



An Audit Report on

The Department of Savings and Mortgage Lending: A Self-directed, Semi-independent Agency

Lisa R. Collier, CPA, CFE, CIDA
State Auditor

The Department of Savings and Mortgage Lending (Department) had effective processes and related controls to ensure the accuracy and completeness of its performance and financial data. It also had an effective process for setting fees based on its budgetary needs and assessing penalties in compliance with its rules.

However, the Department should strengthen its reviews of its financial statements and user access rights to key systems to ensure that they align with users' job duties.

- [Background](#) | p. 3
- [Audit Objectives](#) | p. 9

This audit was conducted in accordance with Texas Finance Code, Section 16.004.

MEDIUM

FINANCIAL AND PERFORMANCE DATA

The Department had effective processes for calculating and recording performance and financial data. However, its reviews of the 2024 financial statements did not detect certain errors. In addition, some user rights to certain information systems did not align with the employees' assigned job duties.

[Chapter 1 | p. 4](#)

LOW

SETTING FEES AND PENALTIES

The Department had a process for setting fees based on its budgetary needs, and it set amounts for penalties in compliance with Texas Finance Code requirements.

[Chapter 2 | p. 7](#)

Summary of Management's Response

Auditors made recommendations to address the issues identified during this audit, provided at the end of each chapter in this report. The Department agreed with the recommendations.

Ratings Definitions

Auditors used professional judgment and rated the audit findings identified in this report. The issue ratings identified for each chapter were determined based on the degree of risk or effect of the findings in relation to the audit objective(s).

PRIORITY: 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.

HIGH: 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.

MEDIUM: Issues identified present risks or effects that if not addressed could ***moderately affect*** the audited entity's ability to effectively administer the program(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.

LOW: The audit identified strengths that support the audited entity's ability to administer the program(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 program(s)/function(s) audited.

For more on the methodology for issue ratings, see [Report Ratings](#) in Appendix 1.

Background Information

The Department of Savings and Mortgage Lending (Department) has two key areas of responsibility: the chartering, regulation, and supervision of state-chartered savings banks (thrift industry); and the licensing/registration and regulation of the state's mortgage industry. These two areas of responsibility cover most residential mortgage lending in Texas. The Department operates under the oversight of the Finance Commission of Texas.

The 81st Legislature granted the Department self-directed and semi-independent (SDSI) status effective September 1, 2009. As an SDSI agency, the Department receives revenue from fees and assessments collected from regulated entities. The Department is responsible for all direct and indirect costs and does not receive general revenue funds. Various provisions in the Texas Finance Code authorize the Department's Commissioner to impose and collect fees to cover the costs of performing regulatory responsibilities.



MEDIUM

Chapter 1 Financial and Performance Data

The Department of Savings and Mortgage Lending (Department) had processes and related controls to ensure the accuracy and completeness of financial and performance data. However, the Department should strengthen its review of financial statements and user access to its information systems.

The Department had adequate processes for reporting performance measures.

The Department had effective processes and controls to accurately calculate and report the performance measure results tested (see text box). Specifically, the Department accurately reported that it completed 375 mortgage industry examination reports and 18 examinations of state-chartered savings institutions for fiscal year 2024.

Selected Performance Measures

- **Number of Examination Reports Issued** - The total number of examination reports issued during the reporting period.
- **Number of State Chartered Savings Institutions Examinations Performed** - The total number of on-site independent, joint, full scope, limited scope, or special examinations of savings institutions performed during the quarter.

Source: *Agency Strategic Plan, Fiscal Years 2023 to 2027.*

The Department should strengthen certain processes for financial reporting and information technology systems.

Overall, the Department had processes and controls to ensure that its financial data was accurate. Specifically:

- The Department's mortgage licensing and thrift revenues, payroll expenditures, travel expenditures, and other expenditures were supported.
- The Department performed reconciliations of revenue, cash, and expenditure amounts as required by its accounting policies to verify that all amounts were accurately captured in the Uniform Statewide Accounting System (USAS), which is the Department's system of record for financial reporting.

In addition, the Department's fiscal year 2024 annual financial report balances were supported by USAS. However, the Department's review process did not identify that its financial statements were out of balance. Specifically, its total assets did not equal the sum of its total liabilities and fund balance. This error was caused because the Department mistakenly excluded one deposit; that deposit was not large enough to have a significant impact on the total assets reported.

The Department also ensured that most users of the information systems used for financial and performance reporting had appropriate levels of access. However, certain user rights did not align with the employees' assigned job duties. Users having excessive access increases the risk that transactions may be processed incorrectly.

Recommendations

The Department should:

- Strengthen its review process of the Annual Financial Report to ensure that all amounts are reported.
- Review user access to information systems to verify that access aligns with users' assigned job duties.

Management's Response

- SML agrees with the recommendation. The Director of Operations has developed and documented an enhanced secondary review process to ensure that all amounts in the Annual Financial Report are reported. The new process will be implemented with the preparation of the next Annual Financial Report in September 2025.
- SML agrees with the recommendation. The Department reviews its user access regularly – semiannually for statewide systems (e.g. CAPPS) and annually for all other systems. Additionally, staff relies on the built-in system controls that disallow transactions to be processed by a single user without oversight. The Director of Operations, in conjunction with the Information Resources staff, will perform and document an additional in-depth review to ensure no user has excessive access that allows transactions to be processed inappropriately or incorrectly. The review will be completed by August 31, 2025.

LOW

Chapter 2

Setting Fees and Penalties

The Department had a process for setting fees that was based on its budgetary needs. The Department also complied with requirements for the calculation of licensing and regulatory fees for the mortgage industry and the thrift industry.

The Department had sufficient processes for setting fee and penalty amounts.

Fees. As an SDSI, the Department does not receive appropriated funds, so it relies on fees for revenue and to maintain a cash reserve. Department staff consider previous and projected expenses to determine whether fee amounts should be revised. For fiscal year 2024, the Department's fee revenue covered its operating expenses, and its cash reserves amount complied with the Finance Commission's policy.

In addition, the Department's process requires the Commissioner to approve the fee amounts before sending the budget to the Finance Commission for its approval. The Commissioner's approval of fee amounts was documented for fiscal year 2025 but not for fiscal year 2024.

Penalties. The Department appropriately documented and set amounts for the penalties reviewed. Penalties are determined by the results of complaint investigations. The Department established a matrix to clearly define administrative penalty amounts, which it consistently applied for all penalties tested. Penalty amounts are determined by factors such as the nature of the violation and any history of noncompliance.

Recommendation

The Department should ensure that the Commissioner documents approval of fee amounts as required by its policy.

Management's Response

SML agrees with the recommendation. The Department has already implemented a formal approval process during FY24 in setting the FY25 fees, as evidenced and stated in the report. Staff will ensure the fees approval process continues to be formally documented.



Appendix 1

Objectives, Scope, and Methodology

Objectives

The objectives of this audit were to:

- Determine whether the Department of Savings and Mortgage Lending (Department) has processes and related controls to ensure the accuracy and completeness of financial and performance data.
- Evaluate the Department's processes for setting fees and penalties.

The following members of the State Auditor's staff performed the audit:



- Brenda Zamarripa, CIA, CGAP (Project Manager)
- Benjamin Hikida, MACy, CFE (Assistant Project Manager)
- Geddy Emery
- Victor Isoh, MPA
- Marcus Kahler
- Michele Yonkeu
- Dana Musgrave, MBA, CFE (Quality Control Reviewer)
- Michael O. Clayton, CPA, CISA, CFE, CIDA (Audit Manager)

Scope

The scope of this performance audit included a review of financial and performance data, applicable processes, and other supporting documentation for the period from September 1, 2023, through January 31, 2025. The work included a review of the automated systems that support those processes.

The scope also included a review of significant internal control components related to the Department's revenue collection, expenditures, penalties assessed and collected, and accuracy and completeness of related data.

Methodology

We conducted this performance audit from November 2024 through April 2025 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. In addition, during the audit, matters not required to be reported in accordance with *Government Auditing Standards* were communicated to Department management for consideration.

Addressing the Audit Objectives

During the audit, we performed the following:

- Interviewed Department management to gain an understanding of financial and performance data reported; fee and penalty assessments; and required reports.
- Identified relevant criteria by reviewing:
 - Department policies and procedures.
 - The Department's penalty matrix.
 - Texas Finance Code, Chapters 16, 156, 157, and 180.
 - Texas Administrative Code, Title 1, Part 10, Chapter 202, and Title 7, Part 4, Chapters 60 and 75.
 - Texas Government Code, Chapter 404.
 - The Office of the Comptroller of Public Accounts' Financial Reporting Requirements, Purchasing Policy, and Travel Guide.
 - The Department's strategic plan for fiscal years 2023-2027.
- Tested the annual report and traced to the Department's underlying records.
- Tested reconciliations to determine whether they were properly completed.

- Tested revenues and expenditures to determine whether they were reported correctly in the Uniform Statewide Accounting System (USAS).
- Analytically tested the Department's payroll expenditures to determine whether the payroll expense was completely and accurately reported in USAS in fiscal years 2024 and 2025.
- Tested the Department's compliance with its cash reserves policy.
- Reviewed user access controls for significant Department systems
- For the selected performance measures, reviewed the queries and re-calculated the data to determine whether the Number of Examination Reports Issued (Mortgage Industry) and the Number of State-chartered Savings Institution Examinations Performed (Thrift Industry) were accurately reported.
- Evaluated the Department's processes for setting licensing fee and penalty rates.
- Tested all quarterly revenue reconciliations of the Nationwide Mortgage Licensing System (NMLS) to the Centralized Accounting and Payroll/Personnel System (CAPPS) for fiscal years 2024 and 2025 to determine whether they were properly performed.
- Tested all quarterly expenditure reconciliations of USAS to CAPPS for fiscal years 2024 and 2025 to determine whether they were properly performed.

Data Reliability and Completeness

Auditors determined that the following data sets were sufficiently reliable for the purposes of the audit by (1) observing the Department staff extract requested data populations, (2) reviewing data queries and report parameters, (3) analyzing the populations, and (4) testing selected user access controls over the information systems. The following fiscal year data sets were used:

- **USAS.** Revenues, expenditures, and cash in treasury data for fiscal year 2024 and the first five months of fiscal year 2025.
- **CAPPS.** Revenues and expenditures for fiscal year 2024 and the first five months of fiscal year 2025.

- **My License.** The Department's licensing and enforcement system penalty revenue assessment and collection amounts for fiscal year 2024 and the first five months of fiscal year 2025.
- **NMLS.** Licensing fee data for fiscal year 2024 and the first five months of fiscal year 2025.

Figure 1

Populations and Samples ^a

Population	Sample Size	Population Size	Sampling Methodology
Monthly CAPPS to USAS cash reconciliations for fiscal years 2024 and 2025	5	17	Tested a random nonstatistical sample of 4 items and 1 risk-based sample for CAPPS to USAS cash reconciliations.
Monthly CAPPS to Texas Treasury Safekeeping Trust Company cash reconciliations for fiscal years 2024 and 2025	4	17	Tested a random nonstatistical sample stratified by fiscal year.
Thrift assessment revenue and administrative revenue transactions for fiscal years 2024 and 2025	11	103	Tested a risk-based sample of 8 thrift assessment revenue and 3 administrative revenue transactions.
Travel expenditures recorded in the Department's Annual Financial Report (AFR) for fiscal years 2024 and 2025	25	1219	Tested a risk-based sample of expenditure transactions.
Other expenditures recorded in the AFR for fiscal years 2024 and 2025	25	728	Tested a risk-based sample of expenditure transactions.
Mortgage licensee examinations reports reported in performance measures	25	456	Tested a risk-based sample of mortgage licensee examination reports.
Thrift examinations reports reported in performance measures	5	24	Tested a random nonstatistical sample of thrift examination reports stratified by fiscal year.

Population	Sample Size	Population Size	Sampling Methodology
Administrative penalties for fiscal years 2024 and 2025	8	63	Tested a risk-based sample of administrative penalties assessed.
Complaints not forwarded to enforcement	25	1,717	Tested a risk-based sample of complaints.
^a The sample items were selected to obtain coverage and were not representative of the population, so it would not be appropriate to project the test results to the population.			

Report Ratings

In determining the ratings of audit findings, auditors considered factors such as financial impact; potential failure to meet program/function objectives; noncompliance with state statute(s), rules, regulations, and other requirements or criteria; and the inadequacy of the design and/or operating effectiveness of internal controls. In addition, evidence of potential fraud, waste, or abuse; significant control environment issues; and little to no corrective action for issues previously identified could increase the ratings for audit findings. Auditors also identified and considered other factors when appropriate.



Copies of this report have been distributed to the following:

Legislative Audit Committee

The Honorable Dan Patrick, Lieutenant Governor, Joint Chair

The Honorable Dustin Burrows, Speaker of the House, Joint Chair

The Honorable Joan Huffman, Senate Finance Committee

The Honorable Robert Nichols, Member, Texas Senate

The Honorable Greg Bonnen, House Appropriations Committee

The Honorable Morgan Meyer, House Ways and Means Committee

Office of the Governor

The Honorable Greg Abbott, Governor

Department of Savings and Mortgage Lending

Members of the Finance Commission of Texas

Mr. Hector Retta, Commissioner



This document is not copyrighted. Readers may make additional copies of this report as needed. In addition, most State Auditor's Office reports may be downloaded from our website: <https://sao.texas.gov>.

In compliance with the Americans with Disabilities Act, this document may also be requested in alternative formats. To do so, contact our report request line at (512) 936-9500 (Voice), (512) 936-9400 (FAX), or 1-800-RELAY-TX (TDD); or visit the Robert E. Johnson Building, 1501 North Congress Avenue, Suite 4.224, Austin, Texas 78701.

The State Auditor's Office is an equal opportunity employer and does not discriminate on the basis of race, color, religion, sex, national origin, age, or disability in employment or in the provision of services, programs, or activities.

To report waste, fraud, or abuse in state government, visit <https://sao.fraud.texas.gov>.