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

May 24, 2018
7:06 a.m.

MEMBERS:

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

MS. THOMASON: Good morning, and welcome to the May 24th meeting of the TDHCA Audit and Finance Committee. I'm going to take roll call. Paul Braden?

MR. BRADEN: Here.

MS. THOMASON: Asusena Reséndiz?

MS. RESÉNDIZ: Present.

MS. THOMASON: Sharon Thomason? I am here. Leo Vasquez is absent today. So we have three.

Item 1 is going to be the approval of the minutes from the March 22, 2018, Audit and Finance Committee meeting. At that meeting staff from the State Auditor’s Office presented the results of their audit of the TDHCA financial statements. The Committee recommended acceptance of the State Auditor's Office report to the full Board.

Also at that meeting Mark Scott, the director of internal audit, went over the internal audit of the TDHCA Bond Program and the recent external audit activities. The minutes are included in the notebook for your Audit and Finance Committee.

Can I have a motion to approve the minutes from the March Audit and Finance Committee meeting?

MS. RESÉNDIZ: So moved.

MR. BRADEN: Second.
MS. THOMASON: Second? Okay. And our next two action items are related to some things that Michael Lyttle will present to us. Oh, we need a vote. Sorry. That's why I have my attorney. Can I have a vote to have Michael present this --

MR. BRADEN: On the seconded motion.

MS. THOMASON: Sorry. All approved -- to approve the minutes.

MR. BRADEN: Aye.

MS. THOMASON: Any opposed?

(No response.)

MS. THOMASON: Okay. Sorry about that. But our next items will be presented by Michael Lyttle. Michael?

MR. LYTTLE: Good morning, Madame Chair and Committee members. My name is Michael Lyttle. I'm the chief of External Affairs for TDHCA. I'm before you this morning to discuss two agenda items related to the State's two-year budget cycle, the Department's Strategic plan and the legislative appropriations request for what we call the LAR.

With respect to the LAR, every biennium, State agencies are required to submit this document to the Legislative Budget Board as the process of drafting the State's budget begins. While we've not received the
official instructions yet for submittal to the LBB, we do believe that the deadline may be as early as mid- or late July.

In previous sessions -- or the previous session, our LAR deadline was August 5, and given some of the current deadlines of some of the existing documents that we have, they're earlier than last time. So that explains why we think it may be in July.

And consequently, that's why we will be before you this month and next to present portions of the LAR for your approval, as we finish them. So moving to the agenda item. Item 2 is the Presentation, Discussion, and Possible Action on the Agency Strategic Plan for Fiscal Years 2019-23.

Through this item, staff is seeking Committee approval for the Department Strategic Plan for those fiscal years. This Strategic Plan is a document which is required under state law and it's due to the Office of the Governor and the LBB no later than June 8.

Through this document, the Agency communicates its goals, directions and outcomes to the Governor and the legislature, to our client and constituency groups and to the general public. In addition, the plan requires that each agency identify state laws and regulations that are redundant or serve as impediments to the Agency carrying
out its responsibilities.

The proposed plan before you includes the same redundancies and impediments that we identified in the last session, in the last strategic plan that we submitted in 2016, because no action was taken by the 84th Legislature to mitigate those items.

I would also like to point out that there is a new section of redundancies and impediments in this document that is related specifically to disaster response, and that is the case, not just for TDHCA but for all the State agencies involved.

Also included in the plan are various supplemental schedules. These include the Agency's budget structure and performance measure definitions for the 2020-21 biennium. We've requested changes from the Office of the Governor and the LBB to our budget structure and our performance measure definitions for the coming biennium.

However, we're still waiting for approval from these offices. So the approval is pending. Therefore, our existing budget structure and measure definitions for fiscal years '18 and '19, along with our requested changes for '20 and '21, are included in the Board item.

The last supplemental schedule included in the plan is the Agency's customer service plan. This will be
addressed separately today in the full Board meeting under Report Item 2(b). So while it may seem like many of the settings per se in this plan, in the Strategic plan, are sort of pre-set -- and they are to a large degree -- this document does not contain any surprises.

It essentially mirrors our goals and our mission that you've seen and read in other documents that have come before this Board. So that is the item we are requesting approval on and I'm happy to try to answer any questions.

MS. THOMASON: Thank you. Any questions?

(No response.)

MS. THOMASON: No? Okay. Then do I have a motion to accept this item and present to the full Board?

MR. BRADEN: I'll make a motion that the Agency's Strategic Plan for fiscal years 2018 to '21 in the form presented at this meeting be approved and recommended to the full Board.

MS. RESÉNDIZ: Second.

MS. THOMASON: Second? Okay. So we'll take a vote. All in favor?

MR. BRADEN: Aye.

MS. RESÉNDIZ: Aye.

MS. THOMASON: Any opposed?

(No response.)
MS. THOMASON: Okay. Thank you, Michael. The next -- the first report item will be the internal audit of the Emergency Solutions Grant Program and that will be --

MALE VOICE: [inaudible].

MS. THOMASON: Oh, I'm sorry, I'm sorry. I did skip Action Item Number 3, and that is related to the External Affairs and will be presented by Michael as well.

MR. LYTTLE: Thank you. Item 3 is the Presentation, Discussion, and Possible Action regarding Policy Items for Inclusion in the Legislative Appropriations Request for State Fiscal Years 2020 and 2021.

Through this item, staff is seeking your approval for two of the elements which will be included in the Agency's LAR for the next biennium. As I mentioned in Item 2, every state agency must submit an LAR during the end term, which is roughly six to seven months before the next session starts.

The LAR will state the Agency's funding needs for the coming biennium to the Office of the Governor and the Legislative Budget Board. This document is used extensively during legislative session. Included in the state agency's LAR are requests to changes to budget riders which are found in each agency's bill pattern.

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And a bill pattern is essentially the -- literally the entire funding structure for the Agency is defined in the Appropriations Act. This bill pattern also includes the Agency's capital budget and it's reflected in a capital budget rider.

With respect to the budget riders, I wanted to talk just a moment specifically. Staff is recommending changes to the Housing Trust Fund-related riders to conform to a requested budget structure change which we received from leadership, the idea there being that we want to increase some transparency about the specific programs that run under the Trust Fund.

So consequently we wanted to change those riders to show more of that. Also, other Trust Fund changes are related to some laws that were changed last session. So we're seeking approval for also the changes to the Migrant Labor Housing Facility rider, which would allow TDHCA to collect all related fees that we have for administration of the program.

Currently, the legislature appropriates about $10,000 each year for this function, and up until last session, we absorbed the entire cost of carrying out those activities without any appropriation given to us. So what we're hoping to do in this session is have the ability to collect all of those fees that we get.
Also, we're seeking approval on changes to the Affordable Housing Research and Information Program rider which would move reference to funding, and getting super-technical for a minute, the strategy is B11 Housing Resource Center.

We have no funds that are specifically appropriated under that strategy and we can cover the costs for the Housing Resource Center within our existing budget structure. So just to kind of -- it's more of a clean-up item.

We would ask for approval of that and some other technical corrections. And then finally I just want reference briefly the capital budget. So we are seeking your approval on requesting permission to expend funds for disaster recovery services, and that is the case where there may be, you know, God forbid, some calamity that would impact our building and our computer systems, and there's backup that goes on with that.

So there would be funds to do some work in that area. We have our general information technology hardware and software replacement, which is pretty consistent, as well as our accounting software, which is PeopleSoft, the PeopleSoft financial software.

We have some required maintenance that we have to do as well. All together, the projects total about
$750,000 over the biennium, which we do have the funds for, and we would use those funds from appropriated receipts and federal funds to handle it.

So we wouldn't be asking for any new money, per se. So our recommendation is for approval of these items to include in the LAR, and then as I mentioned, we will come back before you next month with all of the remaining items that go into that document and get your sign-off on it. Thank you.

MR. IRVINE: If I may?

MS. THOMASON: Yes, please.

MR. IRVINE: Good morning, Madame Chair, members. My name is Tim Irvine, the executive director. I just wanted to provide a little bit more background and context for two of these items. With respect to the request on the uses of the Housing Trust Fund, this is an opportunity to reinforce in legislation a strategic decision we already made long ago.

If you turn back the clock many years, the Trust Fund was a proliferation of boutique programs, and where you only have about $5 million a year to run those programs, it presented some real efficiency challenges. So structurally, we have moved to a commitment to use the Trust Fund for the Texas Bootstrap Program, the Self-Help Loan Program, and also for the Amy Young Barrier Removal...
Program.

So this would now find its way into legislation and reinforce that commitment to a very focused and extremely efficient use of the Trust Fund resources. With respect to the migrant farmworker, I really wanted to give a little bit of a larger story because I think that this is going to be a significant issue going forward.

I think it's likely to be something that the legislature will take up in the next session. We were assigned responsibility for administering migrant farmworker housing licensing a number of years ago, and it was taken over from another agency that was having trouble simply keeping up with its required inspections.

And when we took it on, there were, I don't know, about 40 licensed facilities and we sort of thought that the universe was more or less defined, and we felt that we had the ability within our manufactured housing division, which is administratively attached to us but reports to a separate board, to carry out those inspections and that licensing activity within their existing structure.

That's actually worked pretty darn well for that 40-or-so licensed facilities, but it's become very apparent that the scope of migrant farmworker housing is much larger that. The Texas Workforce Commission oversees
state implementation in accordance with the Department of Labor at the federal level of the H-2A Visa Program, and
that's the program for bringing in agricultural workers under a visa.

And one of the requirements of that program is that whoever brings them in must provide for housing. So if you're bringing somebody in on a temporary or seasonal basis to perform agricultural work, they are, by definition, migrant farmworkers, and wherever they are being housed probably falls within the jurisdiction of migrant farmworker housing licensing, and therefore, what we've identified is a universe that's really, probably more like 3- or 400 such facilities, possibly more, if there are unlicensed facilities beyond those that are impacted by the H-2A Visa Program.

So with a transformation from overseeing 40 facilities to overseeing roughly 400 facilities, also we are, you know, obviously challenged and we are looking for additional funding sources to carry out those activities because in the intervening years the Manufactured Housing Division has not been able to retain that additional flexibility to perform a significant amount of additional inspection work.

So these are things that we're probably going to have to take on ourselves. I think that there's also a
policy issue that's going to be front and center in this
dialog. Under the H-2A Visa Program, the Department of
Labor's standards are quite different from the State of
Texas standards for licensing migrant farmworker
facilities, and we're working with a variety of
stakeholders, including legislative members, legal aid
organizations, farmworker advocacy organizations, and so
forth, and TWC to try to harmonize as much as possible the
different standards, and avoid, you know, a big disconnect
in a state licensing structure with a federal licensing
structure, which -- excuse me -- not a federal licensing
structure -- a federal requirement structure.

So just a little bit of background on this, and
we are extremely anxious that this be a good, effective
program. Tom Gouris, who has responsibility for this, has
been working really closely with Michael to develop some
branding and get out the message to agricultural employers
that this is a positive benefit.

This is one of the things that really helps you
to attract and retain a stable, committed, effective
workforce, and we are very much committed to enforcing the
migrant farmworker requirements rigorously. So glad to
answer any questions.

MS. THOMASON: Any question?

MS. RESÉNDIZ: I have one --
MS. THOMASON: Sure.

MS. RESÉNDIZ: -- Madame Chair, if I may. How are the employers reacting to the information that we're providing?

MR. IRVINE: We've really not had a lot of direct engagement with employers. We've certainly been, you know, pretty public and transparent in everything that we are doing. We would anticipate in the near future bringing proposed rule revisions and as with all rule revisions I would anticipate we will have a lot of public interaction, that we'll have opportunity to provide input, and I would imagine that they will begin to engage when we quantify our specific proposals for ways that the Texas standards may deviate from the federal standards.

MS. THOMASON: Any other comments or questions?

(No response.)

MS. THOMASON: Tim --

MR. IRVINE: Thank you.

MS. THOMASON: -- thank you. Any questions for Michael?

(No response.)

MS. THOMASON: No? Okay. Then I would like to have a motion to approve the items for the legislative appropriations requests that were brought before us today by Michael.
MR. BRADEN: So moved.

MS. THOMASON: Okay.

MS. RESÉNDIZ: Second.

MS. THOMASON: All right. All in favor.

MR. BRADEN: Aye.

MS. RESÉNDIZ: Second.

MS. THOMASON: Any opposed?

(No response.)

MS. THOMASON: All right. Perfect. And I'm sorry for skipping you almost there, Michael. Now onto our report item. The first report item will be the Internal Audit of the Emergency Solutions Grant, and that will be presented by Mark. Thank you.

MR. SCOTT: Thank you, Ms. Thomason. The Emergency Solutions Grant, or ESG Program, had been selected for an audit for 2018 because of staff changes and other risk assessment factors. Management of the program at TDHCA was moved a couple of years ago from under the Community Affairs Division to under the Home Division.

Now, we evaluated the NSP's processes and tested the program -- I'm sorry -- the ESG's processes and tested the program controls. We also sent questionnaires to the subrecipients' management staff and also to the members of the boards who had once been clients of the
program, and the responses were very favorable about the program.

The audit report describes the program's eligible expenses and performance measures. This program follows a model that I've seen before for several federal programs. For a given area, a lead agency is established, and then the lead agency has subrecipient monitoring responsibilities.

Our review of subrecipient audits and also the questionnaires indicated that more specifications of the lead agency's monitoring requirements would be beneficial. The audit report had a section on subrecipients' monthly expenditures and performance reports, and also a section on matching requirements.

And that concludes by presentation on this audit. I'll be happy to answer any questions you may be --

MS. THOMASON: Okay. Thank you, Mark. Any questions?

(No response.)

MS. THOMASON: None? Okay. Then I guess that concludes our meeting for the Audit and Finance Committee. Thank you.

(Whereupon, at 7:25 a.m., the meeting was adjourned.)
CERTIFICATE

MEETING OF:     TDHCA Board Audit & Finance Committee

LOCATION:     Austin, Texas

DATE:     May 24, 2018

I do hereby certify that the foregoing pages, numbers 1 through 18, 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:  May 30, 2018

/s/ Adrienne Evans-Stark
(Transcriber)

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