



TEXAS LIFE & HEALTH  
INSURANCE GUARANTY ASSOCIATION

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*Audit Committee Meeting  
October 19, 2020*

*Briefing Material*



## **Audit Committee Meeting Agenda**

Monday, October 19, 2020, 3:30 PM Central Time

Video/Audio Conference Call Only

Audio Toll Free Dial In Number: 1.346.248.7799

Meeting ID: 2222127774      Password: 537081973

1. Consideration and possible action on consent agenda items \*
  - A. Summary of the official minutes of the April 2, 2020 meeting
2. Consideration and possible action regarding the elimination of the consecutive leave requirement\*
3. Consideration and possible action regarding the scope of the audit of the financial statements of the Association for the year ending December 31, 2020
4. Consideration and possible action to recommend engagement of an independent auditor for audit of the financial statements of the Association for the year ending December 31, 2020
  - A. Review and discuss any significant relationships with Auditor
  - B. Engagement of the independent auditor for the audit of financial statements for the year ending December 31, 2020\*
5. Executive Session
  - A. Advice from Counsel
6. Consideration and possible action on items discussed in Executive Session
7. Consideration and possible action regarding the Audit Plan for calendar year 2021\*
8. Consideration and possible action regarding the Association's commercial insurance coverages
9. Consideration and possible action regarding the development of the Association's 2021 Budgets
10. Consideration and possible action regarding the Committee's Calendar of Activities and planning for 2021, including next meeting date

\* denotes items the Executive Director recommends actions be taken at this meeting



## Open Meeting Information

**Agency Name:** Texas Life and Health Insurance Guaranty Association  
**Date of Meeting:** 10/19/2020  
**Time of Meeting:** 03:30 PM (Local Time)  
**Board:** Texas Life and Health Insurance Guaranty Association  
**Committee:** Audit  
**Status:** Accepted  
**Street Location:** Not applicable  
**City Location:** Not applicable  
**Meeting State:** TX  
**TRD:** 2020005762  
**Submit Date:** 10/09/2020  
**Emergency Mtg:** No

**Additional Information Obtained From:** Bart A. Boles, Executive Director  
515 Congress Avenue, Suite 1875  
Austin, TX 78701  
Tel: 800-982-6362

**Agenda:** The Audit Committee Meeting will be held as a videoconference/teleconference.

Teleconference meeting access information:  
Dial in Number (Toll Free): 1.346.248.7799  
Meeting ID: 2222127774  
Password: 537081973

Additionally - to obtain a complete PDF copy of the meeting materials please go to [www.txlifega.org](http://www.txlifega.org) or use this URL:  
<https://txlifega.org/wp-content/uploads/2020/10/TLHIGA-Audit-Committee-Meeting-Materials-10-19-20.pdf>

Consideration and possible action on:

- 1) Consent agenda;
- 2) Elimination of the consecutive leave requirement;
- 3) Scope of the audit of the financial statements of the Association for the year ending December 31, 2020;
- 4) Recommend engagement of an independent auditor for audit of the financial statements of the Association for the year ending December 31, 2020;
- 5) Executive Session;
- 6) Items discussed in Executive Session;
- 7) Audit Plan for calendar year 2021;
- 8) Association's commercial insurance coverage;
- 9) Development of the Association's 2021 Budgets;

10) Committee's Calendar of Activities and planning for 2021, including next meeting date.

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## **Item 1**

Consideration and possible action on consent agenda items

A. Summary of the official minutes of the April 2, 2020 meeting



## CONSENT AGENDA

The following routine, recurring item has been placed on the consent agenda and the related materials were distributed in advance to the Committee for its review:

1. The draft summary of the official minutes of the April 2, 2020 Committee meeting (included on pages 1-2 through 1-5).

The following is a draft resolution to approve the consent item:

**RESOLVED**, that the Audit Committee of the Board of Directors of the Texas Life and Health Insurance Guaranty Association approves the written summary of the official minutes of its April 2, 2020 meeting.



**SUMMARY OF THE OFFICIAL MINUTES OF THE  
APRIL 2, 2020 MEETING OF THE  
AUDIT COMMITTEE OF THE BOARD OF DIRECTORS**

A meeting of the Audit Committee (the “Committee”) of the Board of Directors (the “Board of Directors” or the “Board”) of the Texas Life and Health Insurance Guaranty Association (the “Association” or “Guaranty Association” or “TLHIGA”) was called to order by the Chair, Dean Frigo, at 10:03 A.M. CDST on April 2, 2020 held by video conference pursuant to the Texas Open Meetings Act.

All Audit Committee members whose names are set forth below were present for all or part of the meeting.

Dean Frigo  
James Lewis  
Pati McCandless

Also, in attendance for all, or part, of the meeting were the following employees of the Association or individuals that provide services to the Association’s Board of Directors:

Bart A. Boles  
Jarett Terry  
Topping Haggerty  
Shelby Baetz  
Jacqueline Rixen

Also, in attendance for all, or part, of the meeting was:

Bhakti Patel, CliftonLarsonAllen, LLC

Chair Frigo noted that proper notice of the meeting was filed on March 23, 2020 and published in the Texas Register in accordance with the Texas Open Meetings Act. He directed that a copy of such notice be attached hereto and be made a part of this written summary of the official minutes of the meeting. Chair Frigo declared a quorum of the Committee was present in accordance with the Texas Open Meetings Act.

*This is a written summary of the proceedings of the meeting of the Audit Committee of the Board of Directors of the Texas Life and Health Insurance Guaranty Association on April 2, 2020. The official minutes are recorded digitally. The compact disc(s) or digital recordings relating to the open portion of the meeting and all related non-confidential written materials provided to the Committee for such meeting are kept in secure storage at the Association’s office. The compact disc(s) or digital recordings relating to the Executive Session portion of the meeting and all related confidential written material related to the Executive Session portion of the meeting are custodied with the Association’s bank. Details regarding matters described in this summary can be obtained by reviewing the official minutes. The non-confidential written material related to the meeting provided to the Committee should be deemed an attachment to this summary.*

**Item 1 Consideration and possible action on consent agenda items**

The Committee considered the written summary of the official minutes of its last meeting that was held on October 7, 2019.

Upon a motion made by Director Lewis and seconded by Director McCandless, the Committee unanimously adopted the following resolution:

**RESOLVED**, that the Audit Committee of the Board of Directors of the Texas Life and Health Insurance Guaranty Association approves the written summary of the official minutes of its October 7, 2019 meeting.

**Item 2 Consideration and possible action on the independent audit of the financial statements for the year ended December 31, 2019**

Chair Frigo reported on the exit conference with Ms. Patel, of CliftonLarsonAllen (“CLA”), held earlier today. He stated there were only two adjustments to the financial statements as a result of the audit, 1) to add the 457 Plan to the balance sheet, and 2) an adjustment to the interest on an accrual of a T-bill.

Ms. Patel presented the audited financial statements for the year ending December 31, 2019. She reported on the audit process and summarized the findings. Ms. Patel stated it was a clean opinion and there was no management letter. Ms. Patel noted that there were no material weaknesses or significant deficiencies with the TLHIGA’s internal controls and the firm was providing an unqualified opinion.

Ms. Patel reported on the two audit adjustments mentioned by Chair Frigo and stated that neither were material adjustments but were adopted by the TLHIGA management upon the advice of CLA.

Ms. Patel added that while conducting the audit there were no issues with TLHIGA management. She stated TLHIGA management was prepared, responsive, easy to work with and very transparent.

Upon a motion made by Director Lewis and seconded by Director McCandless, the Committee recommends the following resolution be presented for adoption by the Board of Directors:

**RESOLVED**, that the Board of Directors of the Texas Life and Health Insurance Guaranty Association accepts the year-end 2019 Financial Audit report as presented.

**Item 3 Executive Session**

Chair Frigo did not call an Executive Session.



**Item 4 Consideration and possible action on items discussed in Executive Session**

Not applicable.

Ms. Patel left the meeting.

**Item 5 Consideration and possible action regarding expansion of the 2020 Audit Plan in response to the 2019 audit**

Mr. Terry reported, in detail, on the Government Accounting Standards Board (“GASB”) statement 87 which pertains to leases. He stated GASB 87 requires the TLHIGA to recognize operating leases as capital leases and will have an impact on TLHIGA reporting in 2020.

The Committee reviewed the 2020 Audit Plan and recommended to amend the Plan to include an item stating, “Review accounting pronouncements and changes with management, including the potential impact to the financial statements.”

Upon a motion made by Director Lewis and seconded by Director McCandless, the Committee recommends the following resolution be presented for adoption by the Board of Directors:

**RESOLVED**, that the Board of Directors of the Texas Life and Health Insurance Guaranty Association adopts the Audit Plan for Calendar Year 2020 for the Texas Life and Health Insurance Guaranty Association as amended.

**Item 6 Consideration and possible action regarding the review of the 2019 expenses and final budget variance report**

Mr. Boles reviewed the 2019 Budget Variance Report and reported on several specific line items of the report. The Committee had no concerns with the budget variances.

**Item 7 Consideration and possible action regarding the responsibilities and duties as set forth in the Committee’s Charter**

The Committee reviewed the Charter and had no changes to recommend.

**Item 8 Consideration and possible action regarding the Committee’s 2020 Calendar of Activities**

After discussion, it was agreed that the next meeting will be held on October 26, 2020.

**Adjournment**

There being no further business, the Committee unanimously agreed to adjourn at 10:57 A.M. CDST.

**Certification**

The undersigned certifies that the foregoing is a true and accurate written summary of the proceedings of the April 2, 2020 meeting of the Audit Committee of the Board of Directors, approved by the Audit Committee at its meeting held on October 19, 2020.

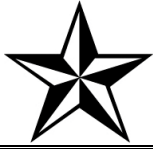
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Dean Frigo, Audit Committee Chair

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## **Item 2**

Consideration and possible action regarding the elimination of the consecutive leave requirement



## **ELIMINATION OF THE CONSECUTIVE LEAVE REQUIREMENT**

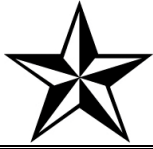
The TLHIGA Employee Handbook has a requirement that employees must take one week of consecutive days of vacation leave each year. This requirement had been adopted many years ago based on an internal control recommendation from the TLHIGA's independent auditor at the time.

Jarett Terry reviewed this consecutive leave requirement with the TLHIGA's current auditor, and she commented that the requirement seemed a bit antiquated as there are numerous other controls around segregation of duties, access to systems, etc. She commented further that this requirement seemed to be a detective control (i.e. you will find any fraud after the fraud has happened) and not a preventative control and that it no longer functions well as a detective control due to the remote access employees have to the accounting and other systems. The approval requirements (electronic or manual), segregation of duties, and access to systems for management and others to view transactions that are currently in place are more preventative controls.

This issue was discussed with the Personnel Committee at its October 7<sup>th</sup> meeting since this policy is also a personnel policy and included in the Employee Handbook. Management provided the same information to the Personnel Committee and asked for any comments to share with the Audit Committee. The Personnel Committee does not object to the elimination of this policy.

Based on this information from the TLHIGA's auditor and the direction of the Personnel Committee, the Executive Director recommends elimination of the requirement that employees must take one week of consecutive leave each year.

Should the Committee decide to recommend, in conjunction with the Personnel Committee, the elimination of the consecutive leave requirement, a recommended resolution is on page 2-2.



The Audit Committee, in conjunction with the Personnel Committee, recommends that the following resolution be presented to the Board of Directors for consideration and possible adoption.

**RESOLUTION ON ADJUSTMENT TO  
CHANGE CONSECUTIVE LEAVE REQUIREMENT**

**RESOLVED**, that the Board of Directors of the Texas Life and Health Insurance Guaranty Association accepts the joint recommendation from its Audit and Personnel Committees to eliminate the requirement in its Employee Handbook that employees take one week of consecutive leave each year.

### **Item 3**

Consideration and possible action regarding the scope of the audit of the financial statements of the Association for the year ending December 31, 2020



## **SCOPE OF 2020 FINANCIAL AUDIT**

The Audit Committee of the Board of Directors for the Texas Life and Health Insurance Guaranty Association, in accordance with its charter, will consider the scope of the annual financial audit for the year ending December 31, 2020.

The Committee has not requested any expansion of the scope of the audit by the independent auditor since the audit for the year ended December 31, 2006. At that time, the Committee asked the auditor to include an examination of the in-house claims adjudication. Prior to this request, the Board of Directors and the Committee had used agreed-upon procedure engagements to examine particular areas of the TLHIGA's operations.

At its April 4, 2017 meeting, the Committee discussed asking the Auditor to perform an internal control review in addition to the annual financial audit and reviewed the necessity and benefits of such a review. After authorization by the Board, a consulting engagement for an enhanced internal control review of cash receipts, disbursements and investment transactions was conducted in conjunction with the 2017 year-end financial audit. The results were communicated by the Auditor to the Committee and the Board. No adjustments were deemed necessary after the review of the results.

The Committee will discuss the necessity for an expansion of the scope of the audit for the year ending December 31, 2020 or a consulting engagement or any particular financial activities and make a recommendation to the Board of Directors should it decide additional items should be reviewed in conjunction with the year-end 2020 financial audit.

## **Item 4**

Consideration and possible action to recommend engagement of an independent auditor for audit of the financial statements of the Association for the year ending December 31, 2020

- A. Review and discuss any significant relationships with Auditor
- B. Engagement of the independent auditor for the audit of financial statements for the year ending December 31, 2020





**ENGAGEMENT OF INDEPENDENT AUDITOR**

FINANCIAL AUDIT

Pursuant to the Audit Committee Charter and in conjunction with the 2020 Audit Plan, the Audit Committee will discuss the TLHIGA’s professional relationship with its current independent auditor. The Committee’s review will include discussions related to engagement conduct, relationships with the TLHIGA that could impair auditor independence, fees for services and any other relationship or professional matters as they pertain to the previous and upcoming audit engagements. In addition to the annual financial audit, the current firm also reviews and files the TLHIGA’s annual Federal Return of an Organization Exempt from Income Tax (Form 990).

Section 31 of Title 28 of the Texas Administrative Code states, in part, “An independent certified public accountant may not perform the financial audit required by §31.201(1) for more than seven consecutive years.” The TLHIGA’s current auditors, CliftonLarsonAllen, LLP (“CLA”), were first engaged for the 2012 financial audit and had completed seven consecutive audits in 2018 with Jerry McMillon as the Audit Partner. In 2019, the Committee issued an RFP for a new auditor with the incumbent firm allowed to bid as long as the audit partner was changed. The Committee received several proposals and, after deliberation, recommended the selection of CLA to the Board of Directors who agreed and engaged Bhakti Patel with CLA as the new Audit Partner. The engagement for the financial audit of the year ending December 31, 2020 will be Ms. Patel’s second year.

A copy of an engagement letter proposed by CLA for the examination of the TLHIGA’s financial statements for the year ending December 31, 2020 was distributed separately to the Committee members. A history of CliftonLarsonAllen, LLP engagements with the TLHIGA is presented in the table below for reference.

<b>YEAR</b>	<b>FEES</b>	<b>AUDIT PARTNER</b>
2012	\$25,600	Jerry McMillon
2013	\$25,600	Jerry McMillon
2014	\$27,600	Jerry McMillon
2015	\$28,500	Jerry McMillon
2016	\$29,000	Jerry McMillon
2017	\$29,500	Jerry McMillon
2018	\$30,000	Jerry McMillon
2019	\$30,900	Bhakti Patel
<b>2020*</b>	<b>\$31,500 + 5% of total (\$1,575)</b>	<b>Bhakti Patel</b>

\*Based on engagement letter proposal

After the review of the engagement letter and other considerations, the Committee will make a recommendation to the Board of Directors for the engagement of an independent public accounting firm for the examination of the TLHIGA's financial statements as of and for the year ending December 31, 2020. On page 4-3 is a draft resolution to be considered for presentation to the Board of Directors.



**RECOMMENDATION OF ENGAGEMENT OF AUDITOR  
FOR FINANCIAL AUDIT  
FOR THE YEAR ENDING DECEMBER 31, 2020**

The Audit Committee recommends that the following resolution be presented to the Board of Directors for consideration and possible adoption.

**RESOLVED**, that the Board of Directors of the Texas Life and Health Insurance Guaranty Association approves the selection of CliftonLarsonAllen, LLP as the independent certified public accounting firm for the TLHIGA.

**FURTHER RESOLVED**, that the Board of Directors authorizes the Chair of the Audit Committee, on behalf of the Texas Life and Health Insurance Guaranty Association to engage the independent certified public accounting firm of CliftonLarsonAllen, LLP, to conduct an audit examination as of and for the year ending December 31, 2020.

## **Item 5**

Executive Session

A. Advice from Counsel

## **Item 6**

Consideration and possible action on items discussed in Executive Session

## **Item 7**

Consideration and possible action regarding the Audit Plan for calendar year 2021



## **AUDIT PLAN FOR CALENDAR YEAR 2021**

The Audit Committee of the Board of Directors for the Texas Life and Health Insurance Guaranty Association, in accordance with its charter, has developed the draft Audit Plan for Calendar Year 2021 shown on pages 7-2 through 7-3.

On page 7-4 is a draft recommendation of a resolution for the Board of Directors to adopt the Audit Plan for Calendar Year 2021 and authorize the Senior Accountant to file the plan with the Texas Commissioner of Insurance.

A follow-up review of the Audit Plan for Calendar Year 2021 will be included as an agenda item for the Committee's meeting in April 2021. This will allow the Committee the opportunity to adjust the Audit Plan for Calendar Year 2021 for any items identified in the audit of the financial statements for the year ending December 31, 2020.



## **AUDIT PLAN**

For Calendar Year 2021

The Audit Committee of the Board of Directors for the Texas Life and Health Insurance Guaranty Association (“TLHIGA”), in accordance with statute and its adopted Audit Committee Charter, has developed the following Audit Plan for calendar year 2021.

The Audit Plan consists of elements related to the conduct and review of the financial statements audit for the year ending December 31, 2020 (“2020 Audit”), other audit projects related to the operations of the TLHIGA, plans for and scope of the 2021 annual financial audit, as well as other aspects of the Committee’s responsibilities as set forth in the Charter of the Audit Committee. In this Audit Plan, the term "audit" refers to the annual financial audit as well as any additional audits or reviews that may be conducted.

### **Spring 2021 Audit Committee Functions**

The Audit Committee or its delegate shall meet and interface with the independent auditor prior to the commencement of, and during, the audit, as necessary.

The Audit Committee will convene in accordance with its charter prior to the April 2021 meeting of the Board of Directors. At this meeting, the Committee will:

- Meet with the independent auditor to review the audited financial statements for the year ending December 31, 2020 and to discuss with the auditor the Report on Internal Controls and the Report to the Board of Directors,
- Review with the auditor: any significant audit findings by the auditor together with management’s response; any problems or difficulties that the auditor may have encountered in the course of the audit work; any restrictions on scope of activities or access to required information; any disagreements with management; any significant changes in the audit plan; and any significant financial risk exposures and the steps management has taken to monitor, control, and report such exposures,
- Review the independent auditor's judgment related to the quality and appropriateness of the TLHIGA's accounting principles as applied in its financial reporting,
- Review the necessity to revise the Audit Plan for Calendar Year 2021,
- Review the necessity to perform and engage, if necessary, a firm to perform a network penetration test,
- Review with the auditor its findings on any reviews or audits conducted in addition to, or as expansions of, the 2020 Audit,
- Review and approve any consulting engagements to be performed by the independent auditor, or other consulting firms, as well as any other engagements undertaken at the request of management that are beyond the scope of the audit engagement,



- Review with the TLHIGA’s counsel, any legal matters that may have a material impact on the financial statements, the TLHIGA’s compliance policies and any material reports or inquiries received from regulators or government agencies, and
- Assess the adequacy of the Audit Committee’s Charter.

The Committee or its Chair shall also:

- Present the audit to the Board of Directors at its April 2021 meeting and make any recommendations of the Committee for approval

**Fall 2021 Audit Committee Functions:**

The Audit Committee will convene in accordance with its Charter prior to the Fall 2021 meeting of the Board of Directors. At this meeting the Committee will:

- Review the engagement proposal from the independent certified public accountant and make recommendation to the Board of Directors on engagement of an auditor,
- Make a determination as to the type of audit(s), including, but not limited to, those audit types identified in § 31.204(2)-(4) of Title 28 of the Texas Administration Code (compliance audit or review, economy and efficiency audit or review, effectiveness audit or review, internal controls audit or review), in addition to the annual financial audit to be conducted as of and for the year ending December 31, 2021,
- Consider possible expansion of scope for the year ending December 31, 2021 audit to include specific financial and/or managerial policies and procedures,
- Review the independence and performance of the auditor and recommend to the Board of Directors the appointment or discharge of the independent auditors,
- Review the results of the network penetration testing, including any recommendations for operational adjustments, if the testing was performed,
- Review the fees and other significant compensation paid to the independent auditors,
- Review with the independent auditor, the plan for the audit, including; audit scope, staffing, locations, reliance upon management and general audit approach, and
- Develop the Audit Plan for Calendar Year 2022, consistent with the rules and regulations of the Texas Department of Insurance, for filing with the Commissioner of Insurance.

The Committee or its Chair shall also:

- Present the Committee’s recommended Audit Plan for Calendar Year 2022 to the Board of Directors for review and consideration at the Board of Director's Fall meeting; recommend the engagement of the independent auditor for the 2021 financial audit and other reviews or audits to the Board of Directors,
- Ensure that the Audit Plan for Calendar Year 2022 approved by the Board of Directors is filed with the Commissioner of Insurance,
- Meet with the independent auditor prior to the commencement of the audit.



**RECOMMENDATION ON ADOPTION OF  
AUDIT PLAN FOR CALENDAR YEAR 2021**

The Audit Committee recommends that the following resolution be presented to the Board of Directors for consideration and possible adoption.

**RESOLVED**, that the Board of Directors of the Texas Life and Health Insurance Guaranty Association hereby adopts the Audit Plan for Calendar Year 2021 for the Texas Life and Health Insurance Guaranty Association.

**FURTHER RESOLVED**, that the Board of Directors authorizes the Senior Accountant to file the Audit Plan for Calendar Year 2021 with the Commissioner of Insurance after final approval by the Chair of the Audit Committee.

## **Item 8**

Consideration and possible action regarding the Association's commercial insurance coverages



October 19, 202 Audit Committee Meeting

## COMMERCIAL INSURANCE COVERAGE

On October 25, 2011, the Charter of the Audit Committee was amended to include the following:

“On an annual basis, the Committee will review the commercial insurance program of the Association (“the insurance program of the Association”) with a view to confirming such program’s adequacy to mitigate anticipatable risks efficiently and cost effectively. To perform this review, the Committee will require the Executive Director, in consultation with the Association’s insurance broker, each year to summarize in writing the existing insurance program of the Association and to provide recommendations with respect to such program. After reviewing the Executive Director’s annual insurance program report, the Committee shall make any necessary or appropriate recommendations regarding the insurance program of the Association to the Board.”

This report will present a summary of the TLHIGA’s commercial insurance coverages, discuss the adequacy of these coverages with respect to operations and activities, describe one type of coverage that is not currently provided under any of the TLHIGA’s policies, and conclude with a summary and recommendation.

### SUMMARY OF EXISTING INSURANCE COVERAGES

The TLHIGA currently has the following five commercial insurance coverages through Watkins Insurance:

1. Business Owner’s Insurance,
2. Commercial Umbrella Insurance,
3. Workers Compensation and Employers Liability
4. Financial Institution Bond for Insurance Companies
5. Cyber Liability Insurance

and the following coverage through Matsock:

1. Directors and Officers Insurance

The name of the insurance company, annual premium and brief descriptions of the risks covered, limits of coverage, and retentions or deductibles for each policy are provided on the subsequent pages.

**BUSINESS OWNER'S INSURANCE POLICY**

This policy has three components: Commercial General Liability, Business Owner's Property, and Hired/Non Hired Auto Insurance.

Insurance Company: Liberty Mutual Insurance Company  
 Coverage Period: 11/3/19-11/3/20  
 Annual Premium: \$ 4,849 (11/3/18-11/3/19 premium was \$ 4,386)  
 Policy Number: BZS56374303

**Commercial General Liability Coverage**

DESCRIPTION	LIMITS OF INSURANCE
Each Occurrence	\$ 1,000,000
Annual Aggregate	\$ 2,000,000
Damage to Rented Premises	\$ 1,000,000
Medical Expense (per claim per person)	\$ 15,000
Employment Related Practices	\$ 25,000*
No Applicable Deductible Per Claim	
*\$ 5,000 Deductible	

**Business Owner's Property Coverage**

DESCRIPTION	LIMITS OF INSURANCE
Main Office – 515 Congress Ave, Ste. 1875	
Contents	\$ 408,445
Valuable Papers	\$ 25,000
Account Receivable	\$ 125,000
Employee Dishonesty	\$ 25,000
Storage – 1213 W. 6th Street	
Contents	\$ 7,847
Valuable Papers	\$ 300,000
Account Receivable	\$ 125,000
Employee Dishonesty	\$ 25,000
Business Income/Extra Expense	Actual Loss
Fine Arts	\$ 10,000
\$ 500 Deductible Per Occurrence	

**Hired/Non-Owned Auto Liability Coverage**

DESCRIPTION	LIMITS OF INSURANCE
Each Occurrence	\$ 1,000,000

**COMMERCIAL EXCESS (UMBRELLA) INSURANCE POLICY**

Insurance Company: Liberty Mutual Insurance Company  
Coverage Period: 11/3/19-11/3/20  
Annual Premium: \$ 2,323 (11/3/18-11/3/19 premium was \$ 2,020)  
Policy Number: USO56374303

DESCRIPTION	LIMITS OF INSURANCE
Annual Aggregate	\$ 5,000,000
Bodily Injury and Property Damage (per occurrence)	\$ 5,000,000
Personal and Advertising Injury (per person or organization)	\$ 5,000,000
Retained	\$ 10,000

**WORKERS COMPENSATION & EMPLOYERS LIABILITY INSURANCE POLICY**

Insurance Company: Liberty Mutual Insurance Company  
Coverage Period: 11/3/19-11/3/20  
Annual Premium: \$ 963 (11/3/18-11/3/19 premium was \$916)  
Policy Number: XWS56374303

DESCRIPTION	LIMITS OF INSURANCE
Workers Compensation – TX Law	per TX law
Employers Liability	
Bodily Injury by Accident (each accident)	\$ 1,000,000
Bodily Injury by Disease (policy limit)	\$ 1,000,000
Bodily Injury by Disease (each employee)	\$ 1,000,000

**CYBER LIABILITY INSURANCE**

Insurance Company: Lloyds of London  
Coverage Period: 11/1/19-11/1/20  
Annual Premium: \$ 5,719 (11/1/18-11/1/19 premium was \$7,469)  
Policy Number: B6012BUSANMSL1701

DESCRIPTION	LIMITS OF INSURANCE
Per Claim	\$ 1,000,000
Aggregate	\$ 1,000,000
Deductible	\$ 15,000

**FINANCIAL INSTITUTION BOND FOR INSURANCE COMPANIES**

At the time of writing, the TLHIGA has not received the renewal for the Financial Institution Bond, so the previous year's information is shown.

Insurance Company: Hartford Fire Insurance Company  
Coverage Period: 12/1/19-12/1/20  
Annual Premium: \$ 3,877

DESCRIPTION	LIMITS OF INSURANCE
Fidelity	\$ 1,000,000
On Premises	\$ 1,000,000
In Transit	\$ 1,000,000
Forgery or Alteration	\$ 1,000,000
Securities	\$ 1,000,000
Computer Systems Fraud	\$ 1,000,000
ERISA Coverage Included	
\$ 25,000 Deductible Per Occurrence	

**DIRECTORS AND OFFICERS LIABILITY AND  
EMPLOYMENT PRACTICES INSURANCE POLICY**

Insurance Company: Great American Insurance Company  
Coverage Period: 8/1/20-8/1/21  
Annual Premium: \$ 41,800 (8/1/19-8/1/20 premium was \$ 38,000)

DESCRIPTION	LIMITS OF INSURANCE
Annual Aggregate	\$ 5,000,000
Retained	\$ 50,000

**CLAIMS HISTORY**

The TLHIGA has never made a claim under the coverages discussed here nor are we aware of any potential or threatened claim.

## **ADEQUACY OF COVERAGE**

Of the policies in place, all coverage appears to be adequate and provides the TLHIGA with broad coverage for its various areas of exposure.

The TLHIGA does not have Errors and Omissions (“E&O”) insurance coverage, which is discussed below.

## **E&O INSURANCE**

E&O insurance has never been identified as a significant risk for the TLHIGA based on the focus of our activities being the portion toward the end of the insurance policy life cycle, meaning the final disposition of the policies’ benefits through cancellation/termination, assumption reinsurance transfer, and payment of claims. The TLHIGA is not involved in the application review, underwriting, policy issuance or rescission processes. Quotes have never been obtained for this type of coverage, and the TLHIGA’s risk in this area has not changed.

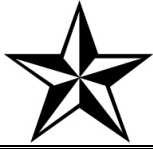
## **SUMMARY AND RECOMMENDATION**

It appears the TLHIGA has adequate commercial coverage for any potential risks with the possible exception of E&O.



## **Item 9**

Consideration and possible action regarding the development of the Association's 2021 Budgets



## **ASSOCIATION'S BUDGETS**

The Operating Budget for calendar year 2021 will be prepared by staff and presented to the Board of Directors for their consideration and possible action at its January 2021 meeting. While the exact amount of certain operating costs is known, others are projections based on past experience and anticipated future activities. The operating budget for 2021 does not include timing and cost projections for new insolvencies.

### ASSUMPTIONS FOR 2021

The budget assumption detail provided on pages 9-2 to 9-5 is related to the facts, assumptions and methodologies used in estimating monthly and total administration costs for individual line items within the budget. A copy of the 2020 Operating Budget is provided on page 9-6 for reference.



**BUDGET ASSUMPTIONS FOR 2021**

<b>ACCOUNT NUMBER</b>	<b>ACCOUNT NAME</b>	<b>2020 BUDGET AMOUNT</b>	<b>2021 BUDGET ASSUMPTION</b>
5150	Accounting and Auditing	34,000	Cost is based on 2020 CPA firm's fees for the financial audit with estimated increase, Form 990 filing and incidentals. Cost is accrued each month.
5015	Board Meetings & Expenses	39,275	Cost is based on nine directors and two counsels' travel to four Board meetings per year. Cost estimate is based on 2020 travel expenses and also includes lunches and dinners adjusted for COVID impact.
5022	Bank Fees	7,200	Cost is based on bank fee structure; current deposit amounts offset bank fees.
5030	Conferences	29,600	Cost is based on travel expenses and registration fees for three Board members and two staff to attend the NOLHGA Legal Seminar and for the Executive Director and Senior Accountant to attend various industry conferences (NAIC, TALHI, IAIR and ILTIC) adjusted for COVID impact
5035	Copying & Printing	2,040	Cost is based on the 2020 average monthly expense.
5050	Dues & Subscriptions	9,090	Cost is based on the renewal expense of the TLHIGA's subscriptions and licenses. Examples include virus and spam protection, TALHI & IAIR dues, and AM Best renewal.
5052	Depreciation	19,836	Cost is based on the TLHIGA's fixed asset depreciation schedule.
5055	Education & Training	10,700	Cost is a flat amount set by the Executive Director after review with the Personnel Committee and Board of Directors.
5060	Employee Benefits	126,064	Cost is based on life, health, dental and disability insurance renewals for 2021, the Health Reimbursement Arrangement, 403(b) and 401(k) retirement plan matching. This item will be reviewed by the Personnel Committee.
5065	Insurance	58,454	Cost is based on commercial insurance renewals at 2021 rates for the TLHIGA's Business Owner's Policy, Commercial Umbrella Policy, Workers Comp & Employer's Liability Policy, Financial Institution Bond for Insurance Companies, Cyber Liability and D&O coverage.



### BUDGET ASSUMPTIONS FOR 2021

ACCOUNT NUMBER	ACCOUNT NAME	2020 BUDGET AMOUNT	2021 BUDGET ASSUMPTION
5075	Legal	130,811	Cost is based on the current engagement's hourly rates from both the TLHIGA's and Board's counsel applied to an estimated 2021 total hours. The total 2021 hours are derived from the actual hours billed in 2020 plus/minus management's estimated change for 2021.
5085	National Assessments	2,904,000	Cost is based on the average of 2020 MPC assessments and any new data or cost estimates from NOLHGA based on projections of insolvency activities.
5090	NOLHGA Dues	88,243	Cost is based on the TLHIGA's pro rata share of NOLHGA's estimated 2021 dues. The ratio is determined from the 2020 dues calculations and a projected increase due to an increase in insolvency activity.
5095	Office Rent	300,829	Cost is based on rent costs and employee parking costs in the TLHIGA's lease agreement and the average visitor parking costs from the prior year.
5100	Office Supplies	10,680	Cost is based on the 2020 expenses.
5105	Operating Leases	3,000	Cost is based on the TLHIGA's current leases and the payment structure of each lease, such as the postage machine and phone equipment.
5115	Payroll Taxes	33,962	Cost is based on staff salaries and current tax rates.
5113	Other Taxes	1,663	Cost is based on estimate of 2021 ad valorem property taxes provided by the Travis County Tax Assessor/Collector.
5111	NOLHGA Meetings	33,600	Cost is based on travel expenses for the Executive Director and Senior Accountant to attend 4 MPC meetings each year and 5 additional task force meetings in 2021 and 2 staff and 3 Board members to attend the NOLHGA 2021 Annual Meeting. Cost will be adjusted for COVID impact and the reduction in physical meetings.



**BUDGET ASSUMPTIONS FOR 2021**

<b>ACCOUNT NUMBER</b>	<b>ACCOUNT NAME</b>	<b>2020 BUDGET AMOUNT</b>	<b>2021 BUDGET ASSUMPTION</b>
5120	Postage	2,676	Cost is based on 2020 costs and any projected large mailouts.
5122	Professional Services	51,180	Cost is based on ongoing fees plus an estimate for any known projects that may require outside vendors. Examples include the payroll vendor, the TLHIGA's IT vendor, the 401(k) and 403(b) administrator and the accounting system consultant.
5125	Repairs & Maintenance	2,000	Cost is a flat amount set by the Executive Director based on the prior year's expenses.
5130	Salaries	519,723	Cost is based on recommendations from the Executive Director and Personnel Committee and approved by the Board of Directors.
5132	Licensing	29,494	Cost is based on licensing fees for SaaS applications. It includes estimates for items such as the Accounting and Investment systems and 1099 Reporting software and Office 365. The costs will include the cloud migration for IT.
5145	Temporary Personnel	0	Cost is based on estimated time needed to complete special projects and temporary staff as needed.
5135	Record Storage	6,516	Cost is based on current rates plus an increase based on historical increases for offsite storage and online daily backup.
5140	Telephone	7,740	Cost is based on current fixed rate plans.
5070	Interest	7,200	Cost is based on the 2020 interest expense.
	<b>TOTAL BUDGET</b>	<b>4,469,576</b>	



**BUDGET ASSUMPTIONS FOR 2021**

<b>CAPITAL EXPENDITURE BUDGET</b>		
<b>FURNITURE OR EQUIPMENT</b>	<b>BUDGET AMOUNT</b>	<b>2021 BUDGET ASSUMPTION</b>
Laptop Replacement	3,000	Based on the current market value of comparable laptops
Furniture	8,000	Based on the Executive Director's estimate of furniture for a potential office relocation
Moving Expenses	20,000	Based on the Executive Director's estimate of furniture for a potential office relocation



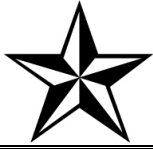
**TEXAS LIFE & HEALTH  
INSURANCE GUARANTY ASSOCIATION**

	First	Second	Third	Fourth	Total	Total	Percent	Projected	Projected	Projected
	Quarter	Quarter	Quarter	Quarter	2020 Budget	2019 Budget	Change	Variable Costs 2020	Fixed Costs 2020	Fixed Costs 2019
<b>2020</b>										
<b><u>Operating Budget</u></b>										
5010 Accounting & Auditing	21,533	12,467	0	0	34,000	32,733	3.87%	-	34,000	32,733
5015 Board Meetings & Expenses	8,435	12,900	8,220	9,720	39,275	39,275	0.00%	-	39,275	39,275
5022 Bank Fees	1,800	1,800	1,800	1,800	7,200	21,000	-65.71%	-	7,200	21,000
5030 Conferences	6,100	3,250	17,400	2,850	29,600	34,850	-15.06%	-	29,600	34,850
5035 Copying & Printing	510	510	510	510	2,040	2,400	-15.00%	6	2,034	2,393
5050 Dues & Subscriptions	4,070	300	4,300	420	9,090	6,870	32.31%	-	9,090	6,870
5052 Depreciation	5,577	6,059	4,602	3,598	19,836	16,571	19.70%	-	19,836	16,571
5055 Education & Training	2,675	2,675	2,675	2,675	10,700	9,400	13.83%	-	10,700	9,400
Employee Benefits:										
5060 Insurance	16,193	16,183	16,183	16,183	64,743	62,030	4.37%	-	64,743	62,030
5060 Retirement 401(k) & 457(b)	27,643	8,143	8,143	9,893	53,821	50,918	5.70%	-	53,821	50,918
5060 Medical Reimbursement	1,875	1,875	1,875	1,875	7,500	7,500	0.00%	-	7,500	7,500
5065 Insurance	0	0	38,159	20,294	58,454	59,215	-1.29%	-	58,454	59,215
5075 Legal - Admin	19,353	19,353	19,353	19,353	77,412	117,051	-33.86%	-	77,412	117,051
5075 Legal - Estate	13,350	13,350	13,350	13,350	53,399	78,081	-31.61%	53,399	-	-
5085 National Assessments	726,000	726,000	726,000	726,000	2,904,000	3,250,000	-10.65%	2,892,000	12,000	8,000
5090 NOLHGA Dues	88,243	0	0	0	88,243	85,861	2.77%	-	88,243	85,861
5095 Office Rent	72,176	83,551	72,551	72,551	300,829	283,893	5.97%	-	300,829	283,893
5100 Office Supplies	2,670	2,670	2,670	2,670	10,680	10,320	3.49%	-	10,680	10,320
5105 Operating Leases	750	750	750	750	3,000	8,243	-63.61%	-	3,000	8,243
5111 NOLHGA Mtgs	3,250	8,250	6,850	15,250	33,600	30,650	9.62%	17,244	16,356	14,920
5113 Other Taxes	150	13	0	1,500	1,663	4,219	-60.58%	-	1,663	4,219
5115 Payroll Taxes	11,701	9,462	6,731	6,068	33,962	30,893	9.94%	-	33,962	30,893
5120 Postage	669	669	669	669	2,676	3,372	-20.64%	6	2,670	3,365
5122 Professional Service - Admin	8,830	8,750	11,250	12,150	40,980	35,172	16.51%	-	40,980	35,172
5122 Professional Service - Estate	3,000	1,200	300	5,700	10,200	2,100	385.71%	10,200	-	-
5125 Repairs & Maintenance	500	500	500	500	2,000	2,000	0.00%	-	2,000	2,000
5130 Salaries	123,681	123,681	123,681	148,681	519,723	484,546	7.26%	-	519,723	484,546
5145 Temporary Personnel	0	0	0	0	0	0	0.00%	-	-	-
5132 Licensing	3,548	18,848	3,548	3,548	29,494	25,614	15.15%	-	29,494	25,614
5135 Record Storage	1,629	1,629	1,629	1,629	6,516	6,845	-4.81%	-	6,516	6,845
5140 Telephone	1,935	1,935	1,935	1,935	7,740	7,260	6.61%	-	7,740	7,260
Total Administrative & Estate Cost	1,177,846	1,086,772	1,095,634	1,102,123	4,462,375	4,808,883		2,972,854	1,489,521	1,470,958
5070 Interest	1,800	1,800	1,800	1,800	7,200	19,200	-62.50%	-	7,200	25,008
Totals for Each Month	1,179,646	1,088,572	1,097,434	1,103,923	4,469,575	4,828,083	-7.43%	2,972,854	1,496,721	1,495,966
Year To Date Total	1,179,646	2,268,218	3,365,653	4,469,575				66.51%	33.49%	

## **Item 10**

Consideration and possible action regarding the Committee's Calendar of Activities and planning for 2021, including next meeting date





## COMMITTEE'S CALENDAR OF ACTIVITIES AND PLANNING FOR 2021, INCLUDING NEXT MEETING DATE

On pages 10-2 through 10-3 are the portions relating to the 2020 meeting dates, activities and agenda items for the Audit Committee.

The tentative meeting dates and agenda items for 2021 are subject to change at the Committee's discretion. The items shown in red are specific responsibilities for the Committee Chair.

It is recommended that the next Audit Committee meeting be held on **Tuesday, April 6, 2021**, two weeks before the Board of Directors meeting.

The list of items to be addressed during the April meeting tentatively includes the following:

- Receive Audit report from outside auditor
- Meet confidentially with outside auditor
- Prepare recommendation to Board of Directors regarding annual financial audit
- Review the necessity for a network penetration test in 2021
- Evaluate the necessity to revise the current year's Audit Plan based on findings in the annual financial audit
- Review the Committee's Charter
- Review the actual expenses for the prior year, including budget variance, segregation of fixed and variable expenses, and allocation of expenses to insolvencies

2020 Calendar of Activities (AUDIT COMMITTEE) updated as of 10/8/20

Activity Reference No.	Board, Committee or Executive Director (BOD, A-I, PER, AUD, LEG or ED)	Chair - CH (If applicable)	Activity Target Date	Activity Description	Date Completed
17	AUD	CH	3/16/20	<b>AUD COMM CHAIR</b> will review the draft agenda for the April 2, 2020 Audit Committee meeting with the Executive Director and/or Senior Accountant to determine the order of items and whether items should be added or deleted.	3/16/20
22	AUD	CH	4/2/20	<b>AUD COMM CHAIR</b> will meet with the outside financial auditor after the audit process has concluded to discuss significant audit findings, difficulties conducting the audit, disagreements with management, sufficiency of TLHIGA internal controls, possible expansion of the 2020 Audit Plan.	4/2/20
23	AUD		4/2/2020 10:00 AM virtual meeting	<b>Audit Committee Meeting</b> - Receive annual financial audit report from outside auditor - Meet confidentially with outside auditor - Prepare recommendation to Board of Directors regarding annual financial audit - Evaluate the necessity to revise the current year's Audit Plan based on findings in the annual financial audit - Review the necessity to select a new auditor - Review the actual expenses for the prior year, including final budget variance report, segregation of fixed and variable expenses, and allocation of expenses to insolvencies - Annual review of the Committee's Charter	4/2/20
27	AUD	CH	4/15/20	<b>AUD COMM CHAIR</b> will ask staff to distribute the draft Audit Report to all Directors after the Audit Committee meeting in preparation for consideration during the April 21, 2020 Board of Directors meeting	4/15/20
30	BOD AUD	CH CH	4/21/2020 8:30 AM virtual meeting	<b>Board of Directors Meeting</b> <b>AUD COMM CHAIR</b> will provide a report to the Board of Directors that includes the following: - A recommendation regarding the annual financial audit - A recommendation regarding the necessity to select a new auditor - A recommendation on whether the current year's Audit Plan should be revised - Any revision to the Committee's Charter - A report on the other matters discussed by the Committee 2019 Annual Report Approval Regular operation and financial approvals (i.e. minutes, NOLHGA quarterly invoice, future meetings, etc.) Corporate governance items, i.e. conflicts and antitrust statements and review of the BOD Corporate Governance Guidelines	4/21/20
52	AUD	CH	10/5/20	<b>AUD COMM CHAIR</b> will review the draft agenda for the October 19, 2020 Audit Committee Meeting with the Executive Director and/or Senior Accountant to determine the order of items and whether additional items should be added or current items deleted.	10/5/20
55	ED		10/8/20	<b>EXECUTIVE DIRECTOR</b> (or staff) will file the final agendas for the October 19, 2020 Audit Committee meetings and the October 20, 2020 Board of Directors meeting with the Texas Secretary of State's office.	10/8/20

2020 Calendar of Activities (AUDIT COMMITTEE) updated as of 10/8/20

Activity Reference No.	Board, Committee or Executive Director (BOD, A-I, PER, AUD, LEG or ED)	Chair - CH (If applicable)	Activity Target Date	Activity Description	Date Completed
56	AUD		10/19/20 3:30 PM	<b>Audit Committee Meeting</b> - Consider the scope of the financial statements audit as of December 31, 2020. - Develop a recommendation for engagement of auditor for audit of financial statements as of December 31, 2020 - Develop the 2021 Audit Plan and prepare recommendation to the Board of Directors for adopting and filing it with the Commissioner of Insurance - Review the Association's commercial insurance program to confirm the adequacy to mitigate anticipatable risks - Review the assumptions that will be used for developing the 2021 budgets that will be presented to the Board of Directors at its January 26, 2021 meeting.	
57	BOD AUD PER	CH CH CH	10/20/20 8:30 AM	<b>Board of Directors Meeting</b> <b>AUD COMM CHAIR</b> will provide a report to the Board of Directors that includes the following: - A recommendation regarding the engagement of an auditor to conduct the annual financial audit as of YE 2020 - A recommendation on scope of YE 2020 audit - A recommendation to adopt the 2021 Audit Plan and to file it with the Commissioner of Insurance - A report on the other matters discussed by the Committee  <b>PERS COMM CHAIR</b> will provide a report to the Board of Directors that includes the following: - Temporary adjustments to personnel policies in response to COVID-19 pandemic - Implementing the findings of the compensation study - The draft remote working policy  - Consideration of the leave of absence, whistleblower and leave of absence policies - Regular operational and financial approvals (i.e. minutes, NOLHGA invoice, review of meeting calendar, etc.)	
58	AUD		10/21/20	<b>EXECUTIVE DIRECTOR</b> will notify selected audit firm of Board of Directors engagement decision.	