MINUTES OF THE

Finance Commission Audit Committee Meeting

Friday, February 21, 2014

The Audit Committee of the Finance Commission of Texas met Friday, February 21, 2014, in the Finance Commission Building, William F. Aldridge Hearing Room, 2601 North Lamar Boulevard, Austin, Texas.

Members in attendance:
Cindy Lyons, Audit Committee Chair
Victor Leal, Audit Committee Member

Member absent:
Lori McCool, 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)
Sami Chadli, Director of Accounting, (DOB)
Antonia Antov, Director of Administration and Finance, (SML)
Christina Cuellar, Manager of Accounting, (OCCC)

Audit Committee Chair Cindy Lyons announced a quorum with two Committee Members (Ms. Lyons, and Mr. Leal) present. She called the meeting to order at 8:05 a.m.

Review and Approval of Minutes of the October 18, 2013, Audit Committee Meeting
Victor Leal made a motion to approve the minutes of the October 18, 2013, Audit Committee meeting. Cindy Lyons seconded and the minutes were adopted.

Audit Committee Review of Agencies' Activities:

Texas Department of Banking
Deputy Commissioner Newberg provided an overview of the Outstanding Audit Findings report noting two items from the State Auditor's Office (SAO) regarding the timeliness of examination report processing and conducting bank examinations. There have been substantial and continued improvements in both audit areas with an increase to 93% compliance for examination mailings for the first quarter.

She continued by highlighting the Texas Comptroller of Public Accounts routine post-payment audit noting the agency has not received the report findings. The Comptroller is to have the information to the agency by the end of March 2014. The agency has received the first draft of the State Office of Risk Management (SORM) risk assessment audit and will now prepare a response to be included in the final report.

Texas Department of Savings and Mortgage Lending
Commissioner Foster provided an overview of the Outstanding Audit Findings while reporting on the SORM audit review report. The agency has received the Management Continuity Plan and Testing audit results from the federal government cyber-attack simulation and has implemented their audit suggestions.

The Commissioner highlighted the Texas Comptroller of Public Accounts post-payment, travel, payroll and purchase audit noting all were complete with no errors identified, with no actionable items listed.

Office of Consumer Credit Commissioner
Commissioner Pettijohn provided an overview of the Outstanding Audit Findings and presented an update on the remaining items. She continued by highlighting the recently implemented items from the Garza/Gonzalez and Associates audit report. The agency has completed the Texas Comptroller of Public Accounts post-payment audit recommendations and is awaiting the final report.

Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Agencies' November 30, 2013, Investment Officer Reports.

Texas Department of Banking
Deputy Commissioner Newberg provided an overview of the Insurance-Funded Prepaid Funeral Guaranty Fund and the Trust Funded Prepaid Funeral Guaranty Fund quarterly reports. She continued with an update on seized prepaid funeral funds.

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. The agency opened an additional CD in December and reported there were no claims against the recovery funds at this time.

Office of Consumer Credit Commissioner
Commissioner Pettijohn provided an overview of the agency's Investment Officer Report while highlighting the Residential Mortgage Loan Originator Recovery Trust Fund noting it continues to build and grow at the current level.

She continued with an update and summary of the investment portfolio of the Texas Financial Education Endowment Fund. There was discussion among members with Commissioner Pettijohn addressing the questions.

Victor Leal made a motion to recommend that the Finance Commission approve the agencies' November 30, 2013, Investment Officer Reports. Cindy Lyons seconded and the motion was adopted.

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

Texas Department of Banking
Director Chadli provided an overview of the agency's First Quarter Financial Statements, highlighting individual revenue and budgeted expenditure line items. There was discussion among members regarding personnel staffing and salaries with Director Chadli and Deputy Commissioner Newberg addressing the questions.

Texas Department of Savings and Mortgage Lending
Director Antov provided an overview of the agency's First Quarter Financial Statements. She highlighted total revenues and expenditures, while also discussing the agency's current employee benefits discrepancy within the budget.

Office of Consumer Credit Commissioner
Ms. Cuellar provided an overview of the agency's First Quarter Financial Statements. She detailed the variances while explaining the revenues and expenditures. There was discussion among members with Ms. Cuellar and Commissioner Pettijohn addressing the questions.

Victor Leal made a motion to recommend that the Finance Commission approve the agencies' First Quarter Financial Statements. Cindy Lyons seconded and the motion was adopted.

Discussion of and Possible Vote to Take Action on the Internal Auditor's Risk Scoped Audit Plan for the Finance Commission Agencies' for Fiscal Year 2014.
Ms. Kimberly Lopez-Gonzalez, with Garza/Gonzalez and Associates, presented an overview of the fiscal year 2014 internal audit plan for the agencies. She highlighted the development of the audit plan for each agency detailing the purpose, methodology and risk assessment methodology used. In order to score each agency's auditable areas, the auditors met with a number of individuals and reviewed a large volume of documents and information.

She continued by reporting on the recommended audits for the Texas Department of Banking. An internal audit review of the Money Service Businesses (MSB) and Management Information Systems (MIS) areas were recommended. The plan also includes a follow-up of the current and prior year audit recommendations.

Ms. Lopez-Gonzalez reported on the recommended audit for the Savings and Mortgage Lending Department. An internal audit review of the Consumer Protection area was recommended. The plan also includes a follow-up of the current and prior year audit recommendations.

She concluded with a report on the recommended audit for the Office of Consumer Credit Commissioner. An internal audit review of the Texas Financial Education Endowment Fund (TFEE) area was recommended. The plan also includes a follow-up of the current and prior year audit recommendations.

There was discussion among members regarding the audit plans specifically for the OCCC. It was determined that the TFEE area was too new, without having disbursed any funds, for a robust audit of the entire process to be conducted. This led to acceptance of a planned audit for the second highest risk area in Professional Licensing (Pawnshop Employees & MLO).

Cindy Lyons made a motion to recommend that the Finance Commission accept the agencies' Internal Audit Plan for Fiscal Year 2014, as amended with discussion and revisions. Victor Leal seconded and the motion was adopted.

Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Texas Financial Education Endowment Fund.
Commissioner Pettijohn provided an overview and recent status report pertaining to the Texas Financial Education Endowment Fund. She further reported on the execution of grantee agreements with upcoming plans for due dates and reporting grant funding information.

There was discussion with no vote on the agenda item.

There being no further business, Committee Chair Cindy Lyons adjourned the meeting of the Audit Committee of the Finance Commission on February 21, 2014, at 8:50 a.m.

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

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Doug Foster, Executive Director of the
Finance Commission of Texas

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Tammy King Wooten, Executive Assistant
Finance Commission of Texas