

**MINUTES OF THE AUDIT COMMITTEE
OF THE
TEXAS FINANCE COMMISSION**

Thursday, July 31, 2014

The Audit Committee of the Finance Commission of Texas met Thursday, July 31, 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
Lori McCool, Audit Committee Member

Members absent:

Victor Leal, Audit Committee Member

Others in attendance:

Caroline Jones, Commissioner, Texas Department of Savings and Mortgage Lending (SML)
Antonia Antov, Director of Administration and Finance (SML)
Leslie Pettijohn, Commissioner, Office of Consumer Credit Commissioner (OCCC)
Christina Cuellar, Manager of Accounting (OCCC)
Charles Cooper, Executive Director to the Finance Commission and Commissioner, Department of Banking (DOB)
Stephanie Newberg, Deputy Commissioner (DOB)
Sami Chadli, Director of Accounting (DOB)

Audit Committee Chair Cindy Lyons announced a quorum with two members present and called the meeting to order at 11:06 a.m.

Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Agencies' Fiscal Year 2015 Operating Budgets.

Audit Committee Chair Cindy Lyons stated that since a majority of the Audit Committee members were present at the Budget Hearing which took place directly before this Audit Committee meeting, the finance agencies would not repeat their FY 2015 budget presentations. Discussion from the Budget Hearing will be incorporated into the minutes of this Audit Committee meeting.

Review and Approval of Minutes of the April 11, 2014, Audit Committee Meeting.

Lori McCool made a motion to approve the minutes of the April 11, 2014, Audit Committee meeting. Cindy Lyons seconded and the motion was adopted.

Audit Committee Review of Agencies' Activities:

Texas Department of Savings and Mortgage Lending

Commissioner Jones reported that the two outstanding audit issues resulted from the most current audit of the Consumer Protection Area conducted by Garza Gonzalez and will be addressed later in this meeting when that audit summary is presented. She further stated that the two related recommendations will be implemented by September 1st.

Office of Consumer Credit Commissioner

Commissioner Pettijohn reported on audit issues that are fully implemented, and said that the outstanding audit findings from the most current audit of the Professional Licensing Area conducted by Garza Gonzalez will be addressed later in this meeting. She then addressed audit findings resulting from the Post Payment Audit by the Comptroller's Office which requires implementation of new and revised procedures. Commissioner Pettijohn stated the proposed FY 2015 budget includes an increase of ½ of an FTE that will be dedicated to the Accounting Area with a focus on strengthening internal controls.

Texas Department of Banking

Deputy Commissioner Newberg provided an update on the State Auditor's Office Audit Report of Bank Examinations. She then reported and provided explanation of the two findings of the Comptroller's Post Payment Audit and the remedies leading to full implementation. Lastly she reported on the recommendations of the State Office of Risk Management to equip and train regional offices with defibrillators and provide CPR training which is in process.

Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Agencies' Annual Internal Audit Reports as Prepared and Presented by Garza/Gonzalez and Associates.

Kimberly Lopez-Gonzales, Garza/Gonzalez and Associates, presented the Internal Audit Reports for the three finance agencies.

Texas Department of Savings and Mortgage Lending

Ms. Lopez-Gonzales reported that an audit of the Consumer Protection Division was performed and results disclosed that controls were adequate and no material instances of noncompliance were noted; however, certain opportunities were noted for strengthening internal controls and operating efficiency, and ensuring compliance with policies and procedures. She then provided a synopsis of the Executive Summary and reviewed recommendations made to improve the quality control process. Ms. Lopez-Gonzales also noted that outstanding items from the 2013 Annual Report had been implemented.

Office of Consumer Credit Commissioner

Ms. Lopez-Gonzales reported that an audit of the Professional Licensing Area and a follow up audit of prior year audit was performed. The two types of licenses under this area are Residential Mortgage Loan Originator and the Pawnshop Employees. She then provided a synopsis of the Executive Summary and noted that the online system ALECS (Applications License Exam Compliance System) to be used by pawnshop employees to apply for licensing had not been fully implemented and was not included in the audit. Ms. Lopez-Gonzales then provided an update on the two recommendations made which are not yet implemented due to staffing restraints. Commissioner Pettijohn stated that additional staff resources may be needed to accommodate the recommendations. Ms. Lopez-Gonzales further commented that recommendations were made to improve the quality control process and strengthen segregation of duties. Ms. Lopez-Gonzales also noted that outstanding items from the 2013 Annual Report had been implemented.

Texas Department of Banking

Ms. Lopez-Gonzales reported that audits of the Money Services Business Area (MSB) and the Management Information Systems (MIS) Area were conducted. One additional item outstanding from the prior year in the Corporate Activities Division was followed up on. All recommendations in the MSB audit and the one outstanding item in the Corporate Activities Division have been implemented. Management has agreed to implement the four recommendations contained in the MIS audit which are in process.

Lori McCool made a motion to recommend to the Finance Commission approval of the Agencies' Annual Internal Audit Reports 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 Agencies' May 31, 2014, Investment Officer Reports.

Texas Department of Savings and Mortgage Lending

Antonia Antov presented the Investment Officer Report stating there was no notable activity and that no claims have been paid this year.

Office of Consumer Credit Commissioner

Commissioner Pettijohn presented the Investment Officer Report stating there was no notable activity.

Texas Department of Banking

Deputy Commissioner Stephanie Newberg presented the Investment Officer Report stating there was no notable activity. She provided an update on the award of the Howell-Doran Funeral Home seizure to Funeral Agency, Inc. with no claim to the Guaranty Fund. She also updated members on the prosecution of Kevin Keeney related to the mishandling of PFC funds, and further reported that the Washington Memorial Funeral Home seizure is complete and a subsequent buyer has been found.

Lori McCool made motion to recommend to the Finance Commission approval of the Agencies' May 31, 2014, 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 Revisions to the Investment Policies for Funds Under the Oversight of The Finance Commission.

Texas Department of Savings and Mortgage Lending

Antonia Antov stated that the revisions to the Investment Policy result in a more consistent Policy statement among the three finance agencies. The major revisions include changing the timeline from a bi-annual to an annual review by the Finance Commission, and places further restrictions on the Investment Officer. She also stated that the Recovery Fund is not considered public funds, but the agency makes every attempt to comply with the requirements of the Public Funds Investment Act.

Office of Consumer Credit Commissioner

Commissioner Pettijohn stated that the revisions to the OCCC Investment Policy are similar to the other two agencies with one slight difference related to the Investment Officer restrictions which is closely aligned with the language from the Government Code since Texas Treasury Safekeeping Trust Company handles the investments of the Texas Financial Education Endowment Fund.

Texas Department of Banking

Deputy Commissioner Stephanie Newberg stated the revisions to the Investment Officer were recommended by the Guaranty Fund Advisory Council which also has a similar investment policy and oversees the Guaranty Funds.

Lori McCool made a motion to recommend that the Finance Commission approve the Revisions to the Investment Policies for Funds Under the Oversight of The Finance Commission. Cindy Lyons seconded and the motion was adopted.

Interviews of Selected Respondents for the Internal Auditor Contract.

Selected respondents each made their presentations to the Audit Committee and agency commissioners.

Garza / Gonzalez & Associates
McConnell & Jones, LLP

Weaver and Tidwell, LLP

Discussion of the qualifications of each respondent occurred later in the Audit Committee meeting under the action item to select an Internal Auditor.

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

Texas Department of Savings and Mortgage Lending

Antonia Antov reported no significant change since last quarter, with the third quarter revenues 119% of budget and the expenditures at almost 100% of budget. She also stated that cash balance reflects an increase to \$5 million in building reserves.

Office of Consumer Credit Commissioner

Christina Cuellar reported no significant change since last quarter and provided an overview as detailed in the third Quarter Financial Statement. She stated that an increase in the building reserves is scheduled for the start of FY 2015. There was no further discussion among the members.

Texas Department of Banking

Sami Chadli, Director of Administrative Services, reported that third quarter revenues are at 108% of the budget and third quarter expenditures are at 92.7%. He then provided an overview of the quarter's budget variances. He further reported that the cash balance reflects an increase to \$5 million in building reserves.

Lori McCool made a motion to recommend that the Finance Commission approve the Agencies' Third Quarter Financial Statements. Cindy Lyons seconded and the motion passed.

Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Agencies' Fiscal Year 2015 Operating Budgets.

Excerpts from the July 31, 2014, Minutes of the Public Hearing on FY 2015 Proposed Budgets

Texas Department of Savings and Mortgage Lending

Antonia Antov, Director of Administration and Finance, summarized the proposed FY 2015 budget and noted the 25% reduction in new Residential Mortgage Loan Originators (RMLO) license fees and a planned waiver of savings banks' assessment fees for one-quarter. She continued with an overview of the budget expenditures and noted a projected increase of 7% in expenditures over the FY 2014 budget. She detailed certain lines items of the budgeted expenditures and commented on the agency's projected cash reserves.

Office of Consumer Credit Commissioner

Commissioner Pettijohn summarized the Agency's proposed FY 2015 budget by highlighting the dynamic industry growth and increasing regulatory complexity. She stated the proposed budget will provide additional resources necessary to stabilize the OCCC workforce and address critical needs in examination coverage and other review processes of regulated activity by the regulated entities. The FY 2015 budget has the flexibility and capacity to hire additional personnel to strengthen and support the agency's mission of improving compliance. Adding four (4) additional examiners (FTEs) will help accommodate the increasing examination workload. In addition, these examiners will also help boost the desired exam interval schedule proposed in the 2015-2019 Strategic Plan, recently approved.

The proposed budget supports and continues the OCCC's legacy modernization project which began in FY13. The project will produce significant cost savings and benefits to the OCCC and its regulated

entities. The budget includes funding to begin phase two of the project which will modernize the processing and delivery of examinations.

She further commented there would no change in fees to CAB, Property Tax Lenders, and registered industries and that the budget deliberately proposes a deficit balance of revenues over expenditures to provide for some of the current year operations from the existing fund balance. The proposed budget will allow the agency to maintain its reserves within the approved guidelines.

Texas Department of Banking

Deputy Commissioner Stephanie Newberg summarized the projected FY 2015 budget which reflects an increase in revenues of 4.3% and an increase in expenditures of 1.9% over FY 2014 budget levels. Ms. Newberg provided an overview of the employee expenditures for staffing and employee benefits. She continued with details for certain line items of revenues and expenditures.

There was no further discussion of this agenda item.

Lori McCool made a motion to recommend that the Finance Commission approve the Agencies' Fiscal Year 2015 Operating Budgets. Cindy Lyons 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.

No action taken.

Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Selection of an Internal Auditor for the Finance Commission Agencies for Fiscal Year 2015.

Audit Committee members and agency staff discussed the qualifications of each interviewed respondent. The discussion raised additional questions regarding billable hours and client conflicts. Audit Committee Chair Cindy Lyons recommended that the motion to select an internal auditor be tabled until August 15th to allow time for Deputy Commissioner Stephanie Newberg to contact the respondents and address the questions raised. All were in agreement and an Audit Committee meeting was scheduled for August 15, 2014.

There being no further business, Committee Chair Cindy Lyons adjourned the meeting of the Audit Committee of the Finance Commission on July 31, 2014, at 1:31 p.m.

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

Charles G. Cooper, Executive Director of the
Finance Commission of Texas

Cathey Richards, Executive Assistant
Finance Commission of Texas