



An Audit of the Department of Savings and Mortgage Lending

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Executive Summary

Purpose and Scope

The objectives of this audit were to determine whether Department of Savings and Mortgage Lending (Department):

- Procured goods and services according to applicable state laws and Comptroller requirements.
- Processed payments according to applicable state laws, Comptroller requirements and statewide automated system guidelines.
- Maintained documentation to support those payments.
- Properly recorded capital and high-risk assets.

This audit was conducted by the Texas Comptroller of Public Accounts (Comptroller's office), and covers the period from Sept. 1, 2022, through Aug. 31, 2023.

Background

The Department of Savings and Mortgage Lending has two key areas of regulatory responsibility: the chartering, regulation and supervision of the state's thrift industry, and the licensing/registration and regulation of the state's mortgage industry.

Department of Savings and
Mortgage Lending website
<https://www.sml.texas.gov/>

Audit Results

The Department largely complied with relevant statutes and Comptroller requirements. Auditors found no issues with payroll or travel transactions, fixed assets management, grants, claims or refunds. However, the Department should consider making improvements to its procurement process, its use of the state's commercial charge card program, and its coding of certain transactions.

Auditors did not reissue any findings from the previous audit, which was issued in November 2018. An overview of audit results is presented in the following table.



Table Summary

Area	Audit Question	Results	Rating
Payroll Transactions	Did payroll transactions comply with pertinent statutes and Comptroller requirements?	No issues	Fully Compliant
Purchase and Payment Card Transactions	Did purchase and payment card transactions comply with pertinent statutes and Comptroller requirements?	<ul style="list-style-type: none">• Purchase order dated after invoice.• Vendor compliance verification not performed in a timely manner.	Compliant, Findings Issued
Travel and Travel Card Transactions	Did travel and travel card transactions comply with pertinent statutes and Comptroller requirements?	No issues	Fully Compliant
Fixed Assets	Were tested assets in their intended locations and properly reported in the State Property Accounting system?	No issues	Fully Compliant
Grants, Claims and Refunds	Did grants, claims and refund transactions comply with pertinent statutes and Comptroller requirements?	No issues	Fully Compliant
Targeted Analysis	Did targeted analysis indicate compliance with pertinent statutes and Comptroller requirements?	Incorrect invoice number and billing account number	Compliant, Findings Issued



Key Recommendations

Auditors made several recommendations to help mitigate risk arising from control weaknesses. Key recommendations include:

- The Department must ensure staff creates a purchase order before ordering goods or services from a vendor to ensure a proper audit trail, and to establish documentation that can be compared to the vendor's invoice to ensure accurate payment.
- The Department must check the System for Award Management (SAM) database in a timely manner to verify the vendor is not excluded from grant or contract participation at the federal level.
- The Department must ensure staff uses the correct formatting and coding for third-party payment transactions.



Detailed Findings

Payroll Transactions

Auditors developed a sample totaling \$234,021.02 from a group of 15 employees and 62 payroll transactions to ensure the Department complied with [Texas Payroll/Personnel Resource \(FPP F.027\)](#) and pertinent statutes. Audit tests revealed no exceptions in this group of transactions.

Purchase and Payment Card Transactions

Auditors developed a sample of 15 purchase transactions totaling \$75,968.51 and five payment card transactions totaling \$4,759.79 to ensure the Department complied with [eXpendit \(FPP I.005\)](#) and pertinent statutes. Audit tests revealed the following exceptions in these transactions.

Purchase Order Dated After Invoice

For one purchase transaction for a cybersecurity training event, the purchase order was dated after services were rendered and after the Department received the vendor's invoice. The Department did not create a purchase order when staff registered for the training. The Department noted there was an approval for attending the training event in the internal system it uses to approve and track staff training. However, this system is not linked to CAPPs, so does not create an official procurement record in the state's accounting system.

According to [34 Texas Administrative Code Section 5.51\(c\)\(1\)\(D\)](#), agencies must maintain necessary documentation for each purchase document to prove each payment is legal, proper and fiscally responsible. Without a purchase order established in CAPPs at the time services are requested, it is difficult for the Department to ensure it is not overcharged or billed for goods or services it did not request.

Recommendation/Requirement

The Department must ensure staff creates a purchase order before ordering goods or services from a vendor to ensure a proper audit trail and to establish documentation that staff can verify against the vendor's invoice before payment.

Department Response

The Department agrees with the finding. The purchase of the training was fully authorized in the Department's internal system for requesting and approving training registrations. All steps of the procurement process were followed, including appropriate multi-step authorizations and approvals and due diligence checks. The Department has implemented additional controls to ensure that PO's are created timely.



Vendor Compliance Verification Not Performed in a Timely Manner

For one purchase transaction, the Department did not check the System for Award Management (SAM) or the Office of Foreign Assets Control (OFAC) of the U.S. Department of the Treasury lists in a timely manner. Although the Department had checked the SAM database twice, neither check was timely: One was performed more than a month before the purchase order was established, and the other was performed after it had been established.

According to the [*State of Texas Procurement and Contract Management Guide's*](#) Appendix of Post-Payment & Procurement Review Agency Document Checklist, the SAM and OFAC checks must be performed no more than seven days before contract award, and the agency must retain documentation of the checks. Creating a purchase order in CAPPS is considered the contract award date when the parties do not execute a separate formal contract document for the procurement.

Recommendation/Requirement

The Department must check the SAM database before awarding a contract to verify the vendor is not excluded from grant or contract participation at the federal level. A contract cannot be awarded to a vendor named on the U.S. Treasury Department, OFAC's master list of specially designated nationals and blocked persons (with limited exceptions). See [*executive order 13224*](#) for more information.

Department Response

The Department agrees with the finding. The Department has implemented additional controls to ensure vendor compliance verifications are performed timely.

Travel and Travel Card Transactions

Auditors developed a sample of 15 travel transactions totaling \$15,065.81 and four travel card transactions totaling \$2,037.79 to ensure the Department complied with [*Textravel \(FPP G.005\)*](#) and pertinent statutes. Audit tests revealed no exceptions in these transactions.

Fixed Assets

The audit included a review of a limited number of existing fixed assets currently in the Department's inventory; auditors tested for accurate reporting and to verify the existence of assets. All assets tested were in their intended locations and properly recorded in the State Property Accounting (SPA) system. Audit tests revealed no exceptions in these transactions.



Grants, Claims and Refunds

Auditors developed a sample of six transactions totaling \$50,931.94 that included grants, claims, refunds of revenue and transfers. Auditors conducted a limited review to verify the payments did not exceed authorized amounts. The testing of these payments did not include a review of the Department's procedures for awarding the grants or monitoring payments made to grantees. Audit tests revealed no exceptions for this group of transactions.

Targeted Analysis

The audit included targeted analyses outside the main samples of payroll, purchase and travel transactions. Using Comptroller statewide financial systems and the Citibank CitiManager Reporting System, auditors generated several special reports to analyze additional processes relevant to the audited entity. Such processes may include interagency transfers, refunds to payroll, proper coding of payment card transactions, and others. Audit tests revealed the following exception in the Department's targeted analysis reports.

Incorrect Invoice Number and Billing Account Number

In a report generated outside the sample, auditors identified 233 procurement card transactions totaling \$48,510.61 that were processed incorrectly to the state's payment card vendor. The Department failed to provide the correct billing account number as prescribed by [Processing Third-Party Transactions in USAS for Payment/Travel Cards, Direct Bill Payments and Reimbursements \(FPP A.043\) \(login required\)](#) and [USAS and CAPPS Financials Invoice Number Field Requirements \(FPP E.023\)](#). The invoice number was also not compliant with the required format described in FPP E.023. As a result, the vendor might not be able to post payments to the Department's payment and travel card accounts. Failure to follow the formatting guidelines may also delay the payment card vendor's ability to credit the Department's card accounts.

The Department stated it used the reference number from the credit card statement instead of the correctly formatted number to populate the invoice field.

Recommendation/Requirement

The Department must update its procedures to ensure staff uses the correct formatting and coding for third-party payment transactions in accordance with FPP A.043 and FPP E.023.

Department Response

The Department agrees with the finding. The referenced 233 transactions represent 12 monthly statements paid using an invoice number format different than required. Effective March 2024, the procedures and processes have been updated in full compliance with the Comptroller's guidelines.



Appendices

Appendix 1 — Objectives, Scope, Methodology, Authority and Team

Audit Objectives

The objectives of this audit were to:

- Ensure payments are documented so a proper audit can be conducted.
- Ensure payment vouchers are processed according to the requirements of the statewide financial systems.
- Verify payments are made in accordance with certain applicable state laws.
- Verify assets are in their intended locations.
- Verify assets are properly recorded for agencies and institutions of higher education that use the State Property Accounting (SPA) system.

Audit Scope

Auditors reviewed a sample of the Department of Savings and Mortgage Lending (Department) payroll, purchase and travel transactions that processed through the statewide financial systems from Sept. 1, 2022, through Aug. 31, 2023, to determine compliance with applicable state laws.

The Department received appendices with the full report, including a list of the identified errors. Copies of the appendices may be requested through a [Public Information Act](#) inquiry.

Texas law requires the Texas Comptroller of Public Accounts (Comptroller's office) to audit claims submitted for payment through the Comptroller's office. All payment transactions are subject to audit regardless of amount or materiality.

The audit provides a reasonable basis for the findings set forth in this report. The Department should implement the recommendations listed in the Detailed Findings of this report. It is the Department's responsibility to seek refunds for all overpayments unless it determines it is not cost effective to do so. If necessary, the Comptroller's office may take the actions set forth in Texas Government Code, Section 403.071(h), to ensure the Department's documents comply in the future. The Department must ensure that the findings discussed in this report are resolved.

Audit Methodology

The Expenditure Audit section uses limited sampling to conduct a post-payment audit, and relies on professional judgment to select areas the auditor considers high risk.



Fieldwork

Each auditor in the Expenditure Audit section approaches each audit with an appropriate level of professional skepticism based on the results of the initial planning procedures.

If an auditor suspects during an audit that fraud, defalcation or intentional misstatement of the facts has occurred, the auditor will meet with his or her supervisor, the Statewide Fiscal Oversight manager, or both, to decide what action or additional procedures would be appropriate.

Audit Authority

State law prohibits the Comptroller's office from paying a claim against a state agency unless the Comptroller's office audits the corresponding voucher.

- Texas Government Code, Sections 403.071(a), 403.078, 2103.004(a)(3).

State law allows the Comptroller's office to audit a payment voucher before or after the Comptroller's office makes a payment in response to that voucher.

- Texas Government Code, Section 403.071(g)-(h).

In addition, state law authorizes the Comptroller's office to conduct pre-payment or post-payment audits on a sample basis.

- Texas Government Code, Sections 403.011(a)(13), 403.079, 2155.324.

Audit Team

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Appendix 2 — Definition of Ratings

Compliance Areas

Definition	Rating
Agency complied with applicable state requirements and no significant control issues existed.	Fully Compliant
Agency generally complied with applicable state requirements; however, control issues existed that impact the agency's compliance, or minor compliance issues existed.	Compliant, Findings Issued
Agency failed to comply with applicable state requirements.	Noncompliant
Restrictions on auditor's ability to obtain sufficient evidence to complete all aspects of the audit process. Causes of restriction include but are not limited to: <ul style="list-style-type: none">• Lack of appropriate and sufficient evidentiary matter.• Restrictions on information provided to auditor.• Destruction of records.	Scope Limitation

Internal Control Structure/Security Areas

Definition	Rating
Agency maintained effective controls over payments.	Fully Compliant
Agency generally maintained effective controls over payments; however, some controls were ineffective or not implemented. These issues are unlikely to interfere with preventing, detecting, or correcting errors or mitigating fraudulent transactions.	Control Weakness Issues Exist
Agency failed to effectively create or implement controls over payments.	Noncompliant

Repeat Finding Icon Definition



This issue was identified during the previous post-payment audit of the agency.