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

December 14, 2017
7:29 a.m.

MEMBERS:

SHARON THOMASON, Chair
PAUL A. BRADEN, Member
ASUSENA RESENDEIZ, Member
LEO VASQUEZ, Member
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ON THE RECORD REPORTING
(512) 450-0342
MS. THOMASON:  Good morning.  And welcome to the December 14 meeting of the TDHCA Audit and Finance Committee.  I’m going to take roll.

Paul Braden?

MR. BRADEN:  Here.

MS. THOMASON:  Asusena Reséndiz?

MS. RESÉNDIZ:  Present.

MS. THOMASON:  Sharon Thomason, I am here.

Leo Vasquez?

MR. VASQUEZ:  Here.

MS. THOMASON:  All right.  We have four.

I want to see approval of the minutes from the September 7, 2017 Audit and Finance Committee.

At that meeting, the Director of Internal Audit, Mr. Mark Scott, went over the internal audit of the information systems, as well as the progress on the peer review and other audit activities.

Mr. Scott also requested and received approval of the 2018 Internal Audit Plan. The minutes are included in your board book for the Audit and Finance Committee.

Can I have a motion to approve the minutes for the September Audit and Finance Committee meeting?

MR. VASQUEZ:  Move to approve.

MS. THOMASON:  And second?
MS. RESÉNDIZ: Second.

MS. RESÉNDIZ: Okay. All in favor?

(A chorus of ayes.)

MS. THOMASON: All right. The minutes are now approved.

So our next item on our agenda is the presentation of our external peer review of our internal audit, and Mark will present that for us.

MR. SCOTT: Good morning. Yes, the external peer review of TDHCA was completed and the reports are included in the materials.

The opinion report is what appears first in the materials, and it is followed by a more detailed report on the peer review.

Starting on page 7 of the opinion report are the ratings. The internal audit program at TDHCA received the top rating in every category.

The detailed report on the peer review describes the work that the reviewers conducted. They made some minor suggestions that are not mandatory, but that we can implement if we choose.

This committee meeting is pretty packed, so I thought I would outline some options related to the follow-up on the peer review and present them for the next meeting.
Overall, the peer reviewers made very favorable comments on both the audits and the audit committee.

MS. THOMASON: Okay.

MR. SCOTT: And so at this point I’ll ask for an acceptance of the peer review report.

MS. THOMASON: Okay. Do I have a motion to accept the peer review report?

MR. VASQUEZ: Move to accept.

MS. THOMASON: A second?

MR. BRADEN: Second.

MS. THOMASON: Okay. All in favor?

(A chorus of ayes.)

MS. THOMASON: Okay. The peer review report is accepted.

MR. VASQUEZ: This generally conforms --

MR. SCOTT: I know it does -- it doesn’t, it sounds like meager praise but --

(Laughter.)

MR. SCOTT: That’s actually the top rating.

(Laughter.)

MR. VASQUEZ: It’s all generally --

(Laughter.)

MS. THOMASON: Our next action item is going to be from the Finance Department, and Ernie will come and present those reports.
MR. PALACIOS: Good morning, Madam Chair, members of the Committee. For the record, I’m Ernie Palacios, Director of Financial Administration for the Department.

Action Item 3 is a draft computation of the Housing Finance Division total in unencumbered fund balances and transfers to the Housing Trust Fund.

Housing Finance Division unencumbered funds are the funds associated with any and all of the Department’s housing finance activity that are not subject to any restriction precluding their immediate transfer to the Housing Trust Fund.

Such restrictions include being subject to a state or federal law or other applicable legal requirement such as a general appropriations act, being held in trust subject to the terms of a bond indenture, or having been designated by the Department’s governing board for specific use or contingency.

Pursuant to Texas Government Code 2306.204 and .205, the Department is required to transfer to the Housing Trust Fund, by January 10 of the following year, a portion of the unencumbered funds, if any, meeting certain threshold and criteria.

The statute also requires the Department to undergo an annual audit of its unencumbered fund balances,
and to transfer excess funds to the Housing Trust Fund based on the calculation set forth in the statute.

The draft computation of the unencumbered fund balance’s report as of August 31, Exhibit A, reflects funds held by the Department deemed to be unencumbered of 147,700.

The calculation of bonded indebtedness report, Exhibit B, only includes bonds outstanding, not rated in the highest long-term debt rating category, to calculate the 2 percent threshold of 19,425,232.

And the list of bond ratings, Exhibit C, is from the rating agencies.

Since the unencumbered fund balance is less than the 2 percent threshold, it does not meet the first threshold of the Texas Government Code for any transfer to the Housing Trust Fund.

The draft computation of the unencumbered fund balances report as of August 31, 2017 yielded a zero transfer to the Housing Trust Fund.

Again, this report is included for review in the year-end financial audit performed by the State Auditor’s office, and is therefore subject to revision based on such audit.

At this point we respectfully request acceptance of the draft computation of the Housing Finance
Division totaled in unencumbered fund balances of transfers to the Housing Trust Fund’s report. The auditor report, along with the State Auditor’s opinion, will be presented at the next Audit and Finance Committee meeting in February.

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

MS. THOMASON: Okay. Thank you.

Anyone have any questions?

MR. VASQUEZ: Yes. I was curious, when looking at this, what’s our usual unencumbered fund balance?

MR. PALACIOS: Uh --

MR. VASQUEZ: Ballpark, I mean. Just, is it this level, or is it a million dollars more, or --

MR. SALACIOUS: No, it’s usually very small, because we haven’t’ made a transfer in over ten years.

MR. VASQUEZ: Okay. All right.

MS. THOMASON: Any other questions?

MR. IRVINE: Good morning. Tim Irvine, Executive Director. I just wanted to make a comment of a general nature about this particular matter.

When we created our open indentures, you know, the -- it was back in the olden days, and since that time we’ve gone through tremendous swings in the economy, obviously the financial challenges of the 2008, 2009 era.
And our open indentures have continued to perform pretty much like clockwork, and consistently built value.

And I think when the statute was enacted, it was contemplated that the department would have the ability to access that value to enhance the liquidity of the Housing Trust Fund.

But as we’ve learned along the way working closely with our financial advisor, and hearing input from our rating agencies, it’s really important to keep strong indentures.

So this is not just acceptance of a particular audit, in my mind. This is also sort of a re-affirmation of Staff’s strong recommendation to keep building and preserving the strength of our indentures.

MS. THOMASON: Thank you. Do I have a motion to accept the financial reports as presented?

MR. BRADEN: So moved.

MS. THOMASON: Okay. Second?

MR. VASQUEZ: Second.

MS. THOMASON: Okay. All in favor?

(A chorus of ayes.)

MS. THOMASON: Thank you.

Our first report item is the Audit of the Contract for Deed Conversion Program, and Mark will
present that for us.

MR. SCOTT: Thank you. Yes, this audit, it rated high on the risk assessment we did about a year and a half ago because of legislative interests and a few other factors.

The contracts for deed conversion program had been set up in response to a sunset recommendation. We found that the program generally accomplished its mission, and we didn’t have any compliance finding, so basically a good audit.

MS. THOMASON: Okay. Our next report item is for recent external audits. Mark?

MR. SCOTT: Thank you again.

Yes, one of the audits that’s going on is the SAO audit of the Agency’s financial statements. And this is an annual external audit, and it includes actually the calculation of the -- that Ernie was just talking about, and other factors that they audit, and their report is supposed to be sent out on or about December 20.

And by the way, you all will get that in an email. So that’s the only one that they send directly to you all.

Then the KP&G audit of the low-income energy assistance program, or LIHEAP, and they’re doing follow-up on the findings that they had last year. One of the
findings on payroll control will be cleared, while the other finding on reporting fields probably will not be cleared until upgrades are made to the reporting system that she’s -- by LIHEAP.

And then HHS is coming out in January, to audit LIHEAP.

MS. THOMASON: Okay. Any questions about any of those?

(No response.)

MS. THOMASON: All right. And --

MR. SCOTT: That concludes my presentation.

MS. THOMASON: -- and Ernie Palacios is going to go over the 2018 operating budget.

MR. PALACIOS: Ernie Palacios, Director of Financial Administration.

Report Item 3 is a 2018 operating budget filed with the Legislative Budget Board and the Governor’s Office of Budget, Planning and Policy.

This itemized operating budget was filed electronically to the automated Budget and Evaluation System of Texas, also known as the BEST, located on the LBB website on Friday, December 1.

This budget reflects a culmination of the 2016-2017 biennium and the budget for the first year of the 2018-19 biennium.
Within each year of the biennium is the Department’s internal operating budget, such as the one approved by this committee and the board on June 29, 2017. That budget included operational expenses distributed among the Department’s divisions. It did not include federal or state program funds that passed through to subrecipients except for administrative funds used by the Department associated with those federal or state funds that are retained or reflected in the budget.

This budget does include those funds.

The 2016-17 JAA approved budget for the biennium was $486.7 million. This included 313 FTEs for each year of the biennium, and a total capital budget of 597,810.

This budget reflects total adjustment for the biennium of $4.7 million. The differences, by method of finance, are as follows:

The general revenue had an increase of 1.5 million, primarily attributed to excess collections of loan repayments related to the Housing Trust Fund loans.

The adjustment of the federal funds, which went down a little bit, is primarily related to adjustments to estimates based on actual award letters received, and actual program income received.

Appropriated receipts realized savings
primarily due to salary savings related to FTE vacancies, of which $627,962 was related to the hiring freeze in fiscal year 2017.

Other cost savings were attained through efficiencies for both TDHCA and the Manufactured Housing Division.

In addition, the Manufactured Housing Division had excess housing receipts that were not necessary for the administration of the division.

The savings in the inter-agency contracts is a result of efficiencies in the money-follows-the-person program, with the Housing and Human Services Commission.

The FTEs reflected in this budget were 279.8 and 280.2, for each year of the biennium, respectively. This is a reflection of FTEs net of vacancies as reported to the State Auditor’s office.

Now I’ll turn to the 2018 budget, of 237 million. This was primarily updated to 242 million, in the areas of federal funds also.

Also due to adjustments on estimates based on actual award letters, and received and updated program income estimates. The 2018 operating budget will serve as an updated base for use as a starting point for the development of the 2020-2021 legislative appropriation request.
The LAR will be due in August of this coming year, and we'll be bringing that to the Committee also. I’m available for questions on this item.

MS. THOMASON: Any questions?

(No response.)

MS. THOMASON: All right. I think that concludes our meeting, at 7:44.

(Whereupon, at 7:44 a.m., the meeting was concluded.)
CERTIFICATE

MEETING OF: TDHCA Board Audit Committee
LOCATION: Austin, Texas
DATE: December 14, 2017

I do hereby certify that the foregoing pages, numbers 1 through 15, 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.

/s/Madeleine Mercier 12/20/2017
(Transcriber) (Date)

On the Record Reporting & Transcription, Inc.
7703 N. Lamar Blvd., Ste 515
Austin, Texas 78752