AUDIT COMMITTEE MEETING

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

April 28, 2016
9:00 a.m.

MEMBERS:

LESLEE BINGHAM ESCAREÑO, Chair
T. TOLBERT CHISUM, Member
TOM H. GANN, Member
## INDEX

**AGENDA ITEM** | **PAGE**
--- | ---
CALL TO ORDER, ROLL CALL, CERTIFICATION OF QUORUM | 3
ITEM 1: Presentation, Discussion, and Possible Action to Approve the Audit Committee Minutes Summary for January 28, 2016 | 3

**REPORT ITEMS:**

1. PRESENTATION AND DISCUSSION OF THE INTERNAL AUDIT ACTIVITY | 4
2. DISCUSSION OF RECENT EXTERNAL AUDIT ACTIVITY | 9
3. DISCUSSION OF INTERNAL AUDITS AND CONSULTING ACTIVITY | 11

PUBLIC COMMENT ON MATTERS OTHER THAN ITEMS FOR WHICH THERE WERE POSTED AGENDA ITEMS. | --

EXECUTIVE SESSION | --
OPEN SESSION | --
ADJOURN | 16
MS. BINGHAM ESCAREÑO: Good morning. Welcome to the Texas Department of Housing and Community Affairs Audit meeting.

I'll call roll very quickly. Leslie Bingham, I'm here.

Mr. Gann?

MR. GANN: Here.

MS. BINGHAM ESCAREÑO: And Mr. Chisum is absent today. We have a quorum, we can move forward with business.

So the agenda is pretty light. What we're going to do is go ahead and start with the approval of the minutes, and then after that, Mark can move through the rest of the agenda.

Mr. Gann, did you have a chance to look at the minutes?

MR. GANN: I have, I've read them, and I move that we accept the minutes.

MS. BINGHAM ESCAREÑO: Very good. I'll second that motion, and that would constitute the unanimous vote to approve the minutes.

We'll start with report items. Item number 1, Presentation and discussion of the Internal Audit activities.
MR. SCOTT: Good morning.

MS. BINGHAM ESCAREÑO: Good morning.

MR. SCOTT: I'm going to present and talk about two internal audit reports and then I'll go over the status of the 2016 Internal Audit plan, and then there's a couple of external audits or external reviews I wanted to talk about where the external reviewers had no findings.

The first audit report was the internal audit of the Real Estate Analysis Division, or REA, and when we did the risk assessment for the audit plan this year, we noted that REA had never been audited as far as we could tell, so that was the main reason we audited this year.

We reviewed their processes and we kind of focused on two reports that are generated in the process: one is the underwriting reports that are done by the REA Division, and the other one was the reports that are done by external analysts. Now, we reviewed samples of the reports for attributes such as accuracy and timeliness. Underwriting in REA is the process of analyzing the feasibility of proposed multifamily housing activities, and we found that the underwriting reports are accurate and have good information.

We did note that of our sample, 57 percent of them were not completed before the related tax allocation credits were awarded. As a note, the awards are made
subject to underwriting and underwriting reports were completed subsequent to the awards. REA should complete the underwriting reports and ensure the reports are available to stakeholders, including the TDHCA Governing Board, before the allocation and funding decisions are made.

Are there any questions about the findings?

MS. BINGHAM ESCAREÑO: Mr. Gann?

MR. GANN: No.

MS. BINGHAM ESCAREÑO: No. Thank you.

MR. SCOTT: In all of our audits we also note noteworthy accomplishments of the program we're auditing, and before we started auditing they had already started working on this summary. As you know, the information that's presented is quite voluminous in the process, and the REA staff came up with a very handy two-page summary that Brent has made available to people. It's very user-friendly, a picture tells a thousand words, you can see all the information in a quick grab, so kudos for the new report.

And if there are any questions about the REA audit, I'll answer them, and if not, I'll move on.

MR. GANN: No questions.

MS. BINGHAM ESCAREÑO: Great. No questions from me either, just a comment. Thank you for making the
copies available to the committee and the attendees at the meeting this morning. You know, not having looked at it in great detail, what I would just say is it looks like it's going to be an extremely helpful tool, particularly to the Board, so obviously by the time applicants come to us, staff very thoroughly understand each applicant and are probably intimately familiar with the full packet. It's a little more difficult for the Board to wade through all of that, and so just at first pass, having something that's kind of -- a picture is worth a thousand words, I agree, and having something at a glance that in color codes or gradations or scoring kind of draws your eyes right away to the key aspects of each application and the key components of the underwriting report, I think will be really helpful.

So what we were thinking of just in the interest of time, when Mark makes the summary report to the Board, we'll leave it at the Board chair's discretion whether or not he'd like either Brent and Betsy or Mark to review this with the Board, and so we'll have copies available. If the chair would like to just accept the brief report from Mark, then that's fine, but I think we want to commend the audit team for asking for this to be addressed and then really want to commend management and the REA department for being so responsive and putting
together a great tool.

Brent, did you want to say anything?

MR. STEWART: Brent Stewart, Real Estate Analysis.

First, I'd like to thank Betsy and Mark. They are great and this is a great process for us, and I appreciate them at a time when we're not in the throes of cycle. They accommodated us with that greatly and I appreciate that.

Second thing is I did pull up an underwriting report for the Garden City transaction which the Board will be considering today, and that summary for that transaction did make it to the web, so it's there.

MS. BINGHAM ESCAREÑO: Awesome. So there's a real life example that's out there and accessible.

MR. STEWART: It's live, yes. Thank you.

MS. BINGHAM ESCAREÑO: Great. Very good.

Thanks, Brent.

MR. IRVINE: Tim Irvine, executive director.

I'd also just like to state, because this is obviously a public forum and everybody gets to hear and read what we're doing, and the statement has been made about the significant number of underwritings that were not complete before tax credit awards, but I want to make a couple of assurances, and look to Brent to back me up or
set me straight if I'm wrong.

First of all, underwriting multifamily development is a phenomenally complex activity because we're not the sole funding source. These are typically dealing with investors, syndication rates, other lenders, pricing variations, often the developments themselves are undergoing adjustments and changes, sometimes with their site plan, unit mix, economic conditions change, and so forth. And I think it's very important to understand that when these deals come to the Board for conditioned awards, underwriting has already done the work that I believe that they are confident that the deal is financially feasible.

Quite honestly, what they're really doing is fine tuning the appropriateness of the recommended amount of credit. Obviously pricing changes, financing structures, all those kinds of things impact that, and the Internal Revenue Code requires that we determine the correctness of the amount of credit at three specific times.

So that's a lot of what's going on in that process, and I don't want this committee or the Board or the general public to be under any misimpression that we're doing things not knowing if they're good things to be doing.

MS. BINGHAM ESCAREÑO: Great. Thank you very
much. And Mark had made that clarification and actually
made the statement about that when they come to us it's
conditioned upon the report, but I think it is important
to have on the record the discipline behind that, and I
know the committee is extremely aware of all the moving
pieces and how complex the process is. And so if Mark
wants to make sure that that's addressed in that brief
update report to the Board, then we can definitely do that
too.

MR. IRVINE: Right. And of course, all awards
come through the Executive Award Review Advisory
Committee, EARAC.

MS. BINGHAM ESCAREÑO: EARAC.

MR. IRVINE: Brent is represented on EARAC and
in EARAC we talk about a lot of things, we talk about
previous participation review, we talk about the nature of
the parties that are involved, and we talk about
underwriting issues.

MS. BINGHAM ESCAREÑO: Excellent. Great.
Thanks, Tim.

I think we're ready to move forward.

MR. SCOTT: Okay. The second audit report is
required by Internal Audit Standards, the chief audit
executive has to develop a process for following up on
prior audits and prior audit recommendations, and I like
to do it in a formal report that's put out just like the other audit reports, and I number them and so forth.

The last report on this topic of followup was done in October of 2014, so for this report we reviewed the status of internal audit findings that were open as of that report date and the status of recommendations from internal audits that were issued subsequent to that date, and we also reviewed the status of recommendations from recent external audits and reviews. And for many of the recommendations we either obtained documentation such as updated SOPs to verify implementation or we conducted tests such as recalculation to verify that the corrective action had been taken.

And just as a note, this report was numbered 16-007 which follows the order of the project that was listed on the audit plan. I'm also very cognizant of getting the audit plan done, so I number the reports that way.

That's all I had to say on that report. Like I said, I like to do it to kind of clear out the old findings at least once a year. So I'll answer any questions on that.

MS. BINGHAM ESCAREÑO: I don't have any questions.

Mr. Gann?
MR. GANN: No.

MS. BINGHAM ESCAREÑO: Thank you.

MR. SCOTT: And then the last thing I was going to talk about, progress on the audit plan. In the audit plan that was approved in November, there were nine reports scheduled, including the report on the audit followup, and in January I presented the program income audit, and that report was number 15007, and the reason it was a 15 was because it was a carryover project. And so the remaining projects on this year's audit plan include sources and uses which is almost complete.

And then the Fair Housing, we've scheduled an entrance conference for the Fair Housing audit. And by the way, what we use is kind of a cheat sheet that auditors use for developing audit scopes, which is the COSO cube, which anyone can Google, and across the top of that cube it's operations, reporting and compliance. So when we start reviewing the Fair Housing Program, our analysis will follow along those lines, we'll stick to the kind of nuts and bolts of the program reporting and so forth.

Then the next audit, the Compliance monitoring. Obviously this is a really big division. The Subrecipients component of the monitoring division, that's reviewed on a regular basis by the external auditors,
they're constantly reviewing that. I do consulting in that area, so I pretty much know what they do, so our audit of Compliance Monitoring will cover the other aspects, the ones that aren't the subrecipient monitoring. The Subrecipients monitoring follows the OMB Circular, so that's pretty straightforward. So we're going to audit the other components of compliance such as the period of affordability for the tax credit properties and the other things that that larger division does.

And the other two audits on the plan were Multifamily Finance Division and the Housing Tax Credit Program. And when we did the audit plan we have to kind of divide up the auditable topics by divisions and activities or programs, and so we had split out the Multifamily Finance Division as a division to audit, and the Tax Credit Program, but actually the Tax Credit Program is one of them main activities of the Multifamily Finance Division. And the reason I'm saying all that is that I may ask at the next Audit Committee for permission to combine those two audits together as one audit, and that would still be in keeping with the approved audit plan.

Also, on the Multifamily Finance and the Tax Credit, when we did the audit plan in November, management had requested that we be cognizant of the fact that
they're very busy, and for one, there were some changes to the division and they're obviously very busy in June and July because they have the tax credit season. So we won't start the field work until the end of July, but there's a lot of research we can do preparatory to that. So I think we'll be able to finish the audit plan.

A couple of things on external audits where the agency got clean reports without findings. HUD came out and did a monitoring review of the HOME Program and they looked at the program match, they looked at monitoring oversight, various other aspects of the program, lead-based paint, and they didn't have any findings which was very good to hear. And also, DPS just did a review of how the Section 8 Program uses background checks and they had no findings either, so they gave us a good report.

And I just like to bring up all these different external reviews, monitoring and so forth just so that we keep track of what's going on. And that concludes my report, and I'll be happy to answer any questions there may be at this point.

MS. BINGHAM ESCAREÑO: Great. So going back to what you have left on the plan for this year, so sources and uses you're already in the middle of and you should wrap that up pretty soon.

MR. SCOTT: Yes, ma'am.
MS. BINGHAM ESCAREÑO: Fair Housing, we're doing kind of the nuts and bolts, and that one you'll start fairly soon, or is that one for later in the year?

MR. SCOTT: That one is fairly soon.

MS. BINGHAM ESCAREÑO: Okay. And then Compliance Monitoring, you won't do the subrecipients because you get external audit pretty frequently on that.

MR. SCOTT: Right.

MS. BINGHAM ESCAREÑO: But you'll do like period of affordability or other components.

MR. SCOTT: Correct.

MS. BINGHAM ESCAREÑO: And that one you'll start fairly soon?

MR. SCOTT: We'll probably to do concurrently the Fair Housing and the Compliance Monitoring.

MS. BINGHAM ESCAREÑO: Okay. Very good. And then you're thinking you'll still have time because you wouldn't do Multifamily Finance and Tax Credit until after we finish our cycle, but you're thinking maybe in a future meeting you may come back and ask the committee, since the Tax Credit is such a big part of Multifamily, to combine those, but since you're looking at doing that late summer or early fall, you have a little bit of time to look at that and you can start collecting your own background research without being overly disruptive to the
competitive cycle this summer.

MR. SCOTT: Yes, ma'am, that's right. And I
don't want to plug the industry, but they actually have
really good publications on tax credits.

MS. BINGHAM ESCAREÑO: They do, I bet they do.

I don't have any other questions. Any
questions from management about the plan to move through
the rest of the audit plan this year? I mean, it still
sounds like you'll be busy so it still sounds pretty
aggressive, but I think it's great that you're working to
try to take care of our internal audit responsibilities
without being overly disruptive to getting business done,
so I'm sure management appreciates that.

Any other questions, comments, anything else to
add?

MR. SCOTT: No, ma'am, that's it.

MS. BINGHAM ESCAREÑO: Mr. Gann? Anything from
management, staff?

(No response.)

MS. BINGHAM ESCAREÑO: Great work. Short
meeting but good progress. Thank you very much for your
support, and let the committee know what else we can do to
support you. We'll look forward to a brief report to the
full Board at the meeting this morning.

MR. SCOTT: Okay. Thank you very much.
MS. BINGHAM ESCAREÑO: Meeting adjourned.

Thank you.

(Whereupon, at 9:17 a.m., the meeting was adjourned.)
CERTIFICATE

MEETING OF:     TDHCA Audit Committee
LOCATION:      Austin, Texas
DATE:      April 28, 2016

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.

05/04/2016
(Transcriber) (Date)

On the Record Reporting
3636 Executive Cntr Dr., G22
Austin, Texas 78731