

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

June 29, 2017  
7:58 a.m.

MEMBERS:

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

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P R O C E E D I N G S

1  
2 MS. THOMASON: Welcome to the June 29 meeting  
3 of the TDHCA Audit and Finance Committee. I'm Sharon  
4 Thomason. We have new Board members, new committee  
5 members, so we have Leo Vasquez and Asusena Reséndiz, who  
6 should be joining us shortly, Paul Braden, and I'd like to  
7 thank you all for your service.

8 We have several action items, the first of  
9 which is to approve the minutes. I guess I need to do  
10 roll call; got out of line there a little bit.

11 Paul Braden?

12 MR. BRADEN: Here.

13 MS. THOMASON: Asusena?

14 (No response.)

15 MS. THOMASON: Sharon Thomason, here.

16 Leo Vasquez?

17 MR. VASQUEZ: Here.

18 MS. THOMASON: So we have a quorum.

19 So the first item that we need to address is  
20 approving the minutes from the January 26, 2017 Audit  
21 Committee meeting. At that meeting the staff reported  
22 from the State Auditor's Office and went over their annual  
23 audit of the TDHCA financial statements. The committee  
24 recommended approval of the State Auditor Office report to  
25 the full Board. The committee also recommended for the

1 approval to the full Board of a new Internal Audit Charter  
2 at that time. The director of Internal Audit, Mark Scott,  
3 went over the internal audit of the Compliance Monitoring  
4 Division. Mr. Scott also went over the self-assessment  
5 that was prepared by Internal Audit for the peer review,  
6 as well as the net claims contract and the recent internal  
7 and external audit activity.

8 The minutes were included in our notebook for  
9 the Audit and Finance Committee. Can I have a motion to  
10 approve the minutes from the January Audit Committee  
11 meeting?

12 MR. VASQUEZ: So moved.

13 MR. BRADEN: Second.

14 MS. THOMASON: Approval. We have a vote for  
15 approving the minutes for the January 26 Audit Committee  
16 meeting. All in favor?

17 (A chorus of ayes.)

18 MS. THOMASON: Any opposed?

19 (No response.)

20 MS. THOMASON: So we have approval of those  
21 minutes. Thank you.

22 So then the next item on our agenda will be the  
23 internal audit of the Low Income Housing Tax Credit  
24 Program, and Mark will present that to us.

25 MR. SCOTT: Good morning, Madam Chair and

1 members. Thank you for agreeing to serve on the Audit  
2 Committee.

3 This audit of the Low Income Housing Tax Credit  
4 Program was a base or framework audit of the program. It  
5 covered activities in the TDHCA Multifamily Division and  
6 the Asset Management Division. Future audits may delve  
7 deeper into the various areas. This was the first  
8 comprehensive internal audit of the program.

9 We described the costs of the program and the  
10 returns to the investors in order to facilitate  
11 understanding of the program. This program is financed by  
12 tax credits which are claimed after the properties have  
13 been constructed and placed in service.

14 The next part of the audit dealt with the  
15 policies and procedures. Testing policies and procedures  
16 is a basic internal audit step. Multifamily's SOPs were  
17 in progress and Asset Management's were in place. We  
18 tested the applications process by the Multifamily  
19 Division, as described in Section F of the audit report.  
20 As for the attributes we tested, we found that the  
21 applications were processed accurately. We did note some  
22 errors in filing and posting of information, and  
23 management has agreed to a process improvement in order to  
24 address that. We also visited several of the tax credit  
25 properties. They looked pretty good overall and we

1 discussed that with management.

2           The next sections of the audit report had to do  
3 with cost certifications and the IRS forms. The  
4 attributes we tested were in compliance with procedure,  
5 including the receipt of the CPA certifications on the  
6 costs. As noted, this was an overview audit, and cost  
7 certifications are one area where more detailed work in  
8 the future may be appropriate or may be done by Internal  
9 Audit.

10           And so I'll stop and see if there's any  
11 questions on the Tax Credit audit, or if anybody from the  
12 audits wants to speak.

13           (No response.)

14           MR. SCOTT: Okay. Moving right along. So the  
15 format of these Audit Committee meetings is I go over the  
16 recent audit reports and then I go into other recent audit  
17 activities as far as internal audit and external audit.

18           So the annual audit is based on a risk  
19 assessment where we use a matrix to score auditable units.

20           We're doing currently a comprehensive audit of IT which  
21 will also be used as a base audit. From our preliminary  
22 work, it looks like project scheduling and user training  
23 are areas where Internal Audit could do some value added  
24 work.

25           The other two audits on the 2017 audit plan are

1 Bond Finance and the Contract for Deed programs, and those  
2 two should not be too hard. They are smaller than the Tax  
3 Credit audit and the Information Systems audit. We had  
4 talked at the last Audit Committee, as you noted from the  
5 minutes, about procuring a peer review, and that RFQ has  
6 been posted to the agency website and the Texas Register.

7           Since this is a new Audit Committee, I'll note  
8 that Internal Audit also conducts various consulting  
9 activities and participates in agency workgroups but in an  
10 ex officio manner. The consulting work we do, a large  
11 part of it has to do with our subrecipients and they are  
12 subject to the Single Audit Act and I perform ongoing  
13 consultation on that. I'm also on the Fraud, Waste and  
14 Abuse Committee within the agency.

15           So I'll stop there. Those are the recent  
16 internal audit and consulting activities.

17           And then I like to give an update on any  
18 external audits that are ongoing or getting ready to come  
19 out, that way you'll have a heads-up when they do come  
20 out. We have an ongoing statewide audit that takes place  
21 and TDHCA is part of that audit, and they also do an  
22 annual audit of our financial statements which is a stand-  
23 alone audit, and in that they audit the funds that are  
24 outside the State Treasury.

25           On the federal compliance part of the statewide

1 audit this year, KPMG did not select any major programs at  
2 TDHCA to audit, but they are going to do followup work on  
3 the LIHEAP program which is the Low Income Home Energy  
4 Assistance Program. They had a finding from 2016.

5 And HUD auditors were out here earlier this  
6 year and they will issue a report on their review of  
7 Davis-Bacon compliance at some point in the next few  
8 months.

9 Are there any questions on the external audits,  
10 or any of the activities or the audit report?

11 MS. THOMASON: That concludes our audit portion  
12 of the meeting.

13 The next items on the agenda are related to the  
14 Financial Administration Division, so Mr. David Cervantes,  
15 the TDHCA CFO, will begin his presentation.

16 MR. CERVANTES: Good morning, Madam Chair,  
17 members of the committee. I'm David Cervantes, chief  
18 financial officer for the Department.

19 And I'd like to begin with addressing just a  
20 couple of items, making a couple of remarks to get us  
21 going, and the first thing I'd like to do is introduce the  
22 key staff that has been involved in the budget process and  
23 the coordination throughout the Department. So I'd like  
24 to begin with that, and to my left are the key members.  
25 First off, Ernie Palacios, who is our director of



1 Financial Administration. And then next to him is  
2 Kristina Vavra, or Krissy, as we know her, and she's the  
3 manager for budget for the travel that we do throughout  
4 the agency and assisting you in traveling to headquarters  
5 and so on, and then payroll operations. And then the most  
6 recent member, who has been with us a short time, is Paul  
7 Ford, sitting next to Krissy. And he's been with the  
8 Department for several years but most recently, I think  
9 it's been probably less than a year, he joined our team to  
10 serve in the role of senior financial analyst for us. So  
11 Paul is the one that kind of crunches the numbers and is  
12 getting acquainted with the financial operations of the  
13 Department, and we look forward to getting him more  
14 involved as we move through the upcoming years.

15 Ernie will be walking you through the items  
16 that are on your agenda today, but one of the things I'd  
17 like to do is provide a little context as to where we are  
18 in the broader budget process. I guess I'd begin by  
19 informing you that the statewide budget process is a two-  
20 year process that takes place throughout state government,  
21 and in the odd years the legislature finds their way to  
22 Austin to deliberate a budget for the next biennium.

23 And so back I think in August of '16, the  
24 Department submitted a required document which is known  
25 and referred to as the legislative appropriations request,

1 and the purpose of the legislative appropriations request  
2 is intended to provide you a five-year window, some  
3 history regarding the Department. In this case it went  
4 from 2015 and it walks us all the way to the future  
5 biennium of 2018-19. So we submitted that document to the  
6 LBB, the Governor's Office, other oversight offices that  
7 we're required to submit this document to.

8 And then subsequent to that is the legislative  
9 session that we've just been through, 140 days of session,  
10 and during that process joint budget hearings were held,  
11 we were called to participate and provide testimony at  
12 joint budget hearings. And in relation to the budget, the  
13 Senate Finance group is the one that handles the budget on  
14 the Senate side, and then there's the Committee on House  
15 Appropriations. And as you well know, May 29 was the  
16 semi-close of session because, as you well know, there's  
17 still a pending special session ahead of us.

18 But one of the acronyms of the references that  
19 you'll hear as we're discussing the budget, or as you're  
20 talking to your colleagues and so on, is what's referred  
21 to as the General Appropriations Act, the GAA is what it's  
22 called, and this particular one will be referred to as  
23 Senate Bill 1. And the purpose of Senate Bill 1,  
24 obviously it's the statewide budget as a whole but within  
25 that TDHCA has a component. We're an Article 7 agency and

1 the Article 7 is business and economic development, and  
2 that's where our agency sits in terms of the statewide  
3 placement of our agency and the budget for TDHCA.

4 So one of the outcomes of this particular  
5 session is the bill known as Senate Bill 1, and so today  
6 what we're bringing to you are the budget items dealing  
7 with the operations of the Department, and so in that  
8 whole scheme of what got approved in Senate Bill 1, we're  
9 bringing you the internal component today to recommend a  
10 budget that coincides with the General Appropriations Act  
11 and what we know Senate Bill 1 to be at this point.

12 I'll put a little disclaimer because should  
13 something happen during special session that in some way  
14 would impact Senate Bill 1, more than likely we would find  
15 our way back to you to modify or something along those  
16 lines if necessary.

17 So those are, I guess, my brief remarks this  
18 morning just to put some color on where we're headed this  
19 morning and give you a little history as to where we've  
20 been and where we are today. And with that, I'll turn it  
21 over to Ernie who will walk you through the items you have  
22 on your agenda.

23 MR. VASQUEZ: David, just a quick question. Is  
24 there anything on the call for the special session that  
25 specifically we know directly impacts our budget.

1 MR. CERVANTES: We are not aware of anything in  
2 particular to Senate Bill 1. Obviously around it there's  
3 business to be done, but technically the governor has  
4 signed Senate Bill 1 right now, but the call could be  
5 reopened at any point in time so there's still that  
6 possibility. And we're monitoring the whole situation to  
7 see what's going to take place, but at this point we  
8 believe it's intact and we believe we're pretty close to  
9 what will be a final budget position for the agency.

10 Any other questions before I turn it over to  
11 Ernie to walk you through the rest of it?

12 (No response.)

13 MR. CERVANTES: Well, thank you so much for  
14 your time, and welcome.

15 MS. THOMASON: Thank you.

16 MR. PALACIOS: Good morning, Madam Chair,  
17 committee members. For the record, I'm Ernie Palacios,  
18 director of Financial Administration for the Department.

19 Over the last four months we've been meeting  
20 with division directors and managers to develop an  
21 internal operating budget for fiscal year 2018. Behind  
22 item 2 is the internal operating budget which includes a  
23 comparison report with the 2017 operating budget. I would  
24 like to provide you information related to the amount of  
25 the budget, the expenditure categories of where this money

1 will be used, and lastly, the financing associated with  
2 recommending this budget for the upcoming fiscal year.

3 The proposed budget is \$27.8 million. This  
4 represents a \$1.5 million, or 5.8 percent increase from  
5 the current budget. The increase is primarily attributed  
6 to a \$1.2 million increase in our capital budget as  
7 approved by the legislature for the 2018-2019 biennium.  
8 The budget also includes eight newly funded FTEs, totaling  
9 \$471.5 thousand in the areas of affirmatively furthering  
10 fair housing, cybersecurity, Section 811, and continued  
11 compliance efforts.

12 Also included in the budget is a one percent  
13 line item that we put in for potential salary increases  
14 for employees such as merits, reclasses and items that the  
15 Department may want to consider throughout the fiscal  
16 year. Capital budget aside, the budget reflects a net  
17 savings of \$198,000 in other budget categories. The  
18 Department's cap FTEs is 313, the budget has 312 FTEs; 248  
19 are TDHCA personnel and 64 are Manufactured Housing  
20 Division staff, one less than appropriated.

21 The method of finance was effected as follows:  
22 general revenue decreased 5.7 percent, primarily related  
23 to the 4 percent reduction mandated by the legislature;  
24 federal funds increased \$763,000 or 12.6 percent, and  
25 included in that amount is a \$600,000 capital budget

1 project for Community Affairs; and finally, appropriate  
2 receipts had an increase of \$828,000 or a 14 percent  
3 increase, primarily due to the capital budget items and a  
4 redirection of resources to fund the new FTEs that I  
5 mentioned earlier.

6 Also, I would like to note for the record, in  
7 accordance with the Internal Auditing Standards and the  
8 Board's Internal Audit Charter, the budget includes the  
9 Internal Audit Division's annual operating budget.

10 This concludes my remarks on this item, and I'm  
11 available for any questions that you may have.

12 MS. THOMASON: Thank you.

13 MR. PALACIOS: Now I would like to turn your  
14 attention to item 3, the Housing Finance Division budget.

15 This particular item is a subset of the larger budget.  
16 It is in relation to the Housing Finance budget that we  
17 are required to submit under Texas Government Code and in  
18 compliance with the General Appropriations Act. This  
19 subset of the budget is specific to the fees that we  
20 generate, typically referred to as the Housing Finance  
21 budget of the Department.

22 At this time we are prepared to certify this  
23 budget as well, and I'm available for any questions on  
24 this item.

25 MR. VASQUEZ: What's the comparison between

1 last year's and this year's budget?

2 MR. PALACIOS: For the Housing Finance?

3 MR. VASQUEZ: Right.

4 MR. PALACIOS: It increased by \$828,000.

5 MR. VASQUEZ: What was the primary driver of  
6 the increase?

7 MR. PALACIOS: The capital budget and the FTEs.

8 MS. THOMASON: So at this time we will take a  
9 vote and recommend approval to the full Board. So all in  
10 favor?

11 (A chorus of ayes.)

12 MS. THOMASON: Any opposed?

13 (No response.)

14 MS. THOMASON: So we have a vote to present the  
15 recommended approval to the full Board.

16 Do we have any other items?

17 MR. PALACIOS: And that's for both budgets?

18 MS. THOMASON: For both budgets, yes. I  
19 apologize.

20 MR. PALACIOS: Thank you.

21 MS. THOMASON: Thank you.

22 MR. IRVINE: Good morning. Tim Irvine,  
23 executive director. Madam Chair, members.

24 So cool to see a newly reconstituted Audit and  
25 Finance Committee. I think just as Mark said that it was

1 a baseline audit of the Low Income Housing Tax Credit  
2 Program, I think this is sort of a baseline meeting for  
3 this committee, and I think that it's very important to  
4 understand not just the details but conceptually what  
5 we're doing with our budget.

6 We've got a phenomenally complex array of  
7 funding sources and they each come with their own unique  
8 restrictions and so forth, safe to say probably over two  
9 dozen different funding sources, and these guys do an  
10 incredible job of tracking not only where the money is  
11 going but that it is going in a manner that is compliant,  
12 that you're not using dollars that were appropriated for  
13 this to pay for an employee who's doing something else.  
14 Krissy oversees a very complex timekeeping system that  
15 manages the recordkeeping that our cognizant federal  
16 agencies will look to whenever they audit us, just as we  
17 look at the recordkeeping of our subrecipients when we go  
18 and audit them. So it's a very complex situation.

19 There are a couple of things about state  
20 funding that are very different from the business world  
21 funding. If you're running a business and you need to  
22 raise more cash to pay more costs, you increase prices and  
23 you raise more cash if people buy your product or service.

24 When we assess and collect fees, we cannot use the  
25 additional money that we collect unless it has been



1 appropriated to us. Our budget is driven primarily by a  
2 component of our different funding sources that's  
3 available for administration but also by appropriated  
4 receipts.

5 And what that means is that we collect fees for  
6 things like underwriting applications, issuing tax credit  
7 commitments, performing monitoring, all these different  
8 things, and we collect those fees and keep them outside of  
9 the state treasury in the Texas Safekeeping account. We  
10 move them back into the treasury as we need to use them,  
11 and these processes are really closely tracked by the  
12 comptroller, they make sure that we're not inappropriately  
13 moving things.

14 But I think that in terms of the baseline  
15 lesson for today, I think it's going to be appropriate in  
16 a subsequent meeting to give you a little bit more of a  
17 detailed understanding about our funds outside of treasury  
18 and how we manage our fee collections to target the right  
19 balance. You want to have enough money available in those  
20 accounts that before your annual cyclical fee collection  
21 kicks in, you can pay the bills, but you don't want to  
22 build those balances up so high that people are, in  
23 effect, paying more for state government than they should  
24 be paying. So this is a very complex situation.

25 Going back to Mr. Vasquez's questions about

1 comparing to last year, I think year-in/year-out, our  
2 budgets are fairly flat. We have volatility on the  
3 funding side for our federal programmatic activities,  
4 sometimes they're up, sometimes they're down. In my  
5 tenure here, for example, Weatherization Assistance  
6 Program by DOE has been as high as \$327 million and as low  
7 as about \$3 million. So there is volatility.

8 But in terms of the core operation, we need a  
9 fundamental nucleus of people to do the work and we want  
10 to organize them as efficiently as possible, and we want  
11 to use our compensation structure to provide some  
12 stability. Stability of our employees is a big challenge  
13 for us, especially in areas like compliance where people  
14 are paid well and they are given phenomenally challenging  
15 duties to keep up with this gigantic ever growing  
16 portfolio and to travel a lot, and people on the other  
17 side would love to pirate them away and pay them even more  
18 and not make them travel.

19 So that little over one percent that is in  
20 there for salary and equity adjustments, reclassifications  
21 and merit adjustments, is actually very small relative to  
22 the challenge. We have a very hard time prioritizing when  
23 we make merit increases and salary adjustments. That is  
24 probably the most important discretionary piece for you to  
25 look at and understand, and I would hope that at a future

1 meeting we can get a little bit into some of our  
2 philosophy about compensation, and frankly, draw on your  
3 ideas for ways to improve our compensation structure.

4 Also, I'll say with regard to Internal Audit,  
5 the consulting engagements that Mark and his team provide  
6 are just phenomenally valuable. We are big-time audited,  
7 we are so transparent that everything we do is scrutinized  
8 by literally hundreds of very knowledgeable people, in  
9 addition to the audits by the State Auditor's Office and  
10 KPMG and so forth. I'm not downplaying the importance of  
11 internal audits but I'm saying you should be very  
12 comfortable that we are extensively audited and everything  
13 we do has been scrubbed and re-scrubbed.

14 But I think that internal audit is a unique  
15 creature and it really does add a ton of value to have  
16 somebody who is independent and reports to you, not to me,  
17 not to them, but someone who reports to you and has that  
18 security but also is in there shoulder-to-shoulder with us  
19 every day and hears about the scuttlebutt and the issues  
20 and the concerns or whatever and can really jump on  
21 things.

22 That's all I've got.

23 MR. SCOTT: Thank you.

24 MS. THOMASON: Thank you.

25 Are there any other comments or questions?

1 (No response.)

2 MS. THOMASON: If not, then this concludes our  
3 Audit and Finance Committee meeting. Thank you.

4 (Whereupon, at 8:23 a.m., the meeting was  
5 adjourned.)

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C E R T I F I C A T E

MEETING OF: TDHCA Audit & Finance Committee

LOCATION: Austin, Texas

DATE: June 29, 2017

I do hereby certify that the foregoing pages, numbers 1 through 21, 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 & Community Affairs.

\_\_\_\_\_  
(Transcriber) 7/7/2017  
(Date)

On the Record Reporting  
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