

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

AUDIT AND FINANCE COMMITTEE MEETING

John H. Reagan Building
JHR 140
1400 Congress Avenue
Austin, Texas 78701

June 16, 2022
9:30 a.m.

MEMBERS:

AJAY THOMAS, Chair
LEO VASQUEZ, Member

ON THE RECORD REPORTING
(512) 450-0342

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P R O C E E D I N G S

1
2 MR. THOMAS: Good morning, everyone. Thank you
3 for joining us. Welcome to the June 16, 2022 meeting of
4 the Audit and Finance Committee of the Texas Department of
5 Housing and Community Affairs.

6 Let's go ahead and take roll this morning.
7 Member Vasquez?

8 MR. VASQUEZ: Here.

9 MR. THOMAS: Thank you. And we have three
10 action items and three report items on today's agenda.
11 Since we have two vacant committee positions, we do not
12 have a full quorum today. We will not vote officially on
13 any items.

14 The two action items related to the fiscal year
15 2023 budget will be presented as report items to the
16 committee, and then later today they will be presented to
17 the full board for their approval.

18 We will start this morning with the
19 presentation, discussion, and possible action on the fiscal
20 year 2023 operating budget, and this will be presented to
21 us by the director of Financial Administration, Mr. Joe
22 Guevara.

23 MR. GUEVARA: Good morning. For the record, I'm
24 Joe Guevara, director of Financial Administration.

25 Item number 2 relates to the Department's

1 operating budget for fiscal year 2023. Over the past
2 several months our budget team has been collaborating with
3 our division directors and managers to develop this budget.

4 This budget is within the spending limits
5 outlined in the General Appropriations Act for the 22-23
6 biennium and will be the foundation for our legislative
7 appropriation request for the 24-25 biennium.

8 We developed this budget to address personnel,
9 technology, and administrative needs within the Department.

10 In addition, it outlines temporary and necessary growth to
11 support one-time programs created in response to the
12 Coronavirus pandemic and other activities which has charged
13 our agency with administering over \$4.2 billion in funds
14 over the next couple of years.

15 So behind item 2 is the internal operating
16 budget, which includes a detailed comparison report
17 compared to the previous year. We have reformatted this
18 report to provide you a comparison each year as a whole,
19 along with an adjusted report excluding temporary in the
20 capital budget. We believe that this will give you a
21 transparent look to compare our core operations.

22 So in summary, the 2023 proposed budget is
23 \$115.7 million, which increased \$9.7 million or 9.1
24 percent. The structure of this budget can be divided into
25 three components: the one-time temporary federally funded

1 programs, our ongoing permanent activities, and our capital
2 budget.

3 First I'd like to discuss the temporary
4 component of the budget. The budget expenditures related
5 to temporary programs account for \$86.6 million of our
6 budget, which is approximately 75 percent of our budget,
7 and accounts for approximately \$9.2 million of our total
8 increase for the year.

9 This temporary administrative funding will be
10 utilized for expenditures related to personnel and
11 outsourced professional services and other general
12 administrative expenses for these programs.

13 It also proposes to fund 91 Article 9 temporary
14 FTEs that would be employed during the course of spending
15 these grant funds. The temporary growth is about 38 from
16 fiscal year '22, and it's associated with the Housing
17 Stabilization Services, the Homeowners Assistance Fund, the
18 HOME ARPA Program, and the new weatherization program
19 that's being launched currently.

20 In addition, professional services increased
21 \$3.4 million. The increase is attributed to new contracts
22 with outside vendors to assist in the administration of the
23 Homeowners Assistance Fund and the LIWAP and LIHEAP
24 programs under American Rescue Plan Act. And these new
25 contracts are offset by the conclusion of the contracts

1 with four different vendors that assisted with the rental
2 assistance program that is currently at the tail-end of the
3 spending as we speak.

4 Secondly, the budget expenditures related to our
5 core programs account for \$20 million with an increase of
6 \$299,000, so our core operations only increased 1.08
7 percent compared to FY22. In the report that's in your
8 packet, the adjusted various column in the comparison lists
9 the changes in the categories and the impact of the budget
10 to fiscal year 2022.

11 Some variances to highlight in the comparison
12 report are as follows: Salaries and wages increased
13 \$290,000 or 1.25 percent. This is primarily due to the
14 funding of two repurposed FTEs to address an increase in
15 single family and multifamily activities in addition to our
16 normal 1 percent growth that we budget into our budget.

17 Also, the professional services line item
18 increased \$81,000. This is primarily due to a planned
19 outsourcing vendor to assist the subrecipient monitoring
20 area.

21 And lastly, the other major change in the budget
22 is under the temporary help line item. This item increased
23 \$77,000, and it's primarily related to the planned use of
24 temporary staff for the Real Estate Analysis Division, to
25 assist them during the peak time of the tax credit season.

1 Fortunately, we were able to offset some of this
2 growth through reduction in other categories such as rents
3 and leases and communications, which led to a minimum
4 growth in our budget.

5 The last component of our budget is our capital
6 projects budget, which increased \$141,000, mainly to
7 address cybersecurity, system maintenance, and equipment
8 needs within the Department.

9 Overall, this budget is reflective of 404 FTEs,
10 91 being Article 9 temporary, 249 are TDHCA permanent
11 employees, and 64 are related to the Manufactured Housing
12 Division staff. Lastly, we project that we will have
13 enough revenue to support these expenditures appropriated
14 to general revenue, federal funds, and appropriated
15 receipts.

16 Also, I would like to note for the record, in
17 accordance with the Internal Auditing Standards and the
18 Board's internal audit charter, the budget includes the
19 Internal Audit Division operating budget as well in this
20 budget.

21 So this concludes my remarks on this item, so
22 I'm available for any questions that you have.

23 MR. THOMAS: Thank you, Mr. Guevara. Great job
24 presenting it, and I think that the material presented was
25 done in a very transparent way and appreciate that.

1 Just to emphasize a couple of points I think you
2 made, so just for clarity for everybody, the core budget
3 essentially remained flat year over year, but there was a
4 minimal increase that was programmatic growth.

5 And then the 38 full-time employees and where we
6 saw some increases in the budget, those are really tied to
7 the programs that came out of COVID funds and federal funds
8 that once those grants are completed and those monies are
9 finished, then those essentially temporary employees then
10 fall away. They're not just full-time employees on to the
11 agency that then we have to come up with the additional
12 funding to maintain that level of payroll or increase or
13 positions. Correct?

14 MR. GUEVARA: That's correct. All 91 Article 9
15 temporary employees are funded with temporary funds, and
16 once those grants are expended, you know, those employees
17 will be phased out accordingly over the next couple of
18 years.

19 MR. THOMAS: Excellent.

20 Any other questions from members, Mr. Vasquez?

21 MR. VASQUEZ: Actually you highlighted the key
22 points that I was hoping that we would make. So it's great
23 that it nets out to only a 1 percent increase for the core
24 functions of the Department, and I think that says even
25 more in that the Department is doing more.

1 I mean, yes, the temporary employees covered by
2 federal funds increased to cover that, but nevertheless
3 there's more core administration that needs to be managed,
4 so I think with the increase of activity that we're doing,
5 it's impressive that we're able to stay flat, essentially
6 flat at 1 percent.

7 MR. THOMAS: Right.

8 MR. VASQUEZ: One percent we can deal with.

9 MR. GUEVARA: I guess just in anticipation of
10 the 24-25 biennium, a lot of the feedback we received from
11 our division leadership, there was some requests for
12 additional staffing and retention staff and development, so
13 we will plan accordingly in our legislation appropriations
14 request to include those asks as Appropriation and we'll
15 probably see some growth in the coming years in the core
16 programs.

17 MR. VASQUEZ: And lastly I was just going to say
18 I commend y'all for putting together this where we can look
19 at it from different cross-section ways by department and
20 by personnel, by expense object, et cetera. That's very
21 helpful.

22 MR. THOMAS: Good job. Thank you.

23 MR. GUEVARA: Thank you.

24 MR. THOMAS: Don't go away yet. The next item
25 on the agenda is presentation, discussion, and possible

1 action on the fiscal year 2023 Housing Finance Division
2 Budget, and it will be presented by Mr. Guevara as well.

3 MR. GUEVARA: Now I would like to turn your
4 attention to item number 3, the Housing Finance Budget.
5 This particular item is a subset of the internal operating
6 budget.

7 It is in relation to the Housing Finance Budget
8 that we're required to submit under the Texas Government
9 Code 2306 and in compliance with the General Appropriations
10 Act. This subset of the budget is specific to the fees
11 generated by the single family and multifamily bonds, tax
12 credit and compliance activities, typically referred to as
13 the Housing Finance Budget.

14 At this time we're prepared to certify this
15 budget as well, and I'm here to answer any questions you
16 may have regarding this.

17 MR. THOMAS: Thank you, Mr. Guevara. I have no
18 questions.

19 Mr. Vasquez, do you have any questions?

20 MR. VASQUEZ: No. And also, just so everyone
21 knows, Mr. Guevara gave me a good overview update on the
22 budget earlier this week, so I appreciate being able to go
23 through that in detail. It looks good.

24 MR. THOMAS: I also enjoyed one of those detail
25 sessions, so I appreciate that from staff as well.

1 Thank you. Very well done.

2 MR. GUEVARA: Thank you.

3 MR. THOMAS: Moving to report items, the first
4 report item on the agenda today is the presentation and
5 discussion of the follow-up internal audit of the physical
6 inspection processes at TDHCA, and it will be presented by
7 the director of Internal Audit, Mark Scott.

8 MR. SCOTT: Thank you, Chairman.

9 The audit of the Physical Inspections Section
10 was a continuation of an audit started in 2020, at which
11 time we couldn't go out to the properties because of COVID
12 restrictions. We were able to go out for the inspection
13 visits of two developments during this audit.

14 Each visit consisted of notifying the property
15 management company and the property owners 15 days prior to
16 the visit, meeting with the development managers on the day
17 of the visit and viewing the ADA and amenities requirements
18 and inspecting individual units.

19 The property managers are expected to have
20 informed all the tenants of this visit. For each
21 development, 20 percent of the units are selected for
22 inspection. This included ADA standards, fire detection
23 equipment and other safety aspects of the units.

24 The processes were very thorough, and the sample
25 selection included a variety of units. The inspections

1 took from about 9:00 a.m. to around 3:00 in the afternoon
2 for the first development, and we finished a little earlier
3 on the second development since it was one single building.

4 We were very favorably impressed with the thoroughness of
5 the processes.

6 Due to the high volume of inspections that is
7 required for different programs, and limited resources of
8 the Physical Inspections Division, some of the UPCS
9 inspections -- that's Uniform Physical Condition
10 Standards -- are outsourced to outside contractors.

11 We noted suggestions for improvements on the
12 current contract for the outsourced inspections performed
13 by OSI, or On-Site Insight. We also noted that the various
14 funding sources for the buildings might have varying
15 requirements, so the training requirements for each need to
16 be kept up to date.

17 So those are my comments on the audit. I'll be
18 happy to answer any questions there may be.

19 MR. THOMAS: Thank you, Mr. Scott.

20 Just a couple of things: One, obviously very
21 important to do since we had the gap with COVID and the
22 disruption there. The sample size that's created for the
23 inspection done randomly, there's no set sort of zoning or
24 certain selected groups?

25 MR. SCOTT: I take it was a judgmental sample,

1 but just from what I looked at, it looked like a very
2 thorough sample because it had pretty much everything you
3 can imagine we saw.

4 MR. THOMAS: And from the comments it sounds
5 like going through the detailed inspections came away duly
6 impressed with how they were doing.

7 MR. SCOTT: Impressed with how they do the
8 inspections, yes, sir.

9 MR. THOMAS: Great. Thank you very much, Mr.
10 Scott.

11 Any comments or questions from Member Vasquez?

12 MR. VASQUEZ: I just hope that we can find money
13 in the budget to do more inspections more often.

14 MR. THOMAS: Excellent point.

15 Thank you, Mr. Scott, appreciate it.

16 The next report item on today's agenda is the
17 presentation and discussion of internal audit of the Texas
18 Homeownership Program, and this will also be presented by
19 Mr. Scott.

20 MR. SCOTT: Thank you, Chairman.

21 This program serves as an advocate for low and
22 moderate income would-be homeowners, primarily first time
23 homebuyers. The program navigates the would-be homebuyers
24 through the complex processes which incorporate numerous
25 parties, including counselors, lenders and other financial

1 administrators.

2 We noted some of the program accomplishments
3 including expansion of the lending institutions base,
4 additional options for training, and an enhanced website
5 for potential borrowers. The program is administered by
6 various parties including the TDHCA staff and outsourced
7 firms. We noted some basic segregation of duty concepts
8 that pertain to the external parties who perform primary
9 functions.

10 We had an observation on loan reservations
11 related to more frequent monitoring to manage overages. We
12 also had a recommendation for secondary review of mortgage
13 credit certificates.

14 With regard to vendor oversight, we had
15 suggestions which included Service Organizations Control,
16 or SOC reports for service providers. These cover
17 information security and privacy as well as financial
18 reporting, and they can be leveraged to a great extent.

19 So those are my comments on that. It was a
20 lengthy report with lots of detail.

21 MR. THOMAS: Thank you, Mr. Scott.

22 Any questions or comments from Member Vasquez?

23 MR. VASQUEZ: Again I just think it's so
24 important that everyone remembers and recognizes that we
25 don't just do tax credits in this organization. I mean,

1 this is a huge impactful program that we have, so staying
2 on top of this one and monitoring, again, impacts a whole
3 lot of Texans.

4 MR. THOMAS: I think the suggestions were very
5 good suggestions in terms of the things to look out for and
6 improve on.

7 MR. SCOTT: Thank you both.

8 MR. THOMAS: Great. So the last report item on
9 today's agenda is the report on the status of the internal
10 and external audit activities. Mr. Scott will be
11 presenting this report to us as well.

12 MR. SCOTT: On the statewide audit being
13 performed by CliftonLarsonAllen, that's the single audit
14 they do every year. The federal programs selected included
15 Emergency Rental Assistance Program, which is CFDA No. 21-
16 023, and Low Income Home Energy Assistance Program, which
17 is CFDA No. 93-568.

18 This means for these programs CLA will audit
19 such requirements as eligibility, allowability of costs,
20 financial reporting, and other basic single audit testing
21 for the two programs.

22 I'll stop there. Are there any questions about
23 the upcoming single audit?

24 MR. THOMAS: I have none.

25 Member Vasquez?

1 MR. VASQUEZ: Again, this is monitoring -- the
2 outside auditors are really who are doing this.

3 MR. SCOTT: Yes, sir.

4 As for the internal audit plan, we have
5 completed the previous participation review, the PPR audit,
6 the IT general controls audit, the physical inspections
7 audit, and the Texas Homeownership program, and we are
8 starting now with the migrant labor housing inspections
9 audit and the IT applications controls audit.

10 And that concludes my presentation. I'll be
11 happy to answer any questions there may be.

12 MR. THOMAS: Thank you, Mr. Scott. No
13 additional questions from me, but I will say that I think
14 it's important that these audits now start ramping up and
15 continuing, and we're obviously getting out of our danger
16 period with COVID, it appears, and so it's nice to see that
17 we are now starting to look at these programs and audit
18 them, as we should be, to see where they are and how we can
19 improve if any in certain aspects of it. Good report.

20 Member Vasquez?

21 MR. VASQUEZ: I guess just a question, I mean,
22 do you feel confident we're going to keep up with the audit
23 plan and be able to catch up? I assume we're a little bit
24 behind because of the challenges.

25 MR. SCOTT: Yes, sir. I think we'll finish it.

1 I don't see any reason not to.

2 MR. VASQUEZ: Great. Let's push hard and let me
3 know if the staff isn't being cooperative in making it
4 happen.

5 MR. THOMAS: Well, on that note, with no other
6 questions, good reporting today, lots of information and
7 important information that I think not only the committee
8 appreciates but the full board I'm sure will appreciate
9 when we convene here shortly.

10 If there are no other additional comments or
11 questions from committee members, then this concludes
12 today's meeting, we've completed the agenda. My time here
13 that I have is 9:50 a.m. Central, and the meeting is
14 adjourned. Thank you, everybody.

15 (Whereupon, at 9:50 a.m., the meeting was
16 adjourned.)

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MEETING OF: TDHCA Board Audit & Finance Committee

LOCATION: Austin, Texas

DATE: June 16, 2022

I do hereby certify that the foregoing pages, numbers 1 through 18, inclusive, are the true, accurate, and complete transcript prepared from the verbal recording made by electronic recording by Nancy H. King before the Texas Department of Housing and Community Affairs.

DATE: June 22, 2022

(Transcriber)

On the Record Reporting
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