

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

March 22, 2018
7:30 a.m.

MEMBERS:

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

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1
2 MS. THOMASON: Good morning. I'd like to
3 welcome you to the March 22 meeting of the TDHCA Audit and
4 Finance Committee. I will take roll at this time. Paul
5 Braden?

6 MR. BRADEN: Here.

7 MS. THOMASON: Asusena Reséndiz?

8 MS. RESÉNDIZ: Present.

9 MS. THOMASON: Leo Vasquez?

10 MR. VASQUEZ: Here.

11 MS. THOMASON: All right. We have a quorum.
12 So the first item will be the approval of the minutes from
13 the December 14, 2017 Audit and Finance Committee meeting.

14 At that meeting, Mr. Scott, our Director of Internal
15 Audit -- he presented as an action item the external peer
16 review of the internal audit, and then Ernie Palacios
17 presented the unencumbered fund balance as an action item
18 for approval also.

19 This Committee recommended both items for
20 approval by the full Board. Mr. Scott went over the
21 internal audit for the Contract Deed Conversion Program,
22 as well as upcoming external audits. The minutes are
23 included in your notebook for the Audit and Finance
24 Committee.

25 Could I have a motion to approve the minutes

1 from the December Audit and Finance Committee meeting?

2 MR. BRADEN: So moved.

3 MS. THOMASON: Okay. Second?

4 MR. VASQUEZ: Second.

5 MS. THOMASON: All right. All in favor?

6 (A chorus of ayes.)

7 MS. THOMASON: Our second action item is the
8 presentation by the State Auditor's Office of their audit
9 of the TDHCA financial statements. Mark, could you please
10 introduce our auditors?

11 MR. SCOTT: Yes. This is the State Auditor's
12 staff. They do the audit of the financial statements for
13 the Revenue Bond Program. And this is Sarah Puerto

14 MS. PUERTO: Hi. Sarah -- good morning.

15 MS. THOMASON: Good morning.

16 MS. PUERTO: Sarah Puerto with the State
17 Auditor's Office. I'm here to present the financial
18 reports that the SAO did at the Department of Housing. I
19 first wanted to start off by thanking the staff of the
20 Department of Housing for being extremely cooperative and
21 making this audit run as smooth as possible.

22 So thank you. The State Auditor's issued
23 several reports as part of this audit. On December 20,
24 2017, we expressed unmodified opinions -- excuse me -- on
25 the Department's fiscal year 2017 basic financial

1 statements, Revenue Bond Program Enterprise Fund financial
2 statements, and the computation of unencumbered fund
3 balances at the Housing Finance Division.

4 We also issued a report on compliance with the
5 Public Funds Investment Act and also we issued a report on
6 internal control over financial reporting and on
7 compliance and other matters as required by auditing
8 standards.

9 We did not find any material weaknesses in
10 internal control over financial reporting or any
11 noncompliance in laws or regulations that materially
12 affected the financial statements. We previously issued
13 two reports earlier in the audit.

14 On September 11, 2017, we issued a report that
15 concluded the financial data schedule prepared by the
16 Department was fairly stated in all material respects in
17 relation to the fiscal year 2016 basic financial
18 statements taken as a whole.

19 On September 26, 2017, we issued a report that
20 concluded that the Department electronically submitted a
21 financial data schedule to the U.S. Department of Housing
22 and Urban Development Real Estate Assessment Center agreed
23 with related hard-copy documents.

24 And finally, on December 20, we emailed to the
25 Board a document entitled, "Required Communication with

1 Those Charged with Governance" that includes several items
2 we are required to communicate to the Board. And that
3 concludes my presentation. I'll be happy to answer any
4 questions.

5 MS. THOMASON: Thank you.

6 MR. VASQUEZ: So is fairly stated the best
7 rating we can get?

8 MS. PUERTO: Yes.

9 MR. VASQUEZ: Okay. All right. Thanks.

10 MS. THOMASON: Any other questions?

11 MS. PUERTO: Thank you.

12 MS. THOMASON: All right. Our first report
13 item will be the internal audit of the Bond Finance
14 Program, and Mark will present that for us.

15 MR. SCOTT: Thank you. The internal audit
16 report on the bond program begins on page 200 in the
17 committee book. The program administers mortgage revenue
18 bonds which provide below-market loans for lower-income
19 housing needs.

20 The goals of the program include facilitating a
21 fluid market for mortgage bonds and mortgage-backed
22 securities. The internal audit focused on the bond
23 program's internal processes and controls. The program
24 functions with TDHCA as the issuer of mortgage revenue
25 bonds; Idaho Housing and Finance Association as the master

1 servicer; and with Ehousing as the program administrator.

2 Ehousing does the compliance work such as verifying loan
3 documentation, and TDHCA conducts on-site monitoring
4 reviews of Ehousing's records.

5 We recommended desk reviews of Ehousing in the
6 years that site visits are not conducted, and management
7 agreed to implement the recommendation. We also conducted
8 testing of the mortgage lenders in the program, as
9 described beginning on page 7 of the internal audit
10 report.

11 We also tested the controls over wire transfers
12 from TDHCA to Idaho Housing to reimburse Idaho Housing for
13 mortgages purchased. The controls were in place and
14 working as intended. The rest of the audit report
15 describes the bond program's processes and the external
16 parties, as well as some of the terminology used in the
17 program.

18 Also, I'd like to point out that the notes to
19 the financial statements beginning on page 56 of the
20 committee book are included in the SAO audit and the notes
21 provide good information on the bond program as well. And
22 I'll pause for any questions.

23 MS. THOMASON: Are there any questions?

24 MR. BRADEN: I had a couple.

25 MR. SCOTT: Yes, sir.

1 MR. BRADEN: So this report is just of the
2 single-family mortgage, not the multifamily mortgage
3 program?

4 MR. SCOTT: It was focused on the single-
5 family. Yes, sir.

6 MR. BRADEN: And I understand why, but
7 that's -- can somebody sort of explain why we did that
8 focus, as opposed to the multifamily?

9 MR. SCOTT: Well, that's where most of the
10 process is and most of the controls points were --

11 MR. BRADEN: And it's a much more complex
12 process, and you probably have independent reviews of the
13 multifamily because of the nature of the revenue bonds for
14 that?

15 MR. SCOTT: Right. That would be a much more
16 massive undertaking.

17 MR. BRADEN: And historically, have the bond
18 yields themselves, which go to the Board, of course, ever
19 gone through this Committee before they go to the Board?

20 MR. SCOTT: No, sir. This is -- as far as I
21 know, this is the first internal audit that was done on
22 the bond program.

23 MR. BRADEN: Okay.

24 MR. SCOTT: So this audit, by necessity, was
25 kind of an exercise in mapping the program and the

1 controls. The State Auditor, of course -- they do a
2 really good job on the financial statements, but as far as
3 the internal process -- is in controls within the program.
4 This was the first audit.

5 MR. BRADEN: And I thought it was a very useful
6 exercise.

7 MR. SCOTT: Thank you very much.

8 MR. BRADEN: That's all I had right now.

9 MS. THOMASON: So in the -- now that you have
10 this baseline audit, in the future, we would have a
11 similar -- maybe -- matrix for other audits that would
12 show the scope and the testing and --

13 MR. SCOTT: Yes, ma'am, absolutely.

14 MS. THOMASON: Any other questions? Okay. The
15 next item will be the recent external audit activity, and
16 Mark will present that as well.

17 MR. SCOTT: Let's see. TDHCA is included as
18 part of the statewide audit of the State's financial
19 statements and the State's compliance with federal program
20 rules. This was conducted by the SAO and KPMG, and their
21 2017 report was issued on February 28, 2018.

22 There were no findings on TDHCA, but there was
23 a follow-up on a finding from 2016. The finding had to do
24 with reporting in the Low-Income Home Energy Assistance
25 Program, or LIHEAP. The documentation for household level

1 data was not being maintained precisely according to HHS
2 requirements. A temporary solution was implemented and
3 there is a new information system for LIHEAP slated for
4 2019.

5 And then there was also an HHS, Health and
6 Human Services, review of LIHEAP. In January, TDHCA
7 received a report on a review that had been conducted in
8 2016 by the federal HHS program monitors of the LIHEAP
9 program.

10 HHS also noted issues related to LIHEAP
11 reporting and also addressed TDHCA monitoring of
12 subrecipients. There were two said subrecipients of
13 LIHEAP funds where the subrecipients could not produce
14 documentation to show proper expenditure of funds.

15 These findings had already been identified by
16 TDHCA monitors and they may result in TDHCA having to
17 refund money to HHS. And then there was an HHS review of
18 the Community Service Block Grants, CSBG, and this review
19 was also conducted in 2016, and the report came out in
20 January.

21 This review, like the HHS LIHEAP report, noted
22 an instance related to Northeast Texas Opportunities, or
23 NETO, where some employees of NETO were indicted. At the
24 time, TDHCA had notified SAO and -- the State Auditor's
25 Office and the Office of Inspector General at the federal

1 level.

2 The HHS program monitors noted that program
3 staff at HHS should also have been notified, which TDHCA
4 has agreed to do going forward. This review also noted
5 something of a gap in services provided to Dallas-area
6 residents while a replacement was being found for Dallas
7 Urban League.

8 And TDHCA provided responses to both HHS
9 reviews and agreed to address the issues. And that
10 concludes my presentation. I'd be happy to answer any
11 questions.

12 MS. THOMASON: Any questions?

13 MR. VASQUEZ: Just briefly. So how are we
14 going to go about monitoring, other than those things you
15 just described, that are totally under our control?

16 MR. SCOTT: You're asking about the monitoring
17 that takes place by our Compliance Division?

18 MR. VASQUEZ: Well, just what you were talking
19 about on --

20 MR. SCOTT: Okay.

21 MR. VASQUEZ: -- reviewing those outside
22 groups.

23 MR. SCOTT: Okay, okay. We -- all -- we have
24 all these subrecipients that we pass money through for
25 things like LIHEAP and CSBG, and on an ongoing basis, the

1 Monitoring Division goes out and monitors and sometimes
2 they'll find questioned costs.

3 And what happened in this instance was -- the
4 HHS -- they also send monitors out at the federal level.
5 And they were saying that we should have notified them of
6 certain things that we had notified OIG of. And so as far
7 as we knew, that was -- Tim is shaking his head.

8 MR. IRVINE: Good morning. Tim Irvine,
9 Executive Director. With respect to the issues that were
10 identified at two agencies that administered LIHEAP and/or
11 CSBG, there were significant identified disallowed costs.

12 These were identified in the usual monitoring process
13 conducted by our Compliance Division.

14 We initiated efforts to try to get the local
15 agencies to repay those funds. Those efforts so far have
16 been unsuccessful, and as required by law, these matters
17 have now been referred to the Office of the Attorney
18 General.

19 When the monitors arrived from HHS to perform
20 an on-site monitoring, right about the same time, news
21 broke about some indictments at one of these agencies, and
22 the staff understandably felt blind-sided, and they said,
23 why didn't you tell us about this?

24 And from our perspective, all we knew had
25 really occurred so far was, disallowed costs. We were

1 equally surprised that this escalated like that to a
2 criminal indictment. So we monitor all of our recipients
3 pretty aggressively. Patricia Murphy and her team are
4 good about identifying those costs issues.

5 One of the problems, though, that we do
6 encounter is, from time to time, people do have either de
7 minimis or significant disallowed costs. When they are de
8 minimis, usually people are very good about promptly
9 reimbursing us with documented non-federal funds, as
10 required by federal law.

11 However, when the dollars get significant,
12 these are very thinly-capitalized organizations for the
13 most part. The only meaningful program activity that they
14 run is usually federal programs that do not provide for
15 profit opportunity.

16 They certainly cover administrative costs, but
17 not profit, and when the dollars add up to big-ticket
18 items, there's a real challenge in exacting payment from
19 them. So --

20 MR. VASQUEZ: But systematically, we're relying
21 on -- we're reviewing their account -- internal accounting
22 and what they present to us as --

23 MR. IRVINE: We review a lot of things. First
24 of all, they're almost always going to be subject to the
25 single audit requirements under 2 CFR Part 200, and in

1 that respect, their independent auditor is going to be
2 required to come in and provide a compliant opinion.

3 One of the aspects of that opinion -- the folks
4 from SAO can educate you -- if I'm going to get this
5 wrong -- that as I understand it, the auditors are
6 required to review and reach conclusions about general
7 programmatic compliance issues.

8 I'm not saying that they perform detailed
9 programmatic audits. It's primarily a financial audit,
10 but if they find evidence of systemic noncompliance,
11 that's supposed to be addressed in their reports. In
12 these particular agencies, one in particular -- large
13 disallowed cost issues, improper accounting practices, had
14 not been identified as compliance issues.

15 It subsequently turned out that they did not
16 even have a compliant audit. So we do rely, though,
17 heavily, on the single audits. We also have our
18 Compliance Division, the contract-monitoring people from
19 the Compliance Division, go and they look at all kinds of
20 things.

21 They test expenditures, and they look at the
22 documentation of the people served, the household level
23 served, to ensure that they are in fact eligible. They
24 tick and tie sampled expenditures and make sure the
25 expenditures line up and that they are in fact for

1 allowable costs.

2 It's a pretty detailed thing, and
3 unfortunately, with regard to some of these agencies, they
4 are administering our programs, but they're also
5 administering other programs, such as Head Start and
6 things like that.

7 And it gets difficult, frankly, sorting out
8 multiple programmatic expenditures, especially when
9 agencies at the local level aren't crisp about keeping
10 those programs completely separate. And that was one of
11 the issues that did occur at one of these agencies.

12 But we've got folks in the Compliance Division
13 that in fact include former staff of the internal audit
14 shop, and they are very competent and good at sorting this
15 stuff out. But --

16 MR. VASQUEZ: Someone's challenging --

17 MR. IRVINE: -- yeah, but the problem is, once
18 you've found it, it's -- the money's out the door, and you
19 know, now you're trying to exact repayment from someone
20 who may or may not have the ability to repay.

21 MR. VASQUEZ: All right. Thanks, Tim. Done.

22 MR. SCOTT: Any questions? Anything? Any
23 others?

24 (No response.)

25 MS. THOMASON: Okay. I don't think we have any

1 other items for this meeting. So if no one has anything
2 else, our meeting is adjourned. Thank you.

3 (Whereupon, at 7:47 a.m., the meeting was
4 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: March 22, 2018

I do hereby certify that the foregoing pages, numbers 1 through 17, 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: March 26, 2018

/s/ Adrienne Evans-Stark
(Transcriber)

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