Texas Capitol Building
Capitol Extension
Room E2.026
1100 Congress Avenue
Austin, Texas

December 6, 2018
7:30 a.m.

MEMBERS:

SUSAN THOMASON, Chair
PAUL A. BRADEN, Member
ASUSENA RESENDIZ, Member
LEO VASQUEZ, Member
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December 6 meeting of the TDHCA Audit and Finance Committee. I will take roll.

MS. THOMASON: Ms. Reséndiz?
MS. RESÉNDIZ: Present.
MS. THOMASON: Mr. Vasquez is not here.
Mr. Braden?
MR. BRADEN: Here.
MS. THOMASON: All right. And I am here, so we have a quorum.

Our first action item today is the approval of the minutes from the September 6, 2018, meeting of the Audit and Finance Committee.

At that meeting, the Committee recommended approval of the annual Internal Audit Plan. The director of Internal Audit, Mr. Mark Scott, was there and discussed recently Internal Audit activity. The minutes are included in the notebook for the Audit and Finance Committee.

Can I have a motion to approve the minutes from the September Audit Committee?

MR. BRADEN: Move to approve.
MS. RESENDIZ: Second.
MS. THOMASON: Okay. All in favor?
(A chorus of ayes.)

MS. THOMASON: Okay. Our second action item is the presentation, discussion and possible action to accept and report on the draft computation of the Housing Finance Division total and unencumbered fund balances and transfers to the Housing Trust Fund, and Mr. Palacios will present those items to us.

MR. PALACIOS: Good morning, Madame Chair, members of the Committee. For the record, I'm Ernie Palacios, director of financial administration for the Department.

Action Item 2 is a draft computation of the Housing Finance Division total and 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 and are not subject to any restriction precluding their immediate transfer to the Housing Trust Fund.

Such restriction would include being subject to state or federal law or other applicable legal requirements, such as the 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 its specific use or contingency.
Pursuant to Texas Government Code 2306.204 and 2306.205, 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 meet a certain threshold and criteria.

The State 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 a calculation set forth in the statute. The draft computation of unencumbered fund balances as of August 31, which is Exhibit A, reflects funds held by the Department deemed to be unencumbered of $148,300.

The calculation of bond indebtedness report, Exhibit B, only includes bonds outstanding, not rated, in the highest long-term debt rating category to calculate the 2 percent threshold, for $18,847,306; the list of bond ratings, Exhibit C, from the ratings agencies.

Since the unencumbered fund balance is less than 2 percent for the threshold, it does not meet the first threshold in Texas Government Code 2306.205 for any transfer to the Housing Trust Fund. The draft computation of unencumbered fund balances report, as of August 31, 2018, yielded a zero transfer to the Housing Trust Fund.

Again, this report is included for review in the year-end financial 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 total and unencumbered balances and transfers to the Housing Trust Fund report.

The audit report, along with the State Auditor's opinion, will be presented at the next Audit and Finance Committee meeting in March.

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

MS. THOMASON: Thank you.

Are there any questions?

MR. BRADEN: Yes to the Chair.

So Ernie, is this typical? Is it typical we don't really have a --

MR. PALACIOS: It has been for the last at least 15 years.

MR. BRADEN: Yeah. Because investment is pretty low --

MR. PALACIOS: Exactly.

MR. BRADEN: Yeah. All right.

MS. THOMASON: Okay. Any other questions? All right.

MR. VASQUEZ: I'm sorry. Could you repeat
that?

MR. PALACIOS: Sure.

MS. THOMASON: Yes. And let the record reflect that Mr. Vasquez has joined us. So do I have a motion to recommend approval to take this item to the full Board?

MS. RESÉNDIZ: So moved.

MS. THOMASON: Okay. Second?

MR. BRADEN: Second.

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

MR. PALACIOS: Thank you.

MS. THOMASON: That is our action items. We have four --

MR. BRADEN: No.

MS. THOMASON: No?

MR. BRADEN: Missed a vote.

MS. THOMASON: Oh, sorry. Yes. We need to vote for that one, so all those in favor?

(A chorus of ayes.)

MS. THOMASON: Sorry. Any opposed?

(No response.)

MS. THOMASON: Okay. So now we have four report items, and the first is our internal audit of -- for the HOME Fund Tracking, and our director of Internal Audit, Mr. Mark Scott, will present that for us.

MR. SCOTT: Thank you, Madame Chair. This was
an audit of the periodicity requirements for the HUD HOME Program. Because the activities in the HOME Program take several years to complete, this has always been a challenge for federal and state accounting.

In the past, the HOME Program has used an accumulative accounting model. A fairly recent GAO audit at the federal level resulted in a requirement for using grant year accounting. This situation is described in the Internal Audit report.

We assessed the policies, processes and procedures in place for allocating and tracking HOME funds for fiscal years 2011 through 2017. We reviewed and tested a sample contract for accuracy and consistency from fund origination through allocation and closeout.

OIA concluded that the HOME policies, processes, and procedures are generally performed accurately and according to applicable rules. There were no exceptions in this audit. There were no audit exceptions in this audit, and one opportunity to assist HOME with report precision.

So are there any questions about the HOME tracking report, the fund tracking report?

MS. THOMASON: No questions? Okay. Thank you, Mark.

Our second report item will be related to --
oh, there it is -- the Loan Servicing Division audit, and Mark will present that for us as well.

MR. SCOTT: Thank you, Madame Chair. This was on the audit plan that was actually carried over from the last year's audit plan. The Loan Servicing Division audit -- it was identified during the fiscal year '18 risk assessment due to the complexity of transactions and programs that they administer.

Loan Servicing is identified on the TDHCA organization chart as a program service, meaning that they provide services that are specific to agency programs, rather than general administrative -- or general administration services.

Our audit included review of the processes involved in administering different loans and grants, and roles and responsibilities of staff. We identified areas of improvement to create efficiency, consistency, and also to protect TDHCA's financial interest.

Management has agreed with our recommendations and will be working towards options that would meet our recommendations, and the audit report lays out those recommendations.

Are there any questions about the audit of the Loan Servicing Division?

MS. THOMASON: Okay. No questions?
We'll move on to Report Item No. 3, and that is the Internal Audit annual report, also to be presented by Mr. Scott.

MR. SCOTT: Thank you, Madame Chair. The third report item is the annual report on Internal Audit. This report is required by statute and includes a summary of the audit work done in 2018, as well as follow-up from prior audits.

I'm happy to report that we have now completed all of the audits on the 2018 plan. The annual report also includes the audit plan for 2019, and we are completing the audit of the public information requests, and we have started the audit of the Migrant Labor Housing Program.

So are there any questions about the annual audit report?

(No response.)

MS. THOMASON: Okay. If there are no questions, our final report item is the discussion of recent external audit activities.

MR. SCOTT: Yes. In October, a review of the TDHCA ESG grant was finalized by HUD monitoring staff. They had a minor finding related to verifying that clients were spending state foster care funds before spending HUD funds, and they just finalized that with the Agency.

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response.

And the State Auditor's Office has started the annual audit of the TDHCA financial statements. One of the items that they audit is the calculations of the unencumbered balances that Ernie just presented, and also, HUD OIG started a review of the Community Services Block Grant, CSBG Program.

So are there any questions about the external audit?

MS. THOMASON: All right. If there are no questions, that will conclude our meeting today.

Meeting adjourned. Thank you.

(Whereupon, at 7:42 a.m., the Audit and Finance Committee meeting was adjourned.)
CERTIFICATE

MEETING OF: TDHCA Board Audit & Finance Committee
LOCATION: Austin, Texas
DATE: December 6, 2018

I do hereby certify that the foregoing pages, numbers 1 through 12, 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.

DATE: December 9, 2018

(Transcriber)

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