

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

**INTERNAL AUDIT ANNUAL REPORT**

Fiscal Year 2025



DEPARTMENT OF SAVINGS AND MORTGAGE LENDING  
Austin, Texas

Internal Audit Annual Report  
Fiscal Year 2025

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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 Thrift Examinations Area (the Area) and its compliance with the applicable chapters of the Texas Finance Code, relevant rules of the Texas Administrative Code, the Federal Deposit Insurance (FDI) Act, and the Area's established policies and procedures, for the seven months ended March 31, 2025.

Our audit procedures determined that SML's internal control structure over the Area was adequate, with no instances of noncompliance identified. However, we noted one observation for management's consideration to further enhance internal controls, which is detailed in this report.

We also conducted follow-up procedures on findings and recommendations from prior year 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.

This report was prepared by Garza/Gonzalez & Associates, LLC, 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 audit observation and recommendation for the Area, as well as the follow-up results with various SML personnel. We are available to provide additional information if needed.

  
Garza/Gonzalez  
& Associates, LLC

June 3, 2025 – 2025 Follow-up

June 19, 2025 – Thrift Examinations Audit

## 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 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 during the 81st Legislative Session. As an SDSI agency, SML does not require legislative budget approval; instead, the Finance Commission determines its spending authority or limits. SML’s entire operating funds are generated from fees assessed to regulated entities, with no reliance on legislative appropriations.

## 2025 Internal Audit Plan

The following internal audit functions were performed in accordance with SML’s 2025 Internal Audit Plan, dated November 25, 2024, and approved by the Audit Committee and the Finance Commission on December 13, 2024:

- Risk Assessment & Preparation of the 2025 Internal Audit Plan
- Thrift Examinations Audit
- Follow-up of Prior Year Internal Audit
- Preparation of the 2025 Internal Audit Annual Report
- Other Tasks

This report contains the results of the Thrift Examinations Audit, reflects the results of the follow-up procedures performed this year on the findings from the prior internal audits, and complies with the State of Texas Internal Audit Annual Report requirements.

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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, SML will post the following information on its website:

- An approved fiscal year 2026 audit plan, as provided by Texas Government Code, Section 2102.008.
- A fiscal year 2025 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 January 20, 2025, 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 2025

The approved Internal Audit Plan (Plan) included one audit to be performed during fiscal year 2025. The Plan also included a follow-up on prior year internal audit recommendations that were not fully implemented as of fiscal year 2024, other tasks as assigned by the Finance Commission or Audit Committee, and preparation of the 2025 Internal Audit Annual Report.

##### **Risk Assessment**

Utilizing information obtained through the completed questionnaires received and background information reviewed, 13 potential audit topics were identified. 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>
Thrift Examinations Mortgage Examinations Thrift Supervision and Compliance	Management Information Systems [(MIS) Includes Disaster Recovery Plan]  Payroll and Human Resources  Revenue Accounting Process	Procurement/Contract Management/ HUB  Legal and Enforcement  Consumer Responsiveness  Mortgage Licensing and Registration  Financial Reporting (includes Asset Management & Travel)  Records Management  Mortgage Grant Fund Administration

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

Fiscal Year 2024:

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

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

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The internal audit and other tasks performed for fiscal year 2025 were as follows:

<b>Report No.</b>	<b>Audits/Report Titles</b>	<b>Report Date</b>
1.	Thrift Examinations Audit <i>Objective:</i> To assess whether the policies, procedures, and internal controls within the Thrift Examinations Area provide reasonable assurance that examinations of Texas-chartered savings banks (thrifts) regulated by SML are conducted effectively, timely, and in compliance with applicable laws and regulations.	6/19/2025
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 2025.</i>	6/3/2025
-	Other Tasks Assigned by the Finance Commission or the Audit Committee	None

## V. Executive Summary

### Thrift Examinations Area

#### BACKGROUND

The Thrift Examinations Area (the Area) of the Department of Savings and Mortgage Lending (SML) is responsible for evaluating the safety and soundness of state-chartered savings banks (thrifts), their holding companies, and any savings and loan associations (though none currently exist). This responsibility includes assessing risk management systems, financial condition, and compliance with applicable laws and regulations.

As of March 31, 2025, SML had oversight of 21 state savings banks with total assets of approximately \$303.9 billion, and 16 holding companies.

#### Rules and Regulations

Thrift examinations performed by the Area are governed by the following rules and regulations:

- Title 7, Part 4 of Texas Administrative Code (TAC), Chapter 75, Rule 75.226
- Texas Finance Code (TFC), Title 3, Subtitle C, Chapter 96, Sec. 96.054
- Section 10 of the Federal Deposit Insurance (FDI) Act

#### Organizational Structure

The Area is managed by the Deputy Commissioner, who also serves as the Director of Thrift, and reports to the Commissioner.

The Area is organized into two sections: the Thrift Examinations section and the Thrift Supervision section.

The Thrift Examinations section is responsible for conducting examinations in accordance with the Department's established examination priority schedule. It is composed of the following specialized teams:

- Large Financial Institution Team – 3 financial examiners  
*Responsible for examining institutions with assets greater than \$10 billion.*
- Community Bank Team – 5 financial examiners  
*Responsible for examining institutions with assets under \$10 billion.*
- Information Technology Team – 1 financial examiner  
*Responsible for conducting the IT component of the safety and soundness examinations.*
- Compliance Team – 1 financial examiner  
*Responsible for observing compliance examinations conducted solely by the Federal Deposit Insurance Corporation (FDIC) or the Federal Reserve Bank (FRB).*

The Thrift Supervision section is comprised of 4 financial examiners. It is responsible for the offsite monitoring of state savings bank (SSB) portfolios and for processing applications, requests, and other correspondence submitted by these institutions.



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#### Examination Types

The Area conducts both full-scope and limited-scope examinations of SSBs and their holding companies. Although SML has independent authority to conduct these examinations, all are currently performed jointly with either the FDIC or the FRB.

In joint examinations, SML and the federal agency alternate as the lead agency and coordinate on enforcement and supervisory actions to address any identified issues.

The types of examinations performed by the Area include:

- Joint Full-Scope Examinations
- Joint Limited-Scope Examinations (also referred to as Visitations)
- Conversion Examinations
- Holding Company Examinations

As of May 6, 2025—the date of the most current data available—the Area had completed 14 joint full-scope examinations in FY25, with 6 additional examinations in progress. The Area had also completed 3 visitations, with 3 more in progress. No conversion or holding company examinations had been performed during FY25.

#### Full-Scope Examinations

Full-scope examinations are conducted to evaluate the overall condition of SSBs using the CAMELS rating system, which assesses six key components: Capital, Asset Quality, Management, Earnings, Liquidity, and Sensitivity to Market Risk. These examinations help ensure institutions operate in a safe and sound manner and remain in compliance with applicable laws and regulations.

The frequency of full-scope examinations is determined based on the SSB's risk profile, with particular consideration given to total asset size and the SSB's most recent CAMELS composite rating. A composite CAMELS rating ranges from 1 (strong) to 5 (critically deficient), with higher ratings indicating increased supervisory concern

- SSBs with total assets of \$3 billion or greater and a composite CAMELS rating of 1 or 2, are examined every 12 months.
- SSBs with total assets less than \$3 billion and a composite CAMELS rating of 1 or 2 may be examined every 18 months, provided they are well capitalized, well managed, free from any formal enforcement action, and have not undergone a change in control during the prior 12 months.
- SSBs with total assets less than \$3 billion, a composite CAMELS rating of 1 or 2, but a management component rating of 3, or under a formal enforcement action, are examined every 12 months.
- SSBs of any asset size with a composite CAMELS rating of 3, 4, or 5 are examined every 12 months and are also subject to visitation approximately six months after the full-scope examination to assess progress on any identified regulatory concerns.

For timing purposes, the interval between examinations is measured from the completion date of the prior exam—defined as the transmittal date of the Report of Examination (ROE)—to the start date of the next exam, which is the earlier of either off-site or on-site work commencement. Compliance with examination priority scheduling guidelines is tracked using an Examination Log.

An ROE is issued to the SSB to formally document the results of the full-scope examination.

#### *Joint Limited-Scope Examinations*

Joint Limited-Scope Examinations—also referred to as visitations—are supervisory reviews that do not meet the minimum requirements of a full-scope examination. These examinations are flexible in format and are conducted for various supervisory purposes, such as to:

- Assess changes in an SSB’s risk profile
- Monitor compliance with a corrective action program
- Investigate adverse or unusual situations
- Evaluate progress in addressing deficiencies noted during the prior examination
- Serve as an investigative or supervisory tool

Depending on the scope and purpose of the review, examiners may assign a composite rating and component ratings for the areas sufficiently evaluated. Ratings for component not reviewed are carried forward from the most recent full-scope examination.

A standard ROE is not required for limited-scope examinations. Instead, results are typically documented in a memorandum from the EIC to the Commissioner or Deputy Commissioner, summarizing the scope and findings. Appropriate correspondence is also issued to the SSB to formally communicate the results of the examination.

#### *Examination Process*

##### *Scheduling*

Examinations are scheduled by the Director of Thrift, while the Supervisory Examiner assigns the examination team and key roles using *Shifts*, an application within Microsoft Teams.

The schedule includes all planned examinations, the assigned examiner(s), and identifies the designated Examiner-in-Charge (EIC) for each engagement. An Operations Manager (OM) may also be assigned for complex examinations.

In addition, the working schedule specifies the lead agency for each examination—SML, FDIC, or the FRB.

##### *Pre-Examination*

Prior to the start of on-site fieldwork, the EIC and, if applicable, the OM, conduct pre-examination off-site activities. These include planning meetings with the institution to discuss key logistics such as designated points of contact, workspace arrangements, the scope of the examination, and documentation requests.

The EIC is also responsible for completing the Examination Planning Module – Risk Scoping Activities and preparing the Pre-Examination Planning Memorandum. Pre-examination activities are generally completed within one week.

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#### *Examination*

SML utilizes the Examination Documentation (ED) Modules, a comprehensive examination tool developed and used by the FDIC, to execute its examination program. These modules include a set of Primary and Supplemental ED Modules that address the major functional areas of a financial institution.

The selection of ED Modules applicable to each examination is determined by the EIC based on the SSB's risk profile and business activities.

Examination teams typically consist of 8 to 10 examiners, depending on the SSB's size and the scope of the review. Once the fieldwork is complete and all applicable ED Modules and supporting documentation have been finalized, the EIC compiles and indexes the workpapers according to the standard format within the Examination Tools Suite (ETS).

ETS is the official tool used to store examination workpapers, generate loan scopes, and produce the ROE for the Community Bank Team. ETS is developed, maintained, and supported by the FDIC, and access to the system is managed accordingly by the FDIC.

#### *Post Examination*

During the post examination phase, the EIC is responsible for drafting the ROE. Once the draft is complete, it is submitted to one of the three designated Supervisory Analysts within the Thrift Supervision section for review.

The Supervisory Analyst conducts a review of the ROE and prepares the Transmittal Letter, which is addressed to the SSB's Board of Directors. This letter is signed by either the Director of Thrift or the Supervisory Analyst and includes the following:

- Names of the lead examiners
- Examination start date
- Summary of findings, if any
- Required response date from the SSB (if significant findings were noted)

Simultaneously, the ROE undergoes final review and approval by the Commissioner, who provides the final sign-off before the report is officially released. The finalized ROE, which accompanies the Transmittal Letter, includes signatures from the EIC, the FDIC examiner, and either the FDIC Assistant Regional Director or Regional Director.

The review and editing of the ROE is tracked in SharePoint, which allows reviewers to audit all changes made to the report, including added signatures and comments made throughout the review process.

For examinations that result in significant findings, the SSB's Board of Directors is required to formally review and approve the report prior to its release. In these cases, the Department requests a written response from the SSB within 30 to 60 days following issuance of the report. The exact response timeline is determined based on:

- The severity of the findings
- The timing of the report, and
- The SSB's ability to reasonably develop a corrective action plan

All reported findings are subject to follow-up during the subsequent examination to assess the SSB's progress in addressing the identified issues.

### Examiner Training

In accordance with the Area's Training and Development Policy, Thrift Financial Examiners are required to complete 80 hours of training each fiscal year. Annually, the Thrift Director prepares an individual training plan for each employee. These plans are designed to ensure that employees receive sufficient and appropriate training to meet the required hours and to support the development of competencies relevant to their roles.

A Financial Examiner's level (i.e. IV, V, VI, VII) is determined by their job description. When one is able to perform the duties of the classification, they are promoted to that level.

For an examiner to be a Commissioned-Equivalent Examiner, the examiner must complete all five FDIC schools and completed 2 or more full scope examinations under the supervision of a Commissioned-Equivalent Examiner. Examiners can also be commissioned by other regulatory agencies (FDIC, OTS, FRB, etc.).

### Performance Measures

There are three performance measures associated with the Area:

**Outcome Measure:** Percentage of state-chartered savings institutions receiving examination within the required timeframes.

*This measure is calculated by dividing the cumulative number of state-chartered savings institutions examined by SML, the FDIC, or the Federal Reserve Bank—according to the examination priority schedule—during the reporting period by the number of savings institutions required to be examined under SML's priority schedule for that same period.*

**Output Measure:** Number of state-chartered savings institution examinations performed.

*SML staff maintains a tracking log that records the status of examinations and responses (e.g., examination type, date examination began and completed, date report issued, date of response by the institution, etc.). This log serves as the basis for capturing the number of all types of examinations performed on savings institutions under SML's jurisdiction.*

**Efficiency Measure:** Assets examined per examiner day (in millions)

*This measure is calculated by dividing the total assets of state-chartered savings institutions examined by the number of examiner days available during the reporting period.*

## AUDIT OBJECTIVE, SCOPE, AND METHODOLOGY

### Objective

The objective of this audit was to assess whether the policies, procedures, and internal controls within the Thrift Examinations Area provide reasonable assurance that examinations of Texas-chartered savings banks (thrifts) regulated by SML are conducted effectively, timely, and in compliance with applicable laws and regulations.

### Scope

The scope of this audit included selected functions within the Area during the 7-month period from September 1, 2024 to March 31, 2025 (audit period).

### Methodology

The audit methodology included reviewing applicable laws and regulations, internal policies and procedures, and other relevant documentation. Interviews and walkthroughs were conducted with appropriate SML personnel to gain an understanding of current practices and control activities.

We performed procedures to achieve the audit objective, including the following:

1. Reviewed applicable requirements in the Texas Finance Code, Texas Administrative Code, and the Federal Deposit Insurance (FDI) Act relevant to the Area.
2. Reviewed the Area's documented policies and procedures, as well as supporting documents such as templates and tracking logs. We also conducted interviews and walkthroughs to evaluate internal controls, processes, and current practices.
3. Selected a random sample of 5 out of the 26 examinations that were completed, pending, or in the fieldwork stage during the audit period. For each selected examination, we:
  - a. Verified that commencement occurred in a timely manner based on the established priority schedule.
  - b. Confirmed, as applicable, that the Transmittal Letter and Examination Tracking Log reflected the same examination date.
  - c. Confirmed, as applicable, that the Transmittal Letter and the scheduling application, Shifts, identified the same EIC or Central Point of Contact for large banks.
  - d. Verified, as applicable, that the ROE or Memorandum underwent the appropriate review process by examining the SharePoint ROE Tracking Log or other available supporting documentation.
4. Selected 4 Field Examiners to test the following attributes:
  - a. Compliance with designation requirements as a Commissioned-equivalent Examiner, if applicable.
  - b. Completion of the recommended training hours.
5. Confirmed the accuracy of reported data for the FY25 second quarter Output Measure: *Number of state-chartered savings institution examinations performed.*

## 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
	None.	
Observation No.	Title	
1	Examination Procedures	-
<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>		

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**OBSERVATIONS/FINDINGS and RECOMMENDATIONS**

<b>Report No.</b>	<b>Report Date</b>	<b>Name of Report</b>	<b>Observations/Findings and Recommendations</b>
1	6/19/25	Thrift Examinations	<p style="text-align: center;"><b>OBSERVATION</b></p> <p><b>1. Examination Procedures</b></p> <p>During our review, we noted that procedures related to the examination process – specifically scheduling, pre-examination, examination, and post-examination activities – are not formally documented. While staff appear to have a thorough understanding of the established practices, the absence of current, formalized procedures may increase the risk of inconsistent operations, particularly in the event of staff turnover or the need to train new personnel.</p> <p><b>Recommendation</b>  We recommend that SML formally document its current examination procedures. This documentation should clearly outline responsibilities, timelines, systems and tools used (e.g., SharePoint, ED Modules, ETS), and review/approval steps for each phase of the examination process. Additionally, we recommend that procedures be reviewed and updated periodically to ensure they remain aligned with current practices and technology.</p> <p><b>Management’s Response</b>  Procedures and work instructions will be documented for the processes noted by December 31, 2025.</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
1	6/3/25	2025 Follow-Up	<p><b><u>Follow-Up of the Prior Year Internal Audits</u></b></p> <p>Following is the status of the recommendations made during fiscal year 2024 that had not been fully implemented.</p> <p><u>Mortgage Grant Fund Administration (Report date 6/24/2024)</u></p> <p><b>1. Finance Commission Reports</b></p> <p>Following were our recommendations related to our review and comparison of the semi-annual report summaries provided to the Finance Commission with the Semi-Annual Reports provided by the grantees:</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> </ul> <p><b>FY25 Status Explanation:</b>  SML has not yet implemented an online form; however, evaluation of such a solution is ongoing.</p> <ul style="list-style-type: none"> <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>2. Risk Assessments</b></p> <p>SML should 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>3. Grant Application Evaluations</b></p> <p>SML should 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, SML should 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>Fully Implemented</b></p> <p><b>Incomplete/Ongoing</b></p> <p><b>Fully Implemented</b></p> <p><b>Fully Implemented</b></p> <p><b>Fully Implemented</b></p>



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<b>Report No.</b>	<b>Report Date</b>	<b>Name of Report</b>	<b>Observations/Findings and Recommendations</b>	<b>Status (Fully Implemented, Substantially Implemented, Incomplete/Ongoing, or Not Implemented) with explanation if not yet fully implemented</b>
1	6/3/25	2025 Follow-Up	<p><b>4. Application Eligibility Checklist</b></p> <p>SML should ensure that 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> <p><b>5. Ineligible Applicant</b></p> <p>SML should develop procedures to verify applicant eligibility, including confirming that the organization is not licensed with SML, before entering into a grant agreement.</p> <p style="text-align: center;"><b>Observations</b></p> <p><b>1. Grant Program Due Dates</b></p> <p>SML should 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>2. Grantee Reimbursement Tracker</b></p> <p>SML should 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> <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>We recommended that SML assess the necessity of these procedures and requirements for the administration of the MGF program.</p>	<p><b>Fully Implemented</b></p> <p><b>Fully Implemented</b></p> <p><b>Fully Implemented</b></p> <p><b>Fully Implemented</b></p> <p><b>Fully Implemented</b></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	Status (Fully Implemented, Substantially Implemented, Incomplete/Ongoing, or Not Implemented) with explanation if not yet fully implemented
1	6/3/25	2025 Follow-Up	<p><b>FY25 Status Clarification:</b> SML determined the procedure and variance reporting requirements for the program were unnecessary. In June 2024, SML implemented the use of an MGF Budget or Goal Change Request Form, which—if approved—becomes an addendum to the grantee’s Grant Agreement. The updated MGAM requires grantees to submit this form immediately when requesting a budget change of <math>\pm 10\%</math> in any budget category. The internal SML MGF—Grant Program Procedures outlines the process for reviewing and approving these requests.</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></p> <p>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>	Fully Implemented

**VII. External Audit Services Procured in Fiscal Year 2025**

SML procured the internal audit services documented in the approved Internal Audit Plan for fiscal year 2025. 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 2026**

The risk assessment performed during fiscal year 2025 was used to identify the following *proposed* area that is recommended for internal audit and other tasks to be performed for fiscal year 2026. The Internal Audit Plan for Fiscal Year 2026 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 Supervision and Compliance 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 2025**

POTENTIAL AUDIT TOPIC		Fiscal Year Audited/Reviewed										
		2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
1	Consumer Responsiveness			B*	D							B*
2	Financial Reporting (Includes Asset Management & Travel)			B	D*/E*							B
3	Legal and Enforcement			B	D				A			B*
4	Management Information Systems [(MIS) Includes Disaster Recovery Plan] <sup>1</sup>		A	B*	C/D*	A1*		C		C		B*/C
5	Mortgage Examinations	A		B*	D			G*		A		B*
6	Mortgage Grant Fund Administration										A	
7	Mortgage Licensing and Registration			B*	D			G*				
8	Payroll and Human Resources				E*	F*						B*/F*H*
9	Procurement/Contract Management/HUB			B	E*/D*			A				
10	Records Management						A					
11	Revenue Accounting Process			B	D*							B
12	Thrift Examinations			A	D							A/B*
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 are included in the scope of the applicable audit area(s).

**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** 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 (CPA).
- F** Review performed by the Texas Workforce Commission.
- G** Mortgage accreditation review performed by the Conference of State Bank Supervisors.
- H** Criminal checks review performed by the Department of Public Safety (DPS).