

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

AUDIT AND FINANCE COMMITTEE MEETING

Texas Capitol Building
Capitol Extension
Room E2.026
1100 Congress Avenue
Austin, Texas

December 6, 2018
7:30 a.m.

MEMBERS:

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

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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 the
3 December 6 meeting of the TDHCA Audit and Finance
4 Committee. I will take roll.

5 MS. THOMASON: Ms. Reséndiz?

6 MS. RESÉNDIZ: Present.

7 MS. THOMASON: Mr. Vasquez is not here.
8 Mr. Braden?

9 MR. BRADEN: Here.

10 MS. THOMASON: All right. And I am here, so we
11 have a quorum.

12 Our first action item today is the approval of
13 the minutes from the September 6, 2018, meeting of the
14 Audit and Finance Committee.

15 At that meeting, the Committee recommended
16 approval of the annual Internal Audit Plan. The director
17 of Internal Audit, Mr. Mark Scott, was there and discussed
18 recently Internal Audit activity. The minutes are
19 included in the notebook for the Audit and Finance
20 Committee.

21 Can I have a motion to approve the minutes from
22 the September Audit Committee?

23 MR. BRADEN: Move to approve.

24 MS. RESENDIZ: Second.

25 MS. THOMASON: Okay. All in favor?

1 (A chorus of ayes.)

2 MS. THOMASON: Okay. Our second action item is
3 the presentation, discussion and possible action to accept
4 and report on the draft computation of the Housing Finance
5 Division total and unencumbered fund balances and
6 transfers to the Housing Trust Fund, and Mr. Palacios will
7 present those items to us.

8 MR. PALACIOS: Good morning, Madame Chair,
9 members of the Committee. For the record, I'm Ernie
10 Palacios, director of financial administration for the
11 Department.

12 Action Item 2 is a draft computation of the
13 Housing Finance Division total and unencumbered fund
14 balances and transfers to the Housing Trust Fund.

15 Housing Finance Division unencumbered funds are
16 the funds associated with any and all of the Department's
17 housing finance activity and are not subject to any
18 restriction precluding their immediate transfer to the
19 Housing Trust Fund.

20 Such restriction would include being subject to
21 state or federal law or other applicable legal
22 requirements, such as the General Appropriations Act,
23 being held in trust subject to the terms of a bond
24 indenture or having been designated by the Department's
25 Governing Board for its specific use or contingency.

1 Pursuant to Texas Government Code 2306.204 and
2 2306.205, the Department is required to transfer to the
3 Housing Trust Fund by January 10 of the following year a
4 portion of the unencumbered funds, if any meet a certain
5 threshold and criteria.

6 The State also requires the Department to
7 undergo an annual audit of its unencumbered fund balances,
8 and to transfer excess funds to the Housing Trust Fund
9 based on a calculation set forth in the statute. The
10 draft computation of unencumbered fund balances as of
11 August 31, which is Exhibit A, reflects funds held by the
12 Department deemed to be unencumbered of \$148,300.

13 The calculation of bond indebtedness report,
14 Exhibit B, only includes bonds outstanding, not rated, in
15 the highest long-term debt rating category to calculate
16 the 2 percent threshold, for \$18,847,306; the list of bond
17 ratings, Exhibit C, from the ratings agencies.

18 Since the unencumbered fund balance is less
19 than 2 percent for the threshold, it does not meet the
20 first threshold in Texas Government Code 2306.205 for any
21 transfer to the Housing Trust Fund. The draft computation
22 of unencumbered fund balances report, as of August 31,
23 2018, yielded a zero transfer to the Housing Trust Fund.

24 Again, this report is included for review in
25 the year-end financial performed by the State Auditor's

1 Office and is therefore subject to revision based on such
2 audit.

3 At this point, we respectfully request
4 acceptance of the draft computation of the Housing Finance
5 Division total and unencumbered balances and transfers to
6 the Housing Trust Fund report.

7 The audit report, along with the State
8 Auditor's opinion, will be presented at the next Audit and
9 Finance Committee meeting in March.

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

12 MS. THOMASON: Thank you.

13 Are there any questions?

14 MR. BRADEN: Yes to the Chair.

15 So Ernie, is this typical? Is it typical we
16 don't really have a --

17 MR. PALACIOS: It has been for the last at
18 least 15 years.

19 MR. BRADEN: Yeah. Because investment is
20 pretty low --

21 MR. PALACIOS: Exactly.

22 MR. BRADEN: Yeah. All right.

23 MS. THOMASON: Okay. Any other questions? All
24 right.

25 MR. VASQUEZ: I'm sorry. Could you repeat

1 that?

2 MR. PALACIOS: Sure.

3 MS. THOMASON: Yes. And let the record reflect
4 that Mr. Vasquez has joined us. So do I have a motion to
5 recommend approval to take this item to the full Board?

6 MS. RESÉNDIZ: So moved.

7 MS. THOMASON: Okay. Second?

8 MR. BRADEN: Second.

9 MS. THOMASON: All right. Thank you very much.

10 MR. PALACIOS: Thank you.

11 MS. THOMASON: That is our action items. We
12 have four --

13 MR. BRADEN: No.

14 MS. THOMASON: No?

15 MR. BRADEN: Missed a vote.

16 MS. THOMASON: Oh, sorry. Yes. We need to
17 vote for that one, so all those in favor?

18 (A chorus of ayes.)

19 MS. THOMASON: Sorry. Any opposed?

20 (No response.)

21 MS. THOMASON: Okay. So now we have four
22 report items, and the first is our internal audit of --
23 for the HOME Fund Tracking, and our director of Internal
24 Audit, Mr. Mark Scott, will present that for us.

25 MR. SCOTT: Thank you, Madame Chair. This was

1 an audit of the periodicity requirements for the HUD HOME
2 Program. Because the activities in the HOME Program take
3 several years to complete, this has always been a
4 challenge for federal and state accounting.

5 In the past, the HOME Program has used an
6 accumulative accounting model. A fairly recent GAO audit
7 at the federal level resulted in a requirement for using
8 grant year accounting. This situation is described in the
9 Internal Audit report.

10 We assessed the policies, processes and
11 procedures in place for allocating and tracking HOME funds
12 for fiscal years 2011 through 2017. We reviewed and
13 tested a sample contract for accuracy and consistency from
14 fund origination through allocation and closeout.

15 OIA concluded that the HOME policies,
16 processes, and procedures are generally performed
17 accurately and according to applicable rules. There were
18 no exceptions in this audit. There were no audit
19 exceptions in this audit, and one opportunity to assist
20 HOME with report precision.

21 So are there any questions about the HOME
22 tracking report, the fund tracking report?

23 MS. THOMASON: No questions? Okay. Thank you,
24 Mark.

25 Our second report item will be related to --

1 oh, there it is -- the Loan Servicing Division audit, and
2 Mark will present that for us as well.

3 MR. SCOTT: Thank you, Madame Chair. This was
4 on the audit plan that was actually carried over from the
5 last year's audit plan. The Loan Servicing Division
6 audit -- it was identified during the fiscal year '18 risk
7 assessment due to the complexity of transactions and
8 programs that they administer.

9 Loan Servicing is identified on the TDHCA
10 organization chart as a program service, meaning that they
11 provide services that are specific to agency programs,
12 rather than general administrative -- or general
13 administration services.

14 Our audit included review of the processes
15 involved in administering different loans and grants, and
16 roles and responsibilities of staff. We identified areas
17 of improvement to create efficiency, consistency, and also
18 to protect TDHCA's financial interest.

19 Management has agreed with our recommendations
20 and will be working towards options that would meet our
21 recommendations, and the audit report lays out those
22 recommendations.

23 Are there any questions about the audit of the
24 Loan Servicing Division?

25 MS. THOMASON: Okay. No questions?

1 We'll move on to Report Item No. 3, and that is
2 the Internal Audit annual report, also to be presented by
3 Mr. Scott.

4 MR. SCOTT: Thank you, Madame Chair. The third
5 report item is the annual report on Internal Audit. This
6 report is required by statute and includes a summary of
7 the audit work done in 2018, as well as follow-up from
8 prior audits.

9 I'm happy to report that we have now completed
10 all of the audits on the 2018 plan. The annual report
11 also includes the audit plan for 2019, and we are
12 completing the audit of the public information requests,
13 and we have started the audit of the Migrant Labor Housing
14 Program.

15 So are there any questions about the annual
16 audit report?

17 (No response.)

18 MS. THOMASON: Okay. If there are no
19 questions, our final report item is the discussion of
20 recent external audit activities.

21 MR. SCOTT: Yes. In October, a review of the
22 TDHCA ESG grant was finalized by HUD monitoring staff.
23 They had a minor finding related to verifying that clients
24 were spending state foster care funds before spending HUD
25 funds, and they just finalized that with the Agency

1 response.

2 And the State Auditor's Office has started the
3 annual audit of the TDHCA financial statements. One of
4 the items that they audit is the calculations of the
5 unencumbered balances that Ernie just presented, and also,
6 HUD OIG started a review of the Community Services Block
7 Grant, CSBG Program.

8 So are there any questions about the external
9 audit?

10 MS. THOMASON: All right. If there are no
11 questions, that will conclude our meeting today.

12 Meeting adjourned. Thank you.

13 (Whereupon, at 7:42 a.m., the Audit and Finance
14 Committee meeting was adjourned.)

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MEETING OF: TDHCA Board Audit & Finance Committee
LOCATION: Austin, Texas
DATE: December 6, 2018

I do hereby certify that the foregoing pages,
numbers 1 through 12, inclusive, are the true, accurate,
and complete transcript prepared from the verbal recording
made by electronic recording by Leslie Berridge before the
Texas Department of Housing and Community Affairs.

DATE: December 9, 2018

(Transcriber)

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