration	<p><b>Management’s Response</b>  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><b>5. Ineligible Applicant</b></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><b>Recommendation</b>  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><b>Management’s Response</b>  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 &amp; 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>

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

Report No.	Report Date	Name of Report	Observations/Findings and Recommendations
1	6/24/24	MGF Administration	<p style="text-align: center;"><b>Observations</b></p> <p><b>1. Grant Program Due Dates</b></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 1<sup>st</sup>. 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 15<sup>th</sup>.</p> <p><b>Recommendation</b>          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><b>Management’s Response</b>          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><b>2. Grantee Reimbursement Tracker</b></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><b>Recommendation</b>          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><b>Management’s Response</b>            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><b>3. Expense and Variance Reports</b></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"> <li>• In 7 instances, explanatory comments for variances greater than 5% were not documented.</li> <li>• Email notification and approval requirements for variances were not enforced during the 2023-2024 grant cycle.</li> </ul> <p><b>Recommendation</b>            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><b>Management’s Response</b>            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 align="center"><b><u>Follow-Up of the Prior Year Internal Audit</u></b></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><b>1. Examination Files Testing</b>        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><b>Management's Response</b>        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**

<b>POTENTIAL AUDIT TOPIC</b>	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] <sup>1</sup>			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						

<sup>1</sup> 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.