



An Audit Report on

# The Texas Department of Banking: A Self-directed, Semi-independent Agency

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State Auditor

The Texas Department of Banking (Department) had processes and related controls to ensure the accuracy and completeness of its financial data and for setting fees and penalties. However, it should strengthen its processes for collecting penalties assessed by the Bank and Trust Division (Bank and Trust) and reporting performance data.

- *Background* | p. 3
- *Audit Objectives* | p. 10

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

## MEDIUM

### **FINANCIAL AND PERFORMANCE DATA**

The Department accurately recorded, reviewed, and supported certain financial data. However, the Department did not monitor to verify that it received the full amount of the assessed penalties. In addition, while it reported accurate results for one of the two performance measures tested, the results reported for the other measure did not align with the measure's definition.

[Chapter 1 / p. 4](#)

## LOW

### **SETTING FEES AND PENALTIES**

The Department had sufficient processes for setting Bank and Trust fees that included consideration of budgetary needs, historical information, and adjustments for inflation. In addition, the Department established a matrix for setting Bank and Trust penalties.

[Chapter 2 / p. 9](#)

## Summary of Management's Response

Auditors made recommendations to address the issues identified during this audit, provided at the end of Chapter 1 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

Established in 1905, the Texas Department of Banking (Department) operates under the oversight of the Finance Commission of Texas and is charged with ensuring that the State has a safe, sound, and competitive financial services system.

The Department charters or licenses and regulates several types of financial services entities (see text box).

The Department was designated a self-directed, semi-independent (SDSI) agency on September 1, 2009, by the 81st Legislature.

As an SDSI agency, the Department is responsible for its costs of operations. It does not receive general revenue through the legislative appropriation process; instead, it receives revenue from fees and assessments collected from regulated entities as authorized in the Texas Finance Code.

### **Regulated Entities**

Entities chartered or licensed, and supervised by the Department include:

- State-chartered banks and holding companies.
- Trust companies.
- Money services businesses.
- Perpetual care cemeteries.
- Prepaid funeral contract providers.
- Check verification companies.

Source: The Department.



## DETAILED RESULTS

Page | 4

**MEDIUM**

### Chapter 1

### Financial and Performance Data

The Texas Department of Banking (Department) had processes and controls to help ensure that its financial data was accurate and complete; however, it should strengthen certain performance measure processes. In addition, it did not have a process for verifying that it collects the penalties assessed for the Bank and Trust Division (Bank and Trust).

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#### The Department had sufficient processes to ensure complete and accurate financial data.

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The Department's fiscal year 2024 annual financial report balances for revenues and expenditures were supported by information in the Uniform Statewide Accounting System (USAS), and the Department accurately recorded, reviewed, and supported certain financial data. Specifically:

- For payroll expenditures, the Department had appropriate reviews and approvals to help ensure that it made payments only for active employees and accurately recorded those payments in its financial system.
- For 24 of 25 non-payroll expenditures tested, the Department had appropriate reviews and approvals, and the transactions were accurately recorded and supported. It reimbursed one travel expenditure at an incorrect rate.

For fiscal year 2024 and the first quarter of fiscal year 2025, the Department assessed \$41.3 million in annual Bank and Trust assessment fees. Auditors recalculated these fees and determined that the Department accurately calculated and assessed those fees in accordance with the fees set in its approved matrix. Additionally, the Department had a process to compare

the assessed fees with the deposited revenue to help ensure that it appropriately collected all fees assessed.

However, accounting policies and procedures had not been updated since November 2020 to reflect current systems and processes, and the Department did not perform monthly reconciliations of revenue, cash, and expenditure amounts for fiscal year 2024. During the audit, the Department performed reconciliations for the first three months of fiscal year 2025 for revenue and expenditures. Reconciliations help ensure that amounts are properly recorded in financial systems.

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### The Department did not have a process to collect Bank and Trust penalties.

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After it issued consent orders, the Department did not monitor to verify that it received full payment for the penalties. From September 2023 to January 2025, the Department collected Bank and Trust penalty revenue for two consent orders. While the Department correctly assessed the penalty amounts, it did not collect the full amount of the penalty for one of those consent orders. Specifically, the Department assessed a \$50,000 penalty in June 2023 that was due within 180 days, but as of April 2025, the Department had collected only \$3,000.

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### The Department should strengthen certain processes for performance measures.

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The Department accurately reported the results for the **Percentage of Actual Expenditures to Budgeted Expenditures**, but it did not have documented procedures specific to the calculation, review, and approval of this measure. The Department used this measure to determine budget accuracy and efficient use of resources. Documented procedures will help ensure that the measure is consistently calculated.

Based on the measure definition, the Department did not accurately report the **Percentage of Problem Institutions with Appropriate Supervisory Actions in Place**. The Department imposed supervisory actions to assist problem institutions. However, the Department's process for calculating the results did

not match the measure's definition. Specifically, some of the supervisory actions imposed were not included in the definition. As a result, the Department overreported the supervisory actions based on the performance measure definition as written. If the Department had reported in accordance with the definition, it would have reported 68 percent instead of 100 percent for this performance measure. It is important that the Department's process and definition align so the reported results can be clearly understood.

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## Department staff had appropriate access to key information systems.

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The Department had processes and related controls to review access for the information systems used by its Accounting and Bank and Trust divisions.

The Department used USAS and the Centralized Accounting and Payroll/Personnel System (CAPPS) to track its financial information. It also used the Examination Division Information System on the Network (EDISON) system to monitor, update, and track performance measure data and calculate annual Bank and Trust assessment fees.

User access to USAS and EDISON was appropriate; the users were all current employees, and access to roles was aligned with job duties. In addition, the Department had review and approval processes in place to help ensure that the data entered and processed was accurate. The Department also maintained proper segregation of duties within CAPPS.

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## Recommendations

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The Department should:

- Perform timely reconciliations and update the relevant accounting policies and procedures.
- Develop, implement, and document a process to periodically monitor the status of penalties assessed for the Bank and Trust Division.

- Document procedures related to the calculation, review, and approval for the **Percentage of Actual Expenditures to Budgeted Expenditures** performance measure.
- Align its performance measure calculations and definitions.

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## Management's Response

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**Recommendation:**

Perform timely reconciliations and update the relevant accounting policies and procedures.

**Response:**

The Department agrees with the recommendation and has completed the FY 2024 revenue and expenditure reconciliations. These reconciliations were performed and provided to the SAO team in response to the recommendation. Furthermore, the monthly FY 2025 reconciliations are current. Additionally, all relevant accounting procedures as related to these items were updated to reflect current and on-going operational practices.

**Recommendation:**

Develop, implement, and document a process to periodically monitor the status of penalties assessed for the Bank and Trust Division.

**Response:**

The Department agrees with the recommendation and is in the process of developing a formal process, which includes enhancing software monitoring capabilities, to remediate the finding. In general, the Legal division will oversee penalty monitoring department wide. To accomplish this, enhancements will be made to the current tracking software to better track and monitor assessed penalties. Once software improvements are incorporated, the Legal division will ensure information is input timely and accurately as well as verify payment(s) are received in accordance with the order.

**Recommendation:**

Document procedures related to the calculation, review, and approval for the Percentage of Actual Expenditures to Budgeted Expenditures performance measure.

**Response:**

The Department agrees with the recommendation, and the relevant financial statements procedure which provides the calculation for the referenced performance measure has been updated and provided to the SAO team in response to the recommendation.

**Recommendation:**

Align its performance measure calculations and definitions.

**Response:**

The Department agrees with the recommendation and has revised the performance measure definition (01-01.04 Percentage of Problem Institutions with Appropriate Supervisory Actions in Place) to reflect current practice. Specifically, the updated definition references Supervisory Memorandum 1005 instead of listing the various administrative actions to avoid discrepancies in the future.

The Department would like to note that as reported, 100% is the complete and accurate calculation for the measure. By updating the written definition, it reflects the agency's reporting practice.

**LOW**

## Chapter 2

# Setting Fees and Penalties

### The Department had sufficient processes for setting Bank and Trust fees and penalty amounts.

The Department had a process to establish Bank and Trust fees and adjust its annual assessment fee schedule in accordance with Texas Administrative Code requirements. That process included consideration of budgetary needs, historical information, and adjustments for inflation. For example, the Department consistently reviewed Bank and Trust quarterly budget reports for fiscal year 2024 through the first quarter of 2025 in accordance with its policy. This quarterly review process helps the Department ensure that its fees are sufficient to cover operating expenses and maintain cash reserves in compliance with Finance Commission of Texas (Finance Commission) policy. As a result of this process, the Department made recommendations to the Finance Commission to reduce its annual assessment fees in fiscal years 2024 and 2025. In addition, the Department's Commissioner reviewed and approved the fee schedules for fiscal years 2024 and 2025.

The Department also had a process for setting Bank and Trust penalties. Specifically, it established a matrix to clearly define the administrative penalty amounts for specific violations. The matrix required consideration of the nature and severity of the violations and any history of noncompliance to help ensure consistency when assessing penalty amounts.



## APPENDICES

Page | 10

### Appendix 1

## Objectives, Scope, and Methodology

### Objectives

The objectives of this audit were to:

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

### 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.

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



- Alana Montoro (Project Manager)
- Brady Bennett, MBA, CFE, CGAP (Assistant Project Manager)
- Ansley Tarbet, MBA
- Castulo Villagomez
- Karmalita Fults
- Melissa Migl
- Dana Musgrave, MBA, CFE (Quality Control Reviewer)
- Courtney Ambres-Wade, CIA, CFE, CGAP (Audit Manager)

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## Methodology

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We conducted this performance audit from January 2025 through May 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 the relevant criteria:
  - The Department's penalty matrix.
  - The Department's policies and procedures.
  - Office of the Comptroller of Public Accounts' *State of Texas Procurement and Contract Management Guide*, Version 3.0.
  - Texas Finance Code, Chapter 35, Title 3, Subtitle A, Subchapter A.
  - Texas Administrative Code, Title 7, Chapter 3.
- Tested reconciliations to ensure that they were properly completed.
- Tested revenues to ensure that they were reported correctly to the Texas Treasury Safekeeping Trust Company.
- Tested expenditures to ensure they were reported correctly in the Uniform Statewide Accounting System (USAS).
- Performed data analysis to test the Department's payroll expenditures to determine whether payroll expense was completely and accurately

reported in USAS in fiscal year 2024 and the first quarter of fiscal year 2025.

- Tested the Department's compliance with its cash reserves policy.
- Evaluated the Department's processes for setting assessment fee and penalty rates.
- Performed data analysis to recalculate the Department's annual assessment fees to determine whether they were accurately reported in fiscal year 2024 and the first quarter of fiscal year 2025.
- Reviewed user access controls for significant Department systems.
- For the selected performance measures, reviewed the queries and recalculated the data to determine whether the **Percentage of Actual Expenditures to Budgeted Expenditures** and the **Percentage of Problem Institutions with Appropriate Supervisory Actions in Place** were accurately reported.
- Tested all administrative penalties for fiscal year 2024 and the first quarter of fiscal year 2025 for the Bank and Trust Division to determine whether they were properly assessed, calculated, and collected.
- Tested all quarterly liquidity reports for fiscal year 2024 and the first quarter of fiscal year 2025 to determine compliance with Finance Commission of Texas liquidity policy.
- Tested all monthly expenditure and revenue reconciliations from USAS to the Centralized Accounting and Payroll/Personnel System (CAPPs) for the first quarter of fiscal year 2025 to determine that they were properly performed.
- Recalculated all Bank and Trust Division assessment fees for fiscal year 2024 and the first quarter of fiscal year 2025 to determine whether they were accurately calculated.
- Performed analytical procedures on all payroll expenditure transactions to determine whether payroll expense was accurately paid to current employees.

## 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 general controls over the information systems (user access). The following fiscal year data sets were used:

- USAS. Revenues, expenditures, and cash in treasury data for fiscal year 2024 and the first quarter of fiscal year 2025.
- CAPPS. Revenues and expenditures for fiscal year 2024 and the first quarter of fiscal year 2025.
- Examination Division Information System on the Network (EDISON). The Department's Bank and Trust Division system for the examination results, annual fee calculation, assessment, and collection for fiscal year 2024 and the first quarter of fiscal year 2025.

Figure 1 provides details about the populations and samples selected for testing. The sample designs were chosen to (1) obtain coverage of higher-risk banks (as identified by the Department), (2) ensure that quarters that reflected higher cumulative cash reserve balances were selected (auditors selected the fourth quarter of fiscal year 2024 and the first quarter of 2025), and (3) ensure that a cross section of expenditures would be included in the sample.

Figure 1

### *Populations and Samples <sup>a</sup>*

Population	Sample Size	Population Size	Sampling Methodology
Financial institutions' Capital, Asset Quality, Management, Earnings, Liquidity, and Sensitivity to Market Risk (CAMELS) ratings in EDISON	30	1,067	Tested a nonstatistical random sample of 25 out of 1,067 state charter bank assessment fee transactions and an additional 5 bank assessment fee transactions based on risk to determine whether the ratings were reviewed and supported.

Population	Sample Size	Population Size	Sampling Methodology
Quarterly liquidity reports	2	5	Tested a nonstatistical sample based on risk to determine whether cash reserves were accurately calculated.
Other expenditures recorded in the Department's annual financial report for fiscal years 2024 and 2025	25	18,268	Tested a non-statistical random sample of expenditure transactions stratified by expenditure type.
<sup>a</sup> The sample items 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:

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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

## **Texas Department of Banking**

Members of the Finance Commission of Texas

Mr. Charles G. Cooper, Commissioner



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