

**TEXAS DEPARTMENT OF BANKING**  
Austin, Texas

**INTERNAL AUDIT ANNUAL REPORT**

Fiscal Year 2025



TEXAS DEPARTMENT OF BANKING  
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  
Texas Department of Banking  
Austin, Texas

We performed procedures to assess the effectiveness and efficiency of the Texas Department of Banking's (DOB) internal control structure over the Revenue Accounting Process Area (the Area) and its compliance with applicable chapters of the Texas Finance Code, relevant rules of the Texas Administrative Code, and the Area's established policies and procedures, for the seven months ended March 31, 2025. The audit scope was limited to revenues related to Non-Depository Supervision to avoid duplicating the efforts of the State Auditor's Office in its ongoing Self-Directed, Semi-Independent (SDSI) audit.

Our audit procedures determined that DOB's internal control structure over the Area was generally adequate, and no material instances of noncompliance were noted. However, we did identify certain matters, detailed in this report, that present opportunities to strengthen internal controls and enhance compliance with DOB's policies and procedures. Based on their degree of risk or effect in relation to the audit objectives, these matters were rated as Priority, High, Medium, or Low, as described in the "Summary and Related Rating of Observations/Findings and Recommendations" section of this report.

We also conducted follow-up procedures on findings and recommendations from prior 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 comments and recommendations for the Area, as well as the follow-up results, with various DOB personnel. We are available to provide additional information if needed.

*Garza/Gonzalez*  
& Associates, LLC

April 30, 2025

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## INTRODUCTION

The Texas Department of Banking (DOB) is a Texas state agency responsible for maintaining a financial regulatory system in Texas that ensures a stable banking environment while providing the public with convenient, safe, and competitive banking and other financial services. DOB operates under the oversight of the Finance Commission of Texas as authorized by various provisions of the Texas Finance Code, Texas Health and Safety Code, and the Texas Administrative Code.

DOB's primary functions are to:

- Charter, regulate, and examine state-chartered commercial banks, trust companies, and foreign bank branches, agencies, and representative offices;
- License, regulate, and examine money services businesses (MSBs), prepaid funeral contract sellers (PFCs) and perpetual care cemeteries (PCCs); and,
- Register check verification entities.

DOB was granted Self-Directed, Semi-Independent (SDSI) status during the 81<sup>st</sup> Legislative Session. As an SDSI agency, DOB does not require legislative budget approval; instead, the Finance Commission determines its spending authority or limits. DOB's operating funds are generated from fees assessed to regulated businesses, with no reliance on legislative appropriations.

### **2025 Internal Audit Plan**

Following are the internal audit functions performed, as identified in DOB's 2025 Internal Audit Plan, dated November 25, 2024, and approved by the Audit Committee and Finance Commission on December 13, 2024:

- Risk Assessment & Preparation of the 2025 Internal Audit Plan
- Revenue Accounting Process Audit
- Money Services Businesses (MSB) Audit
- Follow-up of Prior Year Internal Audits
- Preparation of the 2025 Internal Audit Annual Report
- Other Tasks

This report (Report No. 2) contains the results of the Revenue Accounting Process 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. The Money Services Businesses (MSB) Audit report, dated February 26, 2025, was presented to and approved by the Audit Committee and Finance Commission on April 25, 2025.

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### I. Compliance with Posting Requirements

To comply with the provisions of Texas Government Code, Section 2102.015 and the State Auditor's Office guidelines, within 30 days of approval by the Finance Commission, DOB 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.

DOB will also post periodic internal audit reports on its website, unless the content is considered confidential or exempt from public disclosure under Texas Government Code Chapter 552. These periodic and internal audit annual reports will include any identified weaknesses, deficiencies, wrongdoings, or other concerns raised by internal audits and other functions performed by the internal auditor, as well as a summary of the actions taken by DOB to address such concerns.

### II. Consulting and Nonaudit Services Completed

The internal auditor did not perform any consulting services, as defined in the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* or any non-audit services, as defined in the *Government Auditing Standards*, 2018 Revision, Technical Update April 2021, Sections 3.64-3.106.

### III. External Quality Assurance Review

The internal audit department's most recent *Peer Review Report*, dated 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 two audits to be performed during fiscal year 2025. The Plan also included a follow-up on prior year internal audit recommendations that had not been 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.

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**Risk Assessment**

Utilizing information obtained through the completed questionnaires received and background information reviewed, 17 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.

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

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

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
- Payroll and Human Resources Audit
- Trust Examinations 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
- Corporate Activities Audit
- Procurement/Contract Management/HUB Audit
- Follow-Up of the Prior Year Internal Audits
- Preparation of the Internal Audit Annual Report

Fiscal Year 2022:

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

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The internal audits 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.                | Money Services Businesses (MSB)<br><i>Objective:</i> To assess whether DOB’s established policies, procedures, processes, and internal controls for the MSB area ensure effective and timely MSB examinations and compliance monitoring.   | 2/26/25            |
| 2.                | Revenue Accounting Process<br><i>Objective:</i> To evaluate the effectiveness and efficiency of internal controls, policies, procedures, and processes within the Revenue Accounting Process Area (Area), and to assess compliance with applicable requirements related to the assessment, collection, and accounting of various fees and penalties administered by the Non-Depository Supervision (NDS) division. | 4/30/25            |
| 2.                | Internal Audit Annual Report – Follow-up on findings and recommendations that were presented in the Prior Year Internal Audit Report.  | 4/30/25            |
| -                 | Other Tasks Assigned by the Finance Commission or the Audit Committee  | None               |

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## V. Executive Summary

### Revenue Accounting Process – Non-Depository Supervision (NDS)

#### BACKGROUND

Under the Texas Finance Code and Health and Safety Code, DOB is authorized to assess and collect fees, fines, penalties, and restitutions (collectively, “fees”) from regulated entities, as well as from unlicensed entities engaged in prohibited activities. The applicable fee types and amounts, shown below, are specified in the Texas Administrative Code (TAC) rules adopted by the Finance Commission.

| License Type                    | Applicable TAC Rules               |
|---------------------------------|------------------------------------|
| Money Services Businesses (MSB) | Title 7, Part 2, §33.27            |
| Prepaid Funeral Contracts (PFC) | Title 7, Part 2, §25.23 and §25.24 |
| Perpetual Care Cemeteries (PCC) | Title 7, Part 2, §26.1             |

The table below summarizes significant NDS-related revenues collected by DOB from September 1, 2024, through March 31, 2025:

| Revenue Type                 | MSB          | PFC        | PCC        |
|------------------------------|--------------|------------|------------|
| Assessments                  | \$ 1,665,823 | \$ 541,869 | \$ 531,501 |
| Examination & Travel Fees    | \$ 94,166    | \$ 42,982  | \$ 1,925   |
| Penalties & Late Filing Fees | \$ 2,492,712 | \$ 34,900  | \$ -       |

All collected fees are deposited into an interest-bearing account with the Texas Treasury Safekeeping Trust Company (TTSTC), as required by Texas Government Code §472.110.

#### Organizational Roles and Responsibilities

The assessment, collection, and accounting of NDS-related fees are coordinated between the NDS Division and the Accounting Section within the Administrative Services Division:

- **NDS Division:** Managed by the Director, who reports to the Commissioner. The MSB Program Specialist and the PFC/PCC Administrative Assistants (collectively, the “Administrators”) prepare quarterly assessments, coordinate billing and collections with Accounting, and follow up on returned payments. The Review Examiner monitors and reconciles fee collections.
- **Administrative Services Division:** Managed by the Chief Financial Officer, who reports to the Deputy Commissioner. Key staff include:
  - **Chief Accountant** - Approves revenue recorded in CAPPs and performs monthly reconciliations.
  - **Senior Accountant** - Manages daily accounting tasks related to revenue collections.
  - **Inventory and Store Specialist** - Processes incoming mail.

#### Annual Assessments

Annual assessments fund the operational and indirect costs of the NDS Division. Each license type has a defined basis for calculating these assessments:

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**FY25 Q1 Minimum Assessment and Calculation Basis by License Type**

| <b>License Type</b> | <b>MSB-MT</b>             | <b>MSB-CEX</b>            | <b>PFC</b>            | <b>PCC</b>            |
|---------------------|---------------------------|---------------------------|-----------------------|-----------------------|
| Q1 Minimum          | \$ 4,500                  | \$ 3,150                  | \$ 279                | \$ 269                |
| Basis               | Annual transaction volume | Annual transaction volume | Outstanding contracts | Required fund balance |

*Payment Structure:*

NDS licensees typically pay their annual assessment in four equal quarterly installments. However, in the first fiscal quarter, licensees must remit the greater of 25% of their annual assessment or a fixed “minimum” amount. Any excess paid in the first quarter (i.e., the difference between the Q1 minimum and 25% of the annual fee) is credited toward subsequent quarters.

*Inflationary Adjustment:*

Assessments for PFC and PCC licensees include an annual inflationary adjustment based on the Gross Domestic Product Implicit Price Deflator (GDPIP) factor, which is calculated using data from the U.S. Department of Commerce, Bureau of Economic Analysis. Beginning in FY26, this annual adjustment will also apply to MSB assessments.

*Collection Process:*

Assessment amounts are calculated in the Supervisory Administrative Regulation Application (SARA) using data from licensees’ most recent annual reports. An Administrator exports the system-generated ACH payment file from SARA and updates bank information as needed. After review by the Review Examiner, the file is finalized and submitted by the Chief Accountant or Senior Accountant to the TTSTC where collected revenue is deposited.

Examination Fees

Under TAC rules, DOB assesses examination fees at the following hourly rates:

- \$120 per hour for MSBs
- \$75 per hour for PFCs and PCCs

These fees, along with applicable travel costs, are assessed under the following circumstances:

- (a) When more than one examination per fiscal year is deemed necessary by the Commissioner.
- (b) For travel related to out-of-state examinations.
- (c) For new licensees that have not yet filed an annual report.

These fees are intended to recover the direct examination costs and are invoiced to the licensee once the costs are incurred by DOB.

Penalties and Fines

DOB may impose administrative penalties for regulatory violations. The Legal Division determines penalty amounts using a weighted matrix that considers:

- The severity of the violation
- Demonstrated good faith efforts
- The entity’s history of compliance

Penalty amounts and payment deadlines are specified in enforcement orders.

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### Revenue Processing and Recording

The Accounting Section processes payments received through the following methods:

- ACH transfers (primarily for quarterly assessments)
- Checks
- Wire transfers

Non-assessment ACH and wire payments are processed upon receipt at TTSTC. Check payments are processed when delivered to DOB. The Senior Accountant records all revenue in the CAPPS system using account codes provided by the receiving division. Revenue entries are reviewed by the Chief Accountant and the Chief Financial Officer, whose initials on printed records denote approval.

## AUDIT OBJECTIVE, SCOPE, AND METHODOLOGY

### **Objective**

The objective of this audit was to evaluate the effectiveness and efficiency of internal controls, policies, procedures, and processes within the Revenue Accounting Process Area (Area). The audit also assessed compliance with applicable requirements related to the assessment, collection, and accounting of various fees and penalties administered by the Non-Depository Supervision (NDS) division.

### **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). The scope was limited to NDS-related revenues to avoid duplicating the efforts of the State Auditor's Office in its ongoing Self-Directed, Semi-Independent (SDSI) audit. Restitutions and MSB application fees were also excluded from the scope, as they are addressed under separate potential audit topics.

### **Methodology**

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

We performed procedures to achieve the audit objective, including:

1. Reviewed relevant provisions in the Texas Finance Code, Health and Safety Code, and Texas Administrative Code applicable to the Area.
2. Reviewed the Area's documented policies and procedures, and relevant documents such as templates and logs. Conducted interviews and walkthroughs to evaluate internal controls, processes, and current practices.
3. Selected a sample of 3 out of the 6 NDS quarterly assessment collections during the audit period. For each sample:
  - a. Verified that licensees were provided at least 15 days' notice between the notification letter date and the scheduled ACH withdrawal date.
  - b. Confirmed that fee type, number of records, and total collection amounts reported in ACH notification emails from NDS and Accounting matched the revenue recorded in CAPPS.

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4. Selected a sample of 16 NDS-related receipts not associated with quarterly assessments, and tested for the following attributes:
  - a. Accuracy of the recorded amount, account codes (Program Code and Revenue Code), and payer information in CAPPs.
  - b. Presence of the Chief Accountant's initials on the CAPPs Journal Detail Print, indicating approval.
  - c. Retention of TTSTC deposit approval screen printouts.
  - d. Compliance with DOB's check receipt procedures:
    - i. Logging of received checks in the date-stamped Check Register List by the Inventory and Store Specialist.
    - ii. Retention of DOB's copy of the deposit ticket validated and date-stamped by TTSTC.
    - iii. Deposit of checks within 3 business days.
5. For a sample of 25 NDS licensees:
  - a. Traced the assessment basis data entered into the SARA system to the licensees' 2023 Annual Reports.
  - b. Recalculated FY25 Q1 and Q2 assessments and compared the results to the amounts recorded in CAPPs.
6. For all 8 NDS enforcement orders issued during the audit period, tested for the following attributes:
  - a. Inclusion and accuracy in the NDS Penalty Monitoring Report.
  - b. Accuracy of the recorded collection amount and account codes in CAPPs.
  - c. Timeliness of collection.Additionally, for a sample of 4 orders
  - d. Completion of the penalty matrix.
  - e. Confirmation that assessed penalties were within the statutory limit.
7. Selected 4 of the 6 refunds issued during the audit period and tested for:
  - a. Eligibility based on refund criteria: (a) error, (b) overpayment, or (c) denied/cancelled application.
  - b. Submission of refund request in writing.
  - c. Accuracy of recording in CAPPs using the same account code as the original revenue.
  - d. Issuance of refunds to the original payer within 30 days of the written request.
8. For FY25 Q2 assessment reconciliations (MSB, PFC, and PCC):
  - a. Traced the "Assessment Amount Per SARA" in the reconciliation to the corresponding SARA assessment spreadsheet export.
  - b. Traced the total posting amount in the reconciliation to the CAPPs report.
  - c. Verified that reconciling items were valid and adequately documented.

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9. Reviewed DOB's methodology for calculating the GDPIPD factor and independently recalculated the FY25 adjustment applied to PFC and PCC assessments.
10. Traced the following FY25 year-to-date (YTD) NDS revenue amounts, as reported in the Second Quarter Financial Statements presented to the Audit Committee on April 25, 2025, to supporting CAPPs reports:
  - a. Non-Depository Supervision: \$2,852,132
  - b. Penalties – Non-Depository Supervision: \$2,521,612

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**VI. Observations/Findings and Recommendations**

**SUMMARY AND RELATED RATING OF  
OBSERVATIONS/FINDINGS AND RECOMMENDATIONS**

As DOB’s internal auditors, we exercised 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 impact of the findings in relation to the audit objective(s). The table below presents a summary of the observations/findings and recommendations in this report and their corresponding ratings.

| <b>Summary of Observations/Findings &amp; Recommendations and Related Ratings</b>  |                         |               |
|--|-------------------------|---------------|
| <b>Finding No.</b>   | <b>Title</b>            | <b>Rating</b> |
| 1  | Assessment Calculation  | Low           |
| <b>Observation No.</b>   |                         |               |
| 1  | NDS Assessment Schedule | --            |
| <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**

| Report No. | Report Date | Name of Report             | Observations/Findings and Recommendations   |
|------------|-------------|----------------------------|---|
| 2          | 4/30/25     | Revenue Accounting Process | <p><b>1. Assessment Calculation</b></p> <p>Our review of the FY25 Q2 assessment spreadsheet generated from the SARA system identified one licensee whose assessment was higher than those of similarly sized licensees. DOB subsequently determined that a total of 12 MT licensees were over-assessed as of the second quarter of fiscal year 2025 due to the same issue, which was not detected by existing layers of internal controls. The error resulted from an incorrect marginal rate being applied to one of the assessment tiers, and the total overpayments in FY25 Q2 accounted for approximately 3.5% of total collection for the quarter. While the correct rate had been used during testing, it was not accurately transferred to the final version used to process assessments.</p> <p><b>Recommendation</b></p> <p>We recommend that DOB ensure the enhanced controls developed by the NDS Division in response to this issue are fully implemented and functioning as intended prior to the FY26 assessment.</p> <p><b>Management’s Response</b></p> <p>The discrepancy was traced to the implementation of the August 2024 revisions to the assessment tables utilized by the division’s program from the testing environment to live database, which inadvertently omitted a factor digit for a particular tier. This resulted in one factor being off by 1/10000<sup>th</sup>. To address this issue, the Management Information Systems (MIS) division has strengthened its processes to ensure all data changes are completed utilizing Data Pipelines, which will allow for systemic transfers of the programming code. Also, MIS has enhanced its system to produce a system-generated alert upon any changes to the assessment tables to a set distribution group, which includes the financial analysts in the Bank and Trust division, requiring for an independent verification that revisions were properly implemented. Furthermore, if any change is made to the assessment table in SARA, the program will trigger an email to the same distribution group.</p> |

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| Report No. | Report Date | Name of Report             | Observations/Findings and Recommendations   |
|------------|-------------|----------------------------|---|
| 2          | 4/30/25     | Revenue Accounting Process | <p style="text-align: center;"><b>OBSERVATION</b></p> <p><b>1. NDS Assessment Schedule</b></p> <p>DOB is required by law to charge fair and proportional fees to its licensees, as outlined in the following statutes:</p> <ul style="list-style-type: none"> <li>• Finance Code Sec. 152.052 (Money Services Businesses)</li> <li>• Finance Code Sec. 154.054 (Prepaid Funeral Contracts)</li> <li>• Health and Safety Code Sec. 712.044 (Perpetual Care Cemeteries)</li> </ul> <p>To meet this requirement, DOB uses tiered assessment schedules based on each licensee’s level of activity. Each licensee pays a base fee, plus an additional amount determined by a specific variable:</p> <ul style="list-style-type: none"> <li>• Transaction volume for MSBs</li> <li>• Outstanding contracts for PFCs</li> <li>• Required fund balance for PCCs</li> </ul> <p>However, these schedules do not always transition smoothly as activity increases. Instead, as illustrated in the <b>Exhibit</b> below, fees reflect an increase or decrease at certain tier thresholds. This can result in two licensees — whose activity levels differ only slightly — being assessed different fees, simply because one crossed into a new tier. These shifts may raise concerns about whether assessments are fair and proportional.</p> <p>Similar step patterns were observed in the assessment schedules for other NDS license types as well.</p> <p><b>Recommendation</b><br/>We recommend that DOB review the tiered assessment structure during its next rulemaking cycle and, specifically, explore options to smooth fee transitions between tiers. This would help ensure that assessments remain equitable and proportional across all licensees.</p> <p><b>Management’s Response</b><br/>The Department acknowledges the auditor’s recommendation to review and explore options to improve the transition between the various assessment tiers.</p> |

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**EXHIBIT**

**FY25 Currency Exchange License Assessment Schedule**

| Tier | Variable (Transaction Volume) Range | Tier Minimum Fee | Multiplier |
|------|-------------------------------------|------------------|------------|
| 1    | \$0 - \$249,999.99                  | \$3,150.00       | --         |
| 2    | \$250,000.00 - \$499,999.99         | \$3,150.00       | 0.00235000 |
| 3    | \$500,000.00 - \$999,999.99         | \$3,850.00       | 0.00175000 |
| 4    | \$1,000,000.00 - \$9,999,999.99     | \$4,900.00       | 0.00011500 |
| 5    | \$25,000,000.00 - \$49,999,999.99   | \$7,150.00       | 0.00007350 |
| 6    | \$50,000,000.00 - \$199,999,999.99  | \$9,150.00       | 0.00001155 |
| 7    | \$200,000,000.00 and above          | \$10,500.00      | 0.00001125 |

**Example 1: Increase at Tier Threshold**

| Variable  | Assessment Calculation                    | Fee               |
|---|---|-------------------|
| \$49,999,999.99   | \$7,150.00 + (24,999,999.99 x 0.00007350) | \$8,987.50        |
| \$50,000,000.00   | \$9,150.00 + (0 x 0.00001155)             | \$9,150.00        |
| <b>Difference</b>   |   | <b>+ \$162.50</b> |
| <p>A licensee with \$49.9 million in activity (Tier 5) pays:</p> <ul style="list-style-type: none"> <li>• Base fee: \$7,150.00</li> <li>• Plus: \$1,873.50 (\$24,999,999.99 × 0.00007350)</li> <li>• Total Fee: \$8,987.50</li> </ul> <p>A licensee with \$50 million in activity (Tier 6) pays:</p> <ul style="list-style-type: none"> <li>• Base fee: \$9,150.00</li> <li>• Plus: \$0.00 (\$0 × 0.00001155)</li> <li>• Total Fee: \$9,150.00</li> </ul> <p>Result: A one-penny increase in activity results in a \$162.50 fee increase.</p> |   |                   |

**Example 2: Decrease at Tier Threshold**

| Variable  | Assessment Calculation                     | Fee               |
|---|--|-------------------|
| \$199,999,999.99  | \$9,150.00 + (149,999,999.99 x 0.00001155) | \$10,882.50       |
| \$200,000,000.00  | \$10,500.00 + (0 x 0.00001125)             | \$10,500.00       |
| <b>Difference</b>   |  | <b>- \$382.50</b> |
| <p>A licensee with \$199.9 million in activity (Tier 6) pays:</p> <ul style="list-style-type: none"> <li>• Base fee: \$9,150.00</li> <li>• Plus: \$1,732.50 (\$149,999,999.99 × 0.00001155)</li> <li>• Total Fee: \$10,882.50</li> </ul> <p>A licensee with \$200 million (Tier 7) pays:</p> <ul style="list-style-type: none"> <li>• Base fee: \$10,500.00</li> <li>• Plus: \$0.00 (\$0 × 0.00001125)</li> <li>• Total Fee: \$10,500.00</li> </ul> <p>Despite having slightly more activity, the Tier 7 licensee pays \$382.50 less.</p> |  |                   |

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Internal Audit Annual Report

Fiscal Year 2025

| 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          | 4/30/25     | 2025 Follow-Up | <p align="center"><b><u>Follow-Up of Prior Year Internal Audits</u></b></p> <p>Following is the status of the recommendations made in prior years that had not been fully implemented.</p> <p><u>Payroll and Human Resources (Report date 4/19/2024)</u></p> <ol style="list-style-type: none"> <li><b>1. Data Exchange (DEX) Access Deletion</b><br/>DOB should enhance current procedures to ensure that critical offboarding procedures are identified, given priority, and receive higher oversight.</li> <li><b>2. Prior State Employment Verification</b><br/>DOB should ensure the full implementation of the new Onboarding Checklist, which became effective March 2024 and incorporates specific prior service verification steps.</li> <li><b>3. Job Offer Checklist and Right to Opt-Out 401(k) Acknowledgement</b><br/>DOB should ensure checklists, including the recently implemented Onboarding Checklist, are completed in their entirety to document each required step's completion, and are retained in the employee's personnel files.</li> </ol> <p><u>Trust Examinations (Report date 7/9/2024)</u></p> <ol style="list-style-type: none"> <li><b>1. Completeness of Work Papers</b><br/>DOB should enhance current procedures to ensure that critical offboarding procedures are identified, given priority, and receive higher oversight.</li> </ol> <p><i>Observations</i></p> <ol style="list-style-type: none"> <li><b>2. Policies &amp; Procedures</b><br/>Various documents identified in the Report should be reviewed periodically to assess whether procedures and/or processes should be updated for improvement.</li> <li><b>3. Quality Control Procedures</b><br/>DOB should ensure the quality control procedures are followed to ensure completion of all embedded documents.</li> </ol> <p><u>Procurement/Contract Management/HUB (Report date 6/7/2023)</u></p> <ol style="list-style-type: none"> <li><b>1. LBB Reporting</b><br/>DOB should strengthen its controls to ensure it remains compliant with LBB state reporting requirements.</li> </ol> | <p align="center"><b>Fully Implemented</b></p> <p align="center"><b>Fully Implemented</b></p> <p align="center"><b>Fully Implemented</b></p> <p align="center"><b>Fully Implemented</b></p> <p align="center"><b>Fully Implemented</b></p> <p align="center"><b>Fully Implemented</b></p> <p align="center"><b>Fully Implemented</b></p> |

## TEXAS DEPARTMENT OF BANKING

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

DOB 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**

DOB has provided information on their website home page on how to report suspected fraud, waste, and abuse to the State Auditor's Office (SAO) by posting a link to the SAO's fraud hotline. DOB has also developed a Fraud Prevention Policy that provides information on how to report suspected fraud, waste, and abuse to the SAO.

### **IX. Proposed Internal Audit Plan for Fiscal Year 2026**

The risk assessment performed during fiscal year 2025 was used to identify the following *proposed* areas that are recommended for internal audit and other tasks to be performed for fiscal year 2026. The 2026 Internal Audit Plan 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.

- MIS: Governance, Policies, and General IT Controls Audit
- Bank Examinations Audit
- Follow-up of Prior Year Internal Audits
- Other Tasks Assigned by the Finance Commission or the Audit Committee

ATTACHMENT

**TEXAS DEPARTMENT OF BANKING**  
**History of Areas Audited**  
**For Fiscal Year 2025**

| <b>POTENTIAL AUDIT TOPIC</b> |   | 2015 | 2016 | 2017 | 2018  | 2019  | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|------------------------------|---|------|------|------|-------|-------|------|------|------|------|------|------|
| 1                            | Bank Examinations   |      |      | A/B* | E     |       |      |      | A    |      |      |      |
| 2                            | Consumer Assistance   |      |      |      | E     |       |      | A    |      |      |      |      |
| 3                            | Corporate Activities  |      |      |      | E     |       |      |      |      | A    |      |      |
| 4                            | Financial Reporting   |      |      | B    | E*    |       |      |      |      |      |      | B    |
| 5                            | Fixed Asset Management  |      |      | A    | C*    |       |      | C*   |      |      |      |      |
| 6                            | Imaging and Records Management  |      | A    |      |       |       | A    |      |      |      |      |      |
| 7                            | IT Examinations   |      | A    |      | E     |       |      |      | A    |      |      |      |
| 8                            | Management Information Systems [(MIS) Includes Disaster Recovery Plan] <sup>1</sup> |      |      | B    | E*    | A1*/D |      | A*/D |      | D    |      | B*   |
| 9                            | Money Service Businesses  |      |      | B*   | E     | A1*   | A*   |      |      |      |      | A    |
| 10                           | Payroll and Human Resources   |      |      |      | C*/F* | F*    |      | C*   |      |      | A/F* | C*   |
| 11                           | Perpetual Care Cemeteries   | A    |      | B*   | E     | A1*   | A*   |      |      |      |      |      |
| 12                           | Prepaid Funeral Contracts   |      |      | B*   | E     | A1*   | A*   |      |      |      |      |      |
| 13                           | Prepaid Funeral Guaranty Fund   |      |      |      | A/E   | A1*   | A*   |      |      |      |      |      |
| 14                           | Procurement/Contract Management/HUB   |      |      | B*   | C*    |       |      | C*   |      | A    |      | C*   |
| 15                           | Revenue Accounting Process  | A    |      | B    | E     | A1*   | A    |      |      |      |      | A/B  |
| 16                           | Travel  |      |      | B*   | C*/E* |       |      | C*   |      |      |      | C*   |
| 17                           | Trust Examinations  |      |      |      | A/E   |       |      |      |      |      | A    |      |

<sup>1</sup> Quarterly vulnerability scans are performed by the DIR or a third-party procured through the DIR, which are considered standardized reviews and therefore not reflected in this schedule by

**Note:** Performance Measures is included in the scope of the applicable audit area(s).

**Legend (audits/reviews with asterisk are considered limited scope for the audit area)**

- A** Internal audit performed by Garza/Gonzalez & Associates, LLC, CPAs.
- A1** Internal audit performed by McConnell & Jones LLP.
- B** Audit performed by the State Auditor's Office (SAO).
- C** Post-Payment audit performed by the Comptroller of Public Accounts.
- D** IT assessment performed by the Department of Information Resources (DIR) or a third-party vendor procured through the DIR.
- E** Sunset Review performed by the Sunset Advisory Commission.
- F** Review performed by the Texas Workforce Commission.