

MINUTES OF THE
Finance Commission Audit Committee Meeting
Thursday, August 15, 2013

The Audit Committee of the Finance Commission of Texas met Thursday, August 15, 2013, in the Finance Commission Building, William F. Aldridge Hearing Room, 2601 North Lamar Boulevard, Austin, Texas.

Members in attendance:

Cindy Lyons, Audit Committee Chair
Lori McCool, Audit Committee Member
Victor Leal, Audit Committee Member

Others in attendance:

Doug Foster, Executive Director to the Finance Commission and Commissioner, Texas Department of Savings and Mortgage Lending (SML)
Charles Cooper, Commissioner, Department of Banking (DOB)
Leslie Pettijohn, Commissioner, Office of Consumer Credit Commissioner (OCCC)
Stephanie Newberg, Deputy Commissioner, (DOB)
Antonia Antov, Director of Administration and Finance, (SML)
Rudy Aguilar, Director of Consumer Protection, (OCCC)

Audit Committee Chair Cindy Lyons announced a quorum with three Committee Members (Ms. Lyons, Ms. McCool and Mr. Leal) present. She called the meeting to order at 2:00 p.m.

Review and Approval of Minutes of the June 21, 2013, Audit Committee Meeting

Lori McCool noted a correction before making a motion to approve the minutes of the June 21, 2013, Audit Committee meeting. Cindy Lyons seconded and the minutes were adopted.

Audit Committee Review of Agencies' Activities:

Texas Department of Banking

Commissioner Cooper provided an overview of the Outstanding Audit Findings noting the open items related to the State Auditor's Office bank examination audit. He continued with a discussion of the commercial bank examination reports, commenting that the average number of days reports are late is currently 14, compared to 18 in fiscal year 2012.

Texas Department of Savings and Mortgage Lending

Commissioner Foster provided an overview of the Outstanding Audit Findings and reported the Texas Workforce Commission audit has now been completed. The Commissioner also commented on the State Office of Risk Management (SORM) business continuity plan and participation in cyber attack simulation.

Office of Consumer Credit Commissioner

Commissioner Pettijohn provided an overview of the Outstanding Audit Findings noting those being fully implemented and detailing the remaining others in progress. She continued by highlighting the legislation results relating to the criminal background checks for individuals applying for Credit Access Businesses.

Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Department of Banking's Audit of the Corporate Area and the Annual Report as Prepared and Presented by Garza/Gonzalez and Associates.

Mr. Rene Gonzalez, with Garza/Gonzalez and Associates, gave an introduction of the requirements to report their findings to the State Auditor's Office (SAO), and the Legislative Budget Board (LBB).

He continued by reviewing the summary of findings on the Department of Banking's audit relating to the Corporate Activities Division (CAD). An improvement in application processing and filings from regulated entities was recommended. This would improve document management and compliance with the Texas Finance Code.

Mr. Gonzalez noted the previous finding regarding bank examination training had been fully implemented by the end of fiscal year 2013.

Lori McCool made a motion to recommend that the Finance Commission approve the Department of Banking's Audit of the Corporate Area and the Annual Report as prepared and presented by Garza/Gonzalez and Associates. Cindy Lyons seconded and the motion was adopted.

Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Department of Savings and Mortgage Lending's Audit of the Thrift Supervision and Compliance Area and the Annual Report as Prepared and Presented by Garza/Gonzalez and Associates.

Ms. Kimberly Lopez-Gonzalez, with Garza/Gonzalez and Associates, reported on the audit of the Savings and Mortgage Lending Department. She continued by reviewing the summary of findings on the thrift supervision and compliance areas.

Ms. Lopez-Gonzalez highlighted the Compliance Observation Program established in response to concerns by state savings banks. Commissioner Foster commented that the Agency is the only state regulator with an observer program, and only two other states are authorized to be fully engaged in compliance examinations with FDIC. An improvement in the review and revision of the Thrift Supervisory Manual was recommended. This would ensure current policies and procedures were reflected within the Agency.

She concluded her overview with a follow-up of prior comments and recommendations that had already been fully implemented by the end of fiscal year 2013.

Lori McCool made a motion to recommend that the Finance Commission approve the Department of Savings and Mortgage Lending's Audit of the Thrift Supervision and Compliance Area and the Annual Report as prepared and presented by Garza/Gonzalez and Associates. Victor Leal seconded and the motion was adopted

Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Office of Consumer Credit Commissioner's Audit of the Credit Access Businesses Area and the Annual Report as Prepared and Presented by Garza/Gonzalez and Associates.

Ms. Kimberly Lopez-Gonzalez, with Garza/Gonzalez and Associates, reported on the audit of the Office of Consumer Credit Commissioner. She continued by reviewing the summary of findings on the Credit Access Businesses (CAB) examinations. An improvement in the preparation of examination work papers and the development of processing procedures was recommended.

Ms. Lopez-Gonzalez concluded her overview with a follow-up of prior comments and recommendations, noting three having been fully implemented by the end of fiscal year 2013.

Lori McCool made a motion to recommend that the Finance Commission approve the Office of Consumer Credit Commissioner's Audit of the Credit Access Businesses Area and the Annual Report as prepared and presented by Garza/Gonzalez and Associates. Victor Leal seconded and the motion was adopted.

Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Department of Banking's Revisions to Administrative Memorandum 2027, the Investment Policy for Funds Under the Oversight of the Finance Commission.

Commissioner Cooper provided an overview of the investment policy revisions needed to align with the guidelines of the Public Funds Investment Act. There was discussion among members with Commissioner Cooper and Deputy Commissioner Newberg addressing the questions.

Victor Leal made a motion to recommend that the Finance Commission approve the Department of Banking's revisions to Administrative Memorandum 2027, the Investment Policy for Funds Under the Oversight of the Finance Commission. Lori McCool seconded and the motion was adopted.

Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Agencies' May 31, 2013, Investment Officer Reports.

Texas Department of Banking

Commissioner Cooper provided an overview of the Insurance-Funded Prepaid Funeral Guaranty Fund and the Trust Funded Prepaid Funeral Guaranty Fund quarterly reports. He continued with an update on seized prepaid funeral funds. There was discussion among members with Commissioner Cooper and Deputy Commissioner Newberg addressing the questions.

Texas Department of Savings and Mortgage Lending

Commissioner Foster provided an overview of the Investment Officer Report detailing the Agency's certificates of deposit and other funding activity.

Office of Consumer Credit Commissioner

Commissioner Pettijohn provided an overview of the Agency's Investment Officer Report while highlighting the Texas Financial Education Endowment and Residential Mortgage Loan Originator Recovery Trust Fund. She continued with the Texas Treasury Safekeeping Trust portfolio and investment update. There was discussion among members with Commissioner Pettijohn addressing the questions.

Mr. Leal made a motion to recommend that the Finance Commission accept the agencies' May 31, 2013, Investment Officer Reports. Lori McCool seconded and the motion was adopted.

Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Agencies' Third Quarter Financial Statements.

Texas Department of Banking

Ms. Newberg provided an overview of the Agency's Third Quarter Financial Statements, highlighting individual revenue and budgeted expenditure line items.

Texas Department of Savings and Mortgage Lending

Director Antov provided an overview of the Agency's Third Quarter Financial Statements. She highlighted total revenues and expenditures, licensing fees, penalties, and also discussed the Agency's current travel budget. There was discussion among members with Ms. Antov addressing the questions.

Office of Consumer Credit Commissioner

Commissioner Pettijohn provided an overview of the Agency's Third Quarter Financial Statements. She detailed the variances while explaining the revenues and expenditures. There was discussion among members with Commissioner Pettijohn addressing the questions.

Lori McCool made a motion to recommend that the Finance Commission approve the agencies' Third Quarter Financial Statements. Victor Leal seconded and the motion was adopted.

Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Agencies' Fiscal Year 2014 Operating Budgets.

Texas Department of Banking

Deputy Commissioner Stephanie Newberg summarized the projected FY 2014 budget with a decrease of 1.8% in revenues and an increase in expenditures of 2.2% over the FY 2013 budget levels. She detailed certain line items of revenues and expenditures. Ms. Newberg continued with an overview of the employee expenditures for staffing and trainings. There was discussion among members regarding next years projected deficit with Commissioner Cooper and Ms. Newberg addressing the questions.

Texas Department of Savings and Mortgage Lending

Antonia Antov, Director of Administration and Finance summarized the proposed FY 2014 budget and noted the reduction in renewal licensing fees. The anticipated decline in new applications and planned restructure of individual licenses in Texas caused a projected decrease in revenues by 33% from the current year. She continued with an overview of the budget expenditures related to staffing and noted a projected increase of 6% in expenditures over the FY 2013 budget. There was discussion among members regarding the projected budget with Commissioner Foster and Ms. Antov addressing the questions.

Office of Consumer Credit Commissioner

Commissioner Pettijohn summarized the Agency's proposed FY 2014 budget by highlighting the complexity in their industry growth. She continued with the substantial increase in activity in the motor vehicle sales finance area and the concerns about compliance ratings of examinations. The Commissioner provided an overview of the budget expenditures related to staffing, and the information technology legacy modernization project. She further commented on there being no concerns regarding the fee levels within their industry groups.

There was discussion among members regarding the projected budget with Commissioner Pettijohn and Rudy Aguilar addressing the questions.

Victor Leal made a motion to recommend that the Finance Commission approve the agencies' Fiscal Year 2014 Operating Budgets. Lori McCool seconded and the motion was adopted.

Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Announcement of the Availability of \$250,000 in Grant Funds from the Texas Financial Education Endowment Fund.

Commissioner Pettijohn provided an overview of recent activity pertaining to the Texas Financial Education Endowment Fund. She further reported on the Grant Advisory Committee meetings and updated the financial projections of the fund. The Commissioner highlighted the administrative and grant oversight portion of the program, while commenting on the applications, guidelines and instructional process.

Chairman White commented on the Grant Advisory Committee and the quality of the members serving on the Committee.

Lori McCool made a motion to recommend that the Finance Commission approve the Announcement of the Availability of \$250,000 in Grant Funds from the Texas Financial Education Endowment Fund. Victor Leal seconded and the motion was adopted.

There being no further business, Committee Chair Cindy Lyons adjourned the meeting of the Audit Committee of the Finance Commission on August 15, 2013, at 4:25 p.m.

Cindy Lyons, Chair of the Audit Committee
Finance Commission of Texas

Doug Foster, Executive Director of the
Finance Commission of Texas

Tammy King Wooten, Executive Assistant
Finance Commission of Texas