TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

AUDIT AND FINANCE COMMITTEE MEETING

Texas Capitol Building
Capitol Extension
Room E2.016
1100 Congress Avenue
Austin, Texas

September 6, 2018
7:32 a.m.

MEMBERS:

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

ON THE RECORD REPORTING
(512) 450-0342
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### ACTION ITEMS:

**ITEM 1:** Presentation, discussion, and possible action to Approve the Audit Committee Minutes Summary for June 28, 2018 and July 12, 2018

**ITEM 2:** Presentation, discussion, and possible action to Approve the Fiscal Year 2019 Internal Audit Work Plan.

### REPORT ITEMS:

1. Presentation and discussion of Internal Audit of Neighborhood Stabilization Program (NSP) Close out process

2. Presentation and discussion of newly revised TDHCA's Fraud, Waste and abuse policy

3. Presentation and discussion of report required under Texas Government Code §2306.070 for submission to legislative bodies, status of other recent legislative submissions

### PUBLIC COMMENT ON MATTERS OTHER THAN ITEMS

FOR WHICH THERE WERE POSTED AGENDA ITEMS

### EXECUTIVE SESSION

none

### OPEN SESSION

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### ADJOURN

10
PROCEEDINGS

MS. THOMASON: Good morning, and welcome to the September 6 meeting of the TDHCA Audit and Finance Committee. And I apologize in advance. I'm struggling with some allergies, so excuse my sniffing and coughing.

Let's take roll. Sharon Thomason, I'm present.

Paul Braden?

MR. BRADEN: Here.

MS. THOMASON: Asusena Reséndiz:

MS. RESÉNDIZ: Present.

MS. THOMASON: And Leo Vasquez is absent today.

So we have a couple of action items. Action item 1 is the approval of the minutes from the June 28 and the July 12, 2018 meetings we had. At the June 28 meeting, the committee recommended approval of the revised Internal Audit Charter and also the fiscal year 2019 Housing Finance Division budget. The director of Internal Audit, Mr. Mark Scott, discussed the recent internal and external audit activities, and the director of accounting, Mr. Ernie Palacios, discussed the agency operating budget items. And at the July 12 meeting, the director of External Affairs, Mr. Michael Lyttle, discussed potential budgeting adjustments and how they were determined, and the committee voted to accept the presentation and recommended it to the full Board.
The minutes are included in your books for the Audit and Finance Committee. Can I have a motion to approve the minutes from both the June and July Audit Committee meetings?

MR. BRADEN: So moved.

MS. RESÉNDIZ: Second.

MS. THOMASON: All right. All in favor obviously? Yes.

(A chorus of ayes.)

MS. THOMASON: Any opposed?

(No response.)

MS. THOMASON: Okay. The second action item is the presentation and possible approval of the 2019 Internal Audit Plan, and Mr. Scott will present that for us.

MR. SCOTT: Thank you, Ms. Thomason.

The audit plan was prepared with an updated risk assessment matrix. When I presented the audit plan last year, it was recommended that the matrix be updated; last year's peer review also suggested that the matrix be updated. Additionally, there was a recent agency reorganization which was taken into account during the audit planning process. For audit planning purposes, risk is sometimes synonymous with important, so the fact that something is on the audit plan does not have a negative
The first new audit on the plan is complaint resolution. This is an important agency interface with the public. It is also a statutory requirement. The audit will review the intake and resolution procedures.

Multifamily revenue bonds was the second one, and last year we audited the single family revenue bond processes. There has been interest expressed also for the multifamily bonds. We will review the controls and processes for multifamily revenue bonds.

The next one is the internal audit performance measures, and this will review the process for developing the measures as well as their utility. We will also review their accuracy.

The fourth audit is of the inspections of migrant labor housing. This audit will review the processes in place for conducting inspections.

The audit of the Enforcement Division will evaluate the processes for reviewing cases of non-compliance and addressing sanctions. We will review the effectiveness of the sanctions and also the recourse or appeals process available to those who are sanctioned.

Number six is the audit of the certification of construction costs. This is an important step in preventing overstatement of the cost basis for the
multifamily developments. TDHCA relies on the certification from CPAs in a way that is similar to reliance on single audits for monitoring subrecipients. There still has to be proper procedures for receipt and analysis of reports.

And the seventh item is public information requests, and this is another important agency interface with the public. Also, legal compliance with the Public Information Act is critical.

So at that point I'll ask if there's any questions on the new audits on the plan.

MS. THOMASON: Any questions for Mark?

MR. BRADEN: Mark, so this is for fiscal year 2019, so what is the actual timing of these audits?

MR. SCOTT: Well, I have new staff so we should be able to do them pretty quickly. If there's a preference by the Audit Committee, I'll certainly take that into account, but it depends on the logistics. If it looks like something will be a short audit and there's a window of time, I'll put it in there. The order that they're presented on the audit plan is not necessarily the order we'll take it in, but if the Audit Committee has preference, we'll definitely do those.

MR. BRADEN: I don't know if there's anything on this list that you maybe want to take first as opposed
to the order it's presented.

MS. THOMASON: Do you have anything?

MS. RESÉNDIZ: My question was if staff had outlined these items already to see which you want to do first.

MR. SCOTT: Not as far as which should be first, but I did get good input. Brooke Boston gave me a really good list of items to look at in the audit plan and some others, so I did get input, but as far as like which ones to do at which time, I haven't received any.

Also, in addition to if somebody wants one done first, if there's a certain timing that would be excessively inconvenient for management, if they'll tell me about it, I'll take that into account as well.

MR. BRADEN: I mean, you know, resolution of complaints, you have it number one, if there's some logic to that, but I do think, as you just mentioned, take into account what's convenient to management so we're not disrupting the business of the agency.

MR. SCOTT: Yes, sir.

Okay. Are there any other questions?

(No response.)

MR. SCOTT: We're finishing up the 2018 audit plan. As I said, Cheryl Kemp is the new staff member for Internal Audit; she has a really good finance background.
The big carryover audit is the loan servicing audit, and the plan also includes consulting and administrative activities, as well as an allocation for external audit coordination.

And so with that, I will ask for the committee to vote to recommend approval of the 2019 Internal Audit Plan to the full Board.

MS. THOMASON: Do I have a motion to recommend approval of the 2019 Audit Plan to the full Board?

MR. BRADEN: So moved.

MS. THOMASON: A second?

MS. RESÉNDIZ: Second.

MS. THOMASON: All in favor?

(A chorus of ayes.)

MS. THOMASON: And none opposed, so we will do that. Thank you very much.

Now on to report items. We have three report items that we will discuss and the first is the presentation and discussion of the internal audit of the Neighborhood Stabilization closeout process, and Mark will brief us on that.

MR. SCOTT: The NSP audit, we conducted a review of the closeout procedures for the Neighborhood Stabilization Program, or NSP. NSP is a stimulus program for which the activities span several years. The purpose
of NSP was to acquire and redevelop foreclosed properties that might otherwise become sources of abandonment or blight. The first stage of the program, NSP-1, is scheduled for closeout by HUD in 2019.

OIA reviewed the closeout procedures for individual contracts. We tested the reconciliations between the housing contract system and the Disaster Recovery Grant Reporting system, or DRGR system. We also tested other requirements such as subrecipient compliance with the Single Audit Act, proper draw amounts, and other elements, and we found no audit exceptions.

MS. THOMASON: Okay. Thank you. Does anyone have any questions about that?

(No response.)

MS. THOMASON: Our second report item is going to be the presentation of the TDHCA's newly revised fraud, waste and abuse standard operating procedure. Mark.

MR. SCOTT: Internal Audit Standard 2120.82 says the internal activity must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk. We had the agency reorganization and so we took that opportunity to rewrite the SOP. It also takes into account that we have a Fraud, Waste and Abuse, or FWA, Committee. The new policy coordinates staff responsibilities with the protocol of the FWA Committee.
MS. THOMASON: Are there any questions.

(No response.)

MS. THOMASON: All right. Thank you.

Our next item is related to the Finance Administration Division, and Mr. David Cervantes, the TDHCA CFO, will present that item.

MR. CERVANTES: Good morning, Madam Chair, members. For the record, my name is David Cervantes, director of Administration.

The report item before the committee relates to a statutorily required scheduled providing information on revenues collected by the Department in the last three years and containing an explanation of variance between fees budgeted within operating budgets and fees collected for the most recent year if that variance is above 3 percent. Under Section 2306.070 of Texas Government Code, the Department must provide the schedule to the Senate Committee on Finance, the House Committee on Appropriations, and the Legislative Budget Board.

The schedule being presented meets the statutory requirement. It reflects in separate schedules the two types of fees collected by the Department: housing finance fees such as bond, tax credit program administration, compliance and asset management fees; and fees associated with the regulation of the Manufactured
Housing agency, such as licensing and inspection fees. Variances found within each fee type is explained.

Submission of this report is linked in statute with the Legislative Appropriations Request, otherwise known as the LAR. TDHCA brought items for fiscal years 2020-21 LAR to the Board earlier in the year. Information on the schedule is consistent with the similar information included in different schedules within the Department's 2020-21 LAR.

If you will permit me, I would like to provide a brief update on the LAR. TDHCA submitted the 20-21 LAR to the Office of the Governor, the Legislative Budget Board, and other oversight offices on August 3, 2018. On August 30 of 2018, the Office of the Governor and the Legislative Budget Board held a hearing on the LAR. Tim Irvine presented the agency's budget and answered questions. Senate Finance and House Appropriations staff, who will be reviewing TDHCA's LAR, were also present, as was a representative of the Speaker's Office. These hearings are typically brief and this one was no different, it lasted probably about 15 minutes or so.

So with that, I will close and stand ready to answer any questions you may have on this particular item.

MS. THOMASON: Thank you.

Are there any questions?
(No response.)

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

MR. CERVANTES: Okay. Thank you very much.

MS. THOMASON: And with no further business, is there anyone, Tim, do you have anything?

(Mr. Irvine indicated a negative response from the audience.)

MS. THOMASON: Okay. Then with no further business, we are adjourned at 7:45. Thank you.

(Whereupon, at 7:45 a.m., the meeting was adjourned.)
CERTIFICATE

MEETING OF: TDHCA Finance & Audit Committee
LOCATION: Austin, Texas
DATE: September 6, 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 Nancy H. King before the Texas Department of Housing and Community Affairs.

DATE: September 12, 2018

/s/ Nancy H. King
(Transcriber)

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