

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

AUDIT AND FINANCE COMMITTEE MEETING

John H. Reagan Building  
Room JHR 140  
105 W. 15th Street  
Austin, Texas

December 14, 2017  
7:29 a.m.

MEMBERS:

SHARON THOMASON, Chair  
PAUL A. BRADEN, Member  
ASUSENA RESÉNDIZ, Member  
LEO VASQUEZ, Member

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EXECUTIVE SESSION	none
OPEN SESSION	--
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P R O C E E D I N G S

1  
2 MS. THOMASON: Good morning. And welcome to  
3 the December 14 meeting of the TDHCA Audit and Finance  
4 Committee. I'm going to take roll.

5 Paul Braden?

6 MR. BRADEN: Here.

7 MS. THOMASON: Asusena Reséndiz?

8 MS. RESÉNDIZ: Present.

9 MS. THOMASON: Sharon Thomason, I am here.

10 Leo Vasquez?

11 MR. VASQUEZ: Here.

12 MS. THOMASON: All right. We have four.

13 I want to see approval of the minutes from the  
14 September 7, 2017 Audit and Finance Committee.

15 At that meeting, the Director of Internal  
16 Audit, Mr. Mark Scott, went over the internal audit of the  
17 information systems, as well as the progress on the peer  
18 review and other audit activities.

19 Mr. Scott also requested and received approval  
20 of the 2018 Internal Audit Plan. The minutes are included  
21 in your board book for the Audit and Finance Committee.

22 Can I have a motion to approve the minutes for  
23 the September Audit and Finance Committee meeting?

24 MR. VASQUEZ: Move to approve.

25 MS. THOMASON: And second?

1 MS. RESÉNDIZ: Second.

2 MS. RESÉNDIZ: Okay. All in favor?

3 (A chorus of ayes.)

4 MS. THOMASON: All right. The minutes are now  
5 approved.

6 So our next item on our agenda is the  
7 presentation of our external peer review of our internal  
8 audit, and Mark will present that for us.

9 MR. SCOTT: Good morning. Yes, the external  
10 peer review of TDHCA was completed and the reports are  
11 included in the materials.

12 The opinion report is what appears first in the  
13 materials, and it is followed by a more detailed report on  
14 the peer review.

15 Starting on page 7 of the opinion report are  
16 the ratings. The internal audit program at TDHCA received  
17 the top rating in every category.

18 The detailed report on the peer review  
19 describes the work that the reviewers conducted. They  
20 made some minor suggestions that are not mandatory, but  
21 that we can implement if we choose.

22 This committee meeting is pretty packed, so I  
23 thought I would outline some options related to the  
24 follow-up on the peer review and present them for the next  
25 meeting.

1 Overall, the peer reviewers made very favorable  
2 comments on both the audits and the audit committee.

3 MS. THOMASON: Okay.

4 MR. SCOTT: And so at this point I'll ask for  
5 an acceptance of the peer review report.

6 MS. THOMASON: Okay. Do I have a motion to  
7 accept the peer review report?

8 MR. VASQUEZ: Move to accept.

9 MS. THOMASON: A second?

10 MR. BRADEN: Second.

11 MS. THOMASON: Okay. All in favor?

12 (A chorus of ayes.)

13 MS. THOMASON: Okay. The peer review report is  
14 accepted.

15 MR. VASQUEZ: This generally conforms --

16 MR. SCOTT: I know it does -- it doesn't, it  
17 sounds like meager praise but --

18 (Laughter.)

19 MR. SCOTT: That's actually the top rating.

20 (Laughter.)

21 MR. VASQUEZ: It's all generally --

22 (Laughter.)

23 MS. THOMASON: Our next action item is going to  
24 be from the Finance Department, and Ernie will come and  
25 present those reports.

1 MR. PALACIOS: Good morning, Madam Chair,  
2 members of the Committee. For the record, I'm Ernie  
3 Palacios, Director of Financial Administration for the  
4 Department.

5 Action Item 3 is a draft computation of the  
6 Housing Finance Division total in unencumbered fund  
7 balances and transfers to the Housing Trust Fund.

8 Housing Finance Division unencumbered funds are  
9 the funds associated with any and all of the Department's  
10 housing finance activity that are not subject to any  
11 restriction precluding their immediate transfer to the  
12 Housing Trust Fund.

13 Such restrictions include being subject to a  
14 state or federal law or other applicable legal requirement  
15 such as a general appropriations act, being held in trust  
16 subject to the terms of a bond indenture, or having been  
17 designated by the Department's governing board for  
18 specific use or contingency.

19 Pursuant to Texas Government Code 2306.204 and  
20 .205, the Department is required to transfer to the  
21 Housing Trust Fund, by January 10 of the following year, a  
22 portion of the unencumbered funds, if any, meeting certain  
23 threshold and criteria.

24 The statute also requires the Department to  
25 undergo an annual audit of its unencumbered fund balances,

1 and to transfer excess funds to the Housing Trust Fund  
2 based on the calculation set forth in the statute.

3 The draft computation of the unencumbered fund  
4 balance's report as of August 31, Exhibit A, reflects  
5 funds held by the Department deemed to be unencumbered of  
6 147,700.

7 The calculation of bonded indebtedness report,  
8 Exhibit B, only includes bonds outstanding, not rated in  
9 the highest long-term debt rating category, to calculate  
10 the 2 percent threshold of 19,425,232.

11 And the list of bond ratings, Exhibit C, is  
12 from the rating agencies.

13 Since the unencumbered fund balance is less  
14 than the 2 percent threshold, it does not meet the first  
15 threshold of the Texas Government Code for any transfer to  
16 the Housing Trust Fund.

17 The draft computation of the unencumbered fund  
18 balances report as of August 31, 2017 yielded a zero  
19 transfer to the Housing Trust Fund.

20 Again, this report is included for review in  
21 the year-end financial audit performed by the State  
22 Auditor's office, and is therefore subject to revision  
23 based on such audit.

24 At this point we respectfully request  
25 acceptance of the draft computation of the Housing Finance

1 Division totaled in unencumbered fund balances of  
2 transfers to the Housing Trust Fund's report. The auditor  
3 report, along with the State Auditor's opinion, will be  
4 presented at the next Audit and Finance Committee meeting  
5 in February.

6 This concludes my remarks on this item. I'm  
7 available for any questions you may have.

8 MS. THOMASON: Okay. Thank you.

9 Anyone have any questions?

10 MR. VASQUEZ: Yes. I was curious, when looking  
11 at this, what's our usual unencumbered fund balance?

12 MR. PALACIOS: Uh --

13 MR. VASQUEZ: Ballpark, I mean. Just, is it  
14 this level, or is it a million dollars more, or --

15 MR. SALACIOUS: No, it's usually very small,  
16 because we haven't made a transfer in over ten years.

17 MR. VASQUEZ: Okay. All right.

18 MS. THOMASON: Any other questions?

19 MR. IRVINE: Good morning. Tim Irvine,  
20 Executive Director. I just wanted to make a comment of a  
21 general nature about this particular matter.

22 When we created our open indentures, you know,  
23 the -- it was back in the olden days, and since that time  
24 we've gone through tremendous swings in the economy,  
25 obviously the financial challenges of the 2008, 2009 era.



1           And our open indentures have continued to  
2 perform pretty much like clockwork, and consistently built  
3 value.

4           And I think when the statute was enacted, it  
5 was contemplated that the department would have the  
6 ability to access that value to enhance the liquidity of  
7 the Housing Trust Fund.

8           But as we've learned along the way working  
9 closely with our financial advisor, and hearing input from  
10 our rating agencies, it's really important to keep strong  
11 indentures.

12           So this is not just acceptance of a particular  
13 audit, in my mind. This is also sort of a re-affirmation  
14 of Staff's strong recommendation to keep building and  
15 preserving the strength of our indentures.

16           MS. THOMASON: Thank you. Do I have a motion  
17 to accept the financial reports as presented?

18           MR. BRADEN: So moved.

19           MS. THOMASON: Okay. Second?

20           MR. VASQUEZ: Second.

21           MS. THOMASON: Okay. All in favor?

22           (A chorus of ayes.)

23           MS. THOMASON: Thank you.

24           Our first report item is the Audit of the  
25 Contract for Deed Conversion Program, and Mark will

1 present that for us.

2 MR. SCOTT: Thank you. Yes, this audit, it  
3 rated high on the risk assessment we did about a year and  
4 a half ago because of legislative interests and a few  
5 other factors.

6 The contracts for deed conversion program had  
7 been set up in response to a sunset recommendation. We  
8 found that the program generally accomplished its mission,  
9 and we didn't have any compliance finding, so basically a  
10 good audit.

11 MS. THOMASON: Okay. Our next report item is  
12 for recent external audits. Mark?

13 MR. SCOTT: Thank you again.

14 Yes, one of the audits that's going on is the  
15 SAO audit of the Agency's financial statements. And this  
16 is an annual external audit, and it includes actually the  
17 calculation of the -- that Ernie was just talking about,  
18 and other factors that they audit, and their report is  
19 supposed to be sent out on or about December 20.

20 And by the way, you all will get that in an  
21 email. So that's the only one that they send directly to  
22 you all.

23 Then the KP&G audit of the low-income energy  
24 assistance program, or LIHEAP, and they're doing follow-up  
25 on the findings that they had last year. One of the

1 findings on payroll control will be cleared, while the  
2 other finding on reporting fields probably will not be  
3 cleared until upgrades are made to the reporting system  
4 that she's -- by LIHEAP.

5 And then HHS is coming out in January, to audit  
6 LIHEAP.

7 MS. THOMASON: Okay. Any questions about any  
8 of those?

9 (No response.)

10 MS. THOMASON: All right. And --

11 MR. SCOTT: That concludes my presentation.

12 MS. THOMASON: -- and Ernie Palacios is going  
13 to go over the 2018 operating budget.

14 MR. PALACIOS: Ernie Palacios, Director of  
15 Financial Administration.

16 Report Item 3 is a 2018 operating budget filed  
17 with the Legislative Budget Board and the Governor's  
18 Office of Budget, Planning and Policy.

19 This itemized operating budget was filed  
20 electronically to the automated Budget and Evaluation  
21 System of Texas, also known as the BEST, located on the  
22 LBB website on Friday, December 1.

23 This budget reflects a culmination of the 2016-  
24 2017 biennium and the budget for the first year of the  
25 2018-19 biennium.

1           Within each year of the biennium is the  
2 Department's internal operating budget, such as the one  
3 approved by this committee and the board on June 29, 2017.

4           That budget included operational expenses  
5 distributed among the Department's divisions. It did not  
6 include federal or state program funds that passed through  
7 to subrecipients except for administrative funds used by  
8 the Department associated with those federal or state  
9 funds that are retained or reflected in the budget.

10           This budget does include those funds.

11           The 2016-17 JAA approved budget for the  
12 biennium was \$\$486.7 million. This included 313 FTEs for  
13 each year of the biennium, and a total capital budget of  
14 597,810.

15           This budget reflects total adjustment for the  
16 biennium of \$4.7 million. The differences, by method of  
17 finance, are as follows:

18           The general revenue had an increase of 1.5  
19 million, primarily attributed to excess collections of  
20 loan repayments related to the Housing Trust Fund loans.

21           The adjustment of the federal funds, which went  
22 down a little bit, is primarily related to adjustments to  
23 estimates based on actual award letters received, and  
24 actual program income received.

25           Appropriated receipts realized savings

1 primarily due to salary savings related to FTE vacancies,  
2 of which \$627,962 was related to the hiring freeze in  
3 fiscal year 2017.

4 Other cost savings were attained through  
5 efficiencies for both TDHCA and the Manufactured Housing  
6 Division.

7 In addition, the Manufactured Housing Division  
8 had excess housing receipts that were not necessary for  
9 the administration of the division.

10 The savings in the inter-agency contracts is a  
11 result of efficiencies in the money-follows-the-person  
12 program, with the Housing and Human Services Commission.

13 The FTEs reflected in this budget were 279.8  
14 and 280.2, for each year of the biennium, respectively.  
15 This is a reflection of FTEs net of vacancies as reported  
16 to the State Auditor's office.

17 Now I'll turn to the 2018 budget, of 237  
18 million. This was primarily updated to 242 million, in  
19 the areas of federal funds also.

20 Also due to adjustments on estimates based on  
21 actual award letters, and received and updated program  
22 income estimates. The 2018 operating budget will serve as  
23 an updated base for use as a starting point for the  
24 development of the 2020-2021 legislative appropriation  
25 request.

1                   The LAR will be due in August of this coming  
2 year, and we'll be bringing that to the Committee also.

3                   I'm available for questions on this item.

4                   MS. THOMASON: Any questions?

5                   (No response.)

6                   MS. THOMASON: All right. I think that  
7 concludes our meeting, at 7:44.

8                   (Whereupon, at 7:44 a.m., the meeting was  
9 concluded.)

C E R T I F I C A T E

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2  
3 MEETING OF: TDHCA Board Audit Committee

4 LOCATION: Austin, Texas

5 DATE: December 14, 2017

6 I do hereby certify that the foregoing pages,  
7 numbers 1 through 15, inclusive, are the true, accurate,  
8 and complete transcript prepared from the verbal recording  
9 made by electronic recording by Leslie Berridge before the  
10 Texas Department of Housing and Community Affairs.  
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14  
15

16 /s/Madeleine Mercier 12/20/2017  
17 (Transcriber) (Date)  
18

19 On the Record Reporting &  
20 Transcription, Inc.  
21 7703 N. Lamar Blvd., Ste 515  
22 Austin, Texas 78752  
23  
24