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

June 28, 2018
7:32 a.m.

MEMBERS:

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

ON THE RECORD REPORTING
(512) 450-0342
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MS. THOMASON: I call to order the June 28 meeting of the TDHCA Audit and Finance Committee meeting. I'm going to take roll.

Paul Braden?

MR. BRADEN: Here.

MS. THOMASON: Asusena Reséndiz?

MS. RESÉNDIZ: Present.

MS. THOMASON: Leo Vasquez?

MR. VASQUEZ: Present.

MS. THOMASON: We have some action items today. The first one will be the approval of the minutes from our May 24, 2018 Audit and Finance Committee. At that meeting the director of External Affairs, Michael Lyttle, presented action items for the TDHCA Strategic Plan for 2019-2023 and the Legislative Appropriations Request for the biennium of 2020-2021. The committee recommended both items for approval by the full Board. The director of Internal Audit, Mr. Mark Scott, went over the internal audit of the Emergency Solutions Grant.

The minutes are included in your notebooks for the Audit and Finance Committee. My I have a motion to approve the minutes from the meeting?

MS. RESÉNDIZ: So moved.

MR. BRADEN: Second.
MS. THOMASON: Thank you. All in favor?

(A chorus of ayes.)

MS. THOMASON: Any opposed?

(No response.)

MS. THOMASON: Our second action item is the presentation of the updated charter for the Audit and Finance Committee. That will be presented by Mr. Mark Scott.

MR. SCOTT: Thank you, Madam Chair.

The Internal Audit Charter requirement is in Internal Audit Standards Attribute Standard 1000, and it's actually the very first standard. The new charter includes updates based on the recent peer review and also inclusion of finance items as part of the committee. So I would ask the committee to recommend for approval to the full Board the updated Audit and Finance Committee charter.

MS. THOMASON: Okay. Do I have a motion to accept the Internal Audit Charter update?

MR. VASQUEZ: So moved.

MS. THOMASON: A second?

MR. BRADEN: Second.

MS. THOMASON: All in favor?

(A chorus of ayes.)

MS. THOMASON: Any opposed?
(No response.)

MS. THOMASON: The item is approved.

Our third item will be the presentation of the 2019 TDHCA operating budget, and Mr. Ernie Palacios will present that to us.

MR. PALACIOS: Good morning, Madam Chair, members of the committee. For the record, I'm Ernie Palacios, director of Financial Administration for the Department.

Over the last four months we've been meeting with division directors and managers to develop an internal operating budget for fiscal year 2019. Behind item 3 is the internal operating budget which includes a comparison report with the 2018 operating budget. I would like to provide you information related to the amount of the budget, the expenditure categories of where this money will be used, and lastly, the financing associated with recommending this budget for the upcoming fiscal year.

The proposed budget is $27.9 million. This represents a $200,000, or 0.7 percent increase from the current budget. The increase is primarily attributed to increases in several cost categories such as: salaries and wages of $62,874 which includes a 1 percent allowance for potential salary increases for employees such as merits, reclasses and items that the Department may want to
consider throughout the fiscal year, payroll related costs of about $15,000 proportional to the salary increase; and state travel of $45,000 in the areas of Compliance, Community Affairs and Section 8; repairs and maintenance of $87,728, primarily related to computer-related annual maintenance costs; advertising increased $81,200, primarily due to a marketing initiative by the Texas Homeownership Division estimated to cost an additional $80,000; temporary help increased by $58,720, primarily due to increased cost of meeting transcription services and a web redesign of the Texas Homeownership Program.

Capital outlay projects were scheduled to go down in the second year of the biennium, however, $600,000 for the Community Affairs project and $80,000 for the cybersecurity activities were carried forward to fiscal year '19 for continued expenditures. Had these amounts been fully spent in fiscal year '18, the overall agency budget would have decreased $480,000.

The Department's cap FTEs is 313. The budget has 309 FTEs, 245 are TDHCA personnel and 64 are Manufactured Housing Division staff, four less than appropriated.

The method of finance was affected as follows: general revenue related to earned federal funds increased $117,000, or 5.6 percent, primarily related to the
addition of the National Housing Trust Fund; federal funds increased $239,000, or 3.5 percent, included int that amount is the $600,000 capital budget project for Community Affairs that was carried forward; and finally, appropriated receipts had a decrease of $147,000, or a 0.9 percent decrease, this is primarily due to the capital budget items and salary savings.

This budget will be used for developing the 20-21 biennium Legislative Appropriations Request, or LAR. The policy letter and LAR instructions were released last week by the Governor's Office and the LBB. TDHCA's LAR must be submitted by August 3. We plan on bringing a couple of policy items, such as the administrative statement and a 10 percent reduction schedule to the committee and the committee's approval to the Board on July 12. Also, I would like to note for the record, in accordance with Internal Auditing Standards and the Board's internal audit charter, the budget includes the Internal Audit Division's annual operating budget.

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

MS. THOMASON: Thank you.

Does anyone have any questions related to the budget?

MR. VASQUEZ: So, Ernie, you characterized the
budget at $27.9 million?

    MR. PALACIOS: Close to $28-, but yes.

    MR. VASQUEZ: That's right at $28 million.

    (General laughter.)

    MS. THOMASON: If there are no other questions, do I have a motion to approve?

    MR. BRADEN: So moved.

    MS. THOMASON: A second?

    MR. VASQUEZ: Second.

    MS. THOMASON: All in favor?

    (A chorus of ayes.)

    MS. THOMASON: Thank you.

    Our fourth item will be the presentation of the fiscal year 2019 Housing Finance Division budget, and Mr. Palacios will present that as well.

    MR. PALACIOS: Now we'll turn your attention to item 4 for the Housing Finance budget. This particular item is a subset of the larger budget, it is in relation to the Housing Finance budget that we are required to submit under Texas Government Code Section 2306.113, and in compliance with the General Appropriations Act. This subset of the budget is specific to the fees that we generate typically referred to as the Housing Finance budget of the Department. At this time we are prepared to certify this budget as well, and I'm available for any
questions on this item.

MS. THOMASON: Any questions?

(No response.)

MS. THOMASON: If not, do I have a motion to approve the fiscal year 2019 Housing Finance Division budget?

MS. RESÉNDIZ: So moved.

MS. THOMASON: A second?

MR. BRADEN: Second.

MS. THOMASON: All in favor?

(A chorus of ayes.)

MS. THOMASON: None opposed.

Thank you very much.

MR. PALACIOS: One last thing. At this time I'd like to acknowledge Krissy Vavra and Paul Ford. Krissy is the manager of financial services over budget, payroll and travel, and Paul is our senior budget analyst. They both have done an incredible job in the development of this budget and keeping the progress of this budget in line.

MS. THOMASON: Thank you very much.

MR. PALACIOS: Thank you.

MS. THOMASON: That concludes our action items. We do have a report item that includes the Internal Audit report on the status of prior recommendations and then the
discussion of current internal and external audit activities.

Mark, would you please share that with us?

MR. SCOTT: Thank you again, Madam Chair.

Monitoring progress on internal audit recommendations is in Internal Audit Standard 2500. Internal Audit is required to monitor the progress on audit recommendations for internal audits and external audits. We conducted followup work and issued report number 18002. Our followup work covered TDHCA Office of Internal Audit open findings and related recommendations made in audit reports dated through the end of 2017. An open finding is defined as a finding that was not completely addressed or for which further action is still required at the time of the review.

Now, based on our reviews, we were able to close most of the previously open recommendations. The ones that were not closed will be reviewed again during the next followup audit in fiscal year '19.

The external audits performed on TDHCA's programs include a KPMG reviews of LIHEAP and the HOME Program, and the Department has implemented an interim measure with the LIHEAP program for household level data. The new system is expected to go live in September of 2019. The KPMG recommendation for the HOME Program is
fully implemented and the finding is closed.

The U.S. Department of Health and Human Services also performed two audits, a compliance review of the State of Texas fiscal year '13 LIHEAP, that was an old report that they just issued, and then the Community Services Block Grant report was issued on June 7, 2018. And the status update and review of the recommendations for these two audits will be included in the fiscal year '19 followup audit.

Are there any questions on the followup items?

(No response.)

MR. SCOTT: On the status of the audit plan, so far in fiscal year 2018 we have completed from the audit plan the peer review, the Bond Program audit and the Emergency Solutions Grant audit, and also the followup audit. We also had KPMG and HHS doing the external audits and Internal Audit was coordinating. We should be finished next month with the audit of the Neighborhood Stabilization Program, NSP; then we have remaining from the audit plan the HOME, the fund tracking, and the loan servicing for single family. So the audit plan is basically on track.

That concludes my presentation, and I'll be happy to answer any questions there may be on the audit plan.
MS. THOMASON: Thank you.

Any questions for Mark?

(No response.)

MS. THOMASON: Okay. Then that will conclude our meeting. It is 7:43. Thank you.

(Whereupon, at 7:43 a.m., the meeting was adjourned.)
CERTIFICATE

MEETING OF: TDHCA Board Audit & Finance Committee
LOCATION: Austin, Texas
DATE: June 28, 2018

I do hereby certify that the foregoing pages, numbers 1 through 13, inclusive, are the true, accurate, and complete transcript prepared from the verbal recording made by electronic recording by Donna Boardman before the Texas Department of Housing and Community Affairs.

DATE: July 3, 2018

(Transcriber)

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