Board of Directors – Surplus Lines Stamping Office of Texas
Finance and Audit Committee Meeting

October 1, 2019
Location: Surplus Lines Stamping Office of Texas – 805 Las Cimas Parkway, Austin, TX 78746

Call to order, establishment of a quorum
Kyle Streetman Chair, Finance and Audit Committee called the meeting to order on October 1, 2019 at 2:04 p.m. He noted the following Board members in attendance:

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<thead>
<tr>
<th>Name</th>
<th>Expiring Terms</th>
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<tr>
<td>Lorrie Cheshier</td>
<td>12/31/2019</td>
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<td>Peter Harrison</td>
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<td>Penni Nelson</td>
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<tr>
<td>Kyle Streetman</td>
<td>12/31/2019</td>
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A quorum was established by Kyle Streetman.

Staff members in attendance:

- Kyle Bolls – VP of Finance/Interim Executive Director
- Denise Orellana – VP of Human Resources
- Ashley Corpus – Administrative Project Specialist
- Marcelina Gutierrez – Receptionist
- Toby Pick – Operations Manager
- Tara Mitchell – VP of ITS

Counsel in attendance:

- Alex Gonzales – Duane Morris LLP
- Meredith Gregston – Duane Morris LLP

Others in attendance:

- Karen Synder – Texas Comptroller of Public Accounts
- Nicholas Souza – Tax Analyst, Texas Comptroller of Public Accounts
- David Burgeson – COO, RSI
- Robert Rudnai – Manager, Texas Department of Insurance
- Shirley Bowler – Texas Surplus Lines Reporter & Insurance News

Agenda Item 1 – Approval of the RFQ prepared by Weaver and Tidwell seeking a firm to conduct an Internal Controls Audit
Kyle Bolls began with the RFQ drafted by Weaver and Tidwell regarding the Internal Controls Audit. Bolls stated the RFQ was separated into several sections, each would be discussed in detail.

Bolls stated the first section required a review of the organizations mission, vision and Plan of Operations. The potential auditors will also familiarization themselves with the SLTX staff. Bolls asked if there were any questions or suggestions regarding the first section.

Hearing none, Bolls began with section two. Section two required the potential auditors to assess the scope of work including layout of the framework and how the audit should be conducted, the Finance and Audit Committee had no comments or questions.

Bolls indicated that the audit will assess the years 2017, 2018 and year to date 2019, and contain seven areas of focus. Bolls stated the audit excluded 2016, he believed it provided no benefit to the audit. The committee had no objections to the years selected. The first area of focus was the Human Resources Department which entailed assessing the onboarding and offboarding process SLTX uses with employees. In addition, salaries and Human Resources Software will be evaluated. Bolls stated the audit will provide necessary information to ensure job duties are segregated correctly among the Human Resources department.

Meredith Gregston questioned how the Human Resources department would be segregated. Bolls used the example that payroll was processed by separate department, but that department relied on the input of HR in order to process the payroll for SLTX.

Peter Harrison asked if the audit will randomly select samples.

Bolls answered by stating random groups of seven will be generated for sampling. Due to the small head count of SLTX the resulting sample sizes would be small. The committee had no further questions for Bolls.

The next topic of discussion was the travel and education expenses. Bolls stated there were many subcategories listed under travel and education including hotel and conference expenses. He indicated that all purchases were made with credit cards under an SLTX account, with occasional use of a Visa. Bolls stated the audit would verify the best practices for future purchasing procedures.

Kyle Streetman asked if there would be overlap when reviewing travel and education expenses. He also recommended personal purchases made by SLTX staff and reimbursed should be included in the audit.

Gregston suggested the proposal be amended to assess SLTX’s entire travel and education expenses as well as all credit card transaction history as an alternative to sampling a portion. The committee unanimously agreed to amend the RFQ.

Bolls reviewed the inhouse development software, stamping fee, investments and general administration expenses with the committee. After hearing the details, the committee had no further comments regarding the subjects.

The next topic for discussion was the operating expenses. Bolls noted few expenses were purchase with a credit card under an SLTX account, most purchases were paid by checks.

Gregston asked if the overlap of transactions could be recognized and removed from the generated samples for the audit. The committee agreed to strike any overlapping transactions. Gregston also recommended the firm conducting the audit should supply opinions and recommendations for best
practices after the audit is complete. Bolls expressed some concern with Gregston’s statements. He indicated that receiving advice from the potential firm may cause a lack of independence, which is a critical component of auditing standards. The committee agreed the chosen firm should only be allowed to highlight areas of concern and each section should assess best practices to benefit the outcome of the audit. Bolls stated the completed audit would be reported to the board for review.

Bolls listed the qualification for the individuals conducting the audit. Bolls stated the professional qualifications and expectations of the firm applying for the position. Bolls noted the firm selected for the position will hold responsibility of the subcontractors assisting in the audit.

Streetman suggested the potential firm provide proof of errors and omission coverage in addition to workers compensation insurance, the committee agreed. Bolls stated he would amend the RFQ to incorporate the suggestion.

Bolls indicated that he would be the person of contact for all vendors. Bolls listed several other requirements and documents vendors needed to submit to properly apply for the position. The committee had no objects to the vendor application process. Karen Synder, employee of the Comptroller’s Office recommended the applicants have a good standing letter from the state, the committee unanimously agreed.

Bolls asked the committee if bids on the RFQ needed to be reported to the full board. Alex Gonzales suggested Bolls be granted authority to narrow down the applicants and then present a select few to the full board.

Bolls recommended a motion that the interim executive director be delegated the duty to revise the internal controls/ financial examination in accordance with the recommendations of the Finance and Audit Committee at this meeting and the direction of the Commissioner of Insurance or his delegate.

Penni Nelson made a motion.  
Peter Harrison seconded the motion.  
The motion passed unanimously.

Bolls recommended a motion that the interim executive director be delegated the duty to select 3 firms for the Board’s consideration after reviewing the submissions in response to the RFQ for the internal controls audit and financial examination.

Peter Harrison made a motion.  
Penni Nelson seconded the motion.  
The motion passed unanimously.

Kyle Streetman called for a break beginning at 3:21 p.m.  
The meeting reconvened at 3:34 p.m.

**Agenda Item 2 – Approval of the RFQ prepared by Weaver and Tidwell seeking a consulting to assist with a Board and SLTX governance review**

Bolls stated the RFQ for the Board Governance Review was similar to the RFQ previously discussed. The committee decided to adapt the same amended changes from the first to the second RFQ as applicable.
The next topic of discussion was the scope of the audit. Bolls stated the audit will focus on SLTX following core principals and other applicable requirements within board guidelines and policies. There were no additional comments from the committee.

Gregston proposed all current manager level positions be reviewed and assessed to determine qualifications, the committee approved Gregston’s statement.

The committee recommended SLTX develop multiple reporting structures. One of which provides an alternative route for the staff to present issues directly to the board without direct order from the executive director. Nelson noted the future revision of the Plan of Operation would elaborate more on the matter.

Bolls indicated the remainder of the RFQ was verbatim to the Internal Controls RFQ and concluded his presentation. Bolls asked if the committee had any additional questions. Hearing none, the committee proceeded to make the necessary motions.

Bolls recommended a motion that the interim executive director be delegated the duty to revise the Governance Audit in accordance with the decisions of the Finance and Audit Committee at this meeting and the direction of the Commissioner of Insurance or his delegate.

Peter Harrison made a motion.
Penni Nelson seconded the motion.
The motion passed unanimously.

Bolls recommended a motion recommended that the interim executive director be delegated the duty to select 3 firms for the Board’s consideration after reviewing the submissions in response to the RFQ for the governance audit.

Penni Nelson made a motion.
Peter Harrison seconded the motion.
The motion passed unanimously.

**Agenda Item 3: 2020 Budget**

The Finance and Audit Committee requested Kyle Bolls review the previously discussed amendments from the September 24, 2019 Finance and Audit Committee Meeting. Bolls began with the salaries and benefits portion of the budget. He indicated new positions for 2020 will be added. There would be two new positions added to the operation team and three on the administration team. Bolls elaborated on the new job descriptions and stated SLTX would have a final head count of twenty-six in the year 2020.

Kyle Streetman inquired about the time SLTX had in place for the anticipated positions. Kyle Bolls stated immediate action would take place once approved by the board.

Meredith Gregston asked if the 2020 proposed budget supported the new positions. Bolls stated he increased the budget to adapt to the added positions. Alex Gonzales noted revenue has increased significantly and SLTX has the means to accommodate new positions.

Bolls noted in the previous Finance and Audit Committee Meeting Gonzales requested amending the legal expenses in the budget. Bolls stated he revised and removed the suggested items to adhere to Gonzales’ request.
The next topic of discussion was the education and travel expenses. Bolls noted conference and education expenses had decreased to $131,500. Bolls stated that SLTX gives several contributions and sponsorships to local Texas institutions. Gonzales recommended the travel and education budget be approved on an as needed bases by the board, Penni Nelson agreed. Nelson stated the board should proceed with caution when selecting recipients for donations. Lorrie Cheshier and Kyle Streetman both agree with Nelson’s statements. Gonzales suggested the board continue to be involved in all matters pertaining to travel and education.

Gregston asked if past travel and education expenses needed board approval. Bolls stated there was no requirement for the board approval. Nelson recommended the expenses be approved by the full board not the Finance and Audit Committee, the committee agreed.

The committee concluded that any education courses or seminars with direct benefit to SLTX would still need approval from the board. Gregston stated she could draft new policies and procedure using historical data for SLTX, to provided guidelines for future travel.

Gregston asked if the travel and education expenses needed to be separated for clarification purposes. Bolls indicated that travel and education can be broken-down by subcategories in the future to help differentiate travel expenses. The committee had no further questions.

Bolls proceeded to review the Capital Budget. He commenced with the expenses regarding the SMART system and the current cost for production. Gonzales asked if Bolls had a breakdown of the expenses required for SMART. Bolls stated he did not have a breakdown of the specific purchases.

Gregston questioned how the total for technology budget was calculated. Bolls said there was discussion with third party IT vendors to assess there needs along with needs of the IT staff. The committee suggested tabling the discussion for the upcoming October 7, 2019 board meeting.

The next topic of discussion was the lease holder and office improvement. Bolls reviewed the total cost of the office remodel to accommodate the increasing head count of SLTX. Bolls budgeted $20,000 for the remodel; he did not anticipate using the total amount proposed. Additionally, SLTX would need more office furniture to accommodate the new staff in 2020. Bolls stated the capital budget called for $20,000 for office furniture. The committee further discussed the details of the remodel to assess the potential cost compared to the proposed amount.

Streetman asked if there were any questions, hearing none Bolls concluded his presentation.

The Finance and Audit Committee recommended that the committee recommend accepting the 2020 proposed budget to the full board as presented, with the exception that the $1,025,000 IT portion of the capital budget be tabled until the full board meeting on October 7th.

Peter Harrison made a motion.
Penni Nelson seconded the motion.
The motion passed unanimously.

The Finance and Audit Committee recommended a motion to adjourn at 4:40p.m.
Penni Nelson made a motion.
Peter Harrison seconded the motion.
The motion passed unanimously.

Rosemarie Marshall, Secretary