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 27, 2019
7:30 a.m.

MEMBERS:

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

<table>
<thead>
<tr>
<th>AGENDA ITEM</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>CALL TO ORDER</td>
<td>3</td>
</tr>
<tr>
<td>ROLL CALL</td>
<td></td>
</tr>
<tr>
<td>CERTIFICATION OF QUORUM</td>
<td></td>
</tr>
<tr>
<td><strong>ACTION ITEMS:</strong></td>
<td></td>
</tr>
<tr>
<td>ITEM 1: Presentation, discussion, and possible action to approve the Audit</td>
<td>3</td>
</tr>
<tr>
<td>and Finance Committee Minutes Summary for March 21, 2019</td>
<td></td>
</tr>
<tr>
<td>ITEM 2: Presentation, discussion, and possible action on the FY 2020</td>
<td>4</td>
</tr>
<tr>
<td>Operating Budget</td>
<td></td>
</tr>
<tr>
<td>ITEM 3: Presentation, discussion, and possible action on the FY 2020</td>
<td>13</td>
</tr>
<tr>
<td>Housing Finance Division Budget</td>
<td></td>
</tr>
<tr>
<td><strong>REPORT ITEMS:</strong></td>
<td></td>
</tr>
<tr>
<td>ITEM 1: Presentation and discussion of Internal Audit of the Construction</td>
<td>14</td>
</tr>
<tr>
<td>Cost Certification function</td>
<td></td>
</tr>
<tr>
<td>ITEM 2: Report on the status of the external audit activities</td>
<td>16</td>
</tr>
<tr>
<td><strong>PUBLIC COMMENT ON MATTERS OTHER THAN ITEMS FOR WHICH THERE WERE POSTED</strong></td>
<td>none</td>
</tr>
<tr>
<td><strong>AGENDA ITEMS</strong></td>
<td></td>
</tr>
<tr>
<td>EXECUTIVE SESSION</td>
<td>none</td>
</tr>
<tr>
<td>OPEN SESSION</td>
<td>--</td>
</tr>
<tr>
<td>ADJOURN</td>
<td>17</td>
</tr>
</tbody>
</table>
PROCEEDINGS

MS. THOMASON: Good morning, and welcome to the June 27 meeting of the TDHCA Audit and Finance Committee. We'll take roll. Sharon Thomason present.

Paul Braden?

MR. BRADEN: Here.

MS. THOMASON: Asusena Reséndiz?

MS. RESÉNDIZ: Present.

MS. THOMASON: And Leo Vasquez?

MR. VASQUEZ: Here.

MS. THOMASON: Perfect.

Item 1 is the approval of the minutes from our March 21, 2019 Audit and Finance Committee meeting.

At that meeting we had an action item related to the acceptance of the State Auditor's Office audit of the TDHCA financial statements. The SAO presented their report, and the Committee voted to recommend approval of the reports to the full Board.

Director of Internal Audit Mark Scott also went over the internal audit of the public information request function and the audit of TDHCA's licensing, inspections and outreach for the migrant labor housing. The Committee members also asked management several followup questions about the audit, and we had a good discussion about that.

Those minutes are included in the notebook for
the Audit and Finance Committee. Do I have a motion to approve the minutes from the March Audit and Finance Committee meeting?

MS. RESÉNDIZ: So move to approve.

MS. THOMASON: A second?

MR. BRADEN: Second.

MR. VASQUEZ: Second.

MS. THOMASON: All in favor?

(A chorus of ayes.)

MS. THOMASON: Moving on to action item number 2 is the presentation for the fiscal year 2020 TDHCA operating budget, and Ernie Palacios will present that to us.

Good morning.

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

Over the last several months we've been meeting with division directors and managers to develop an internal operating budget for fiscal year 2020. Behind item 2 is the internal operating budget which includes a comparison report with the 2019 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 $27.8 million. This represents a $286,000, or 1 percent decrease from the current budget. The decrease is primarily attributed to a decrease in our capital budget, offset by small increases and decreases in several cost categories, such as salaries and wages, which increased $358,000 and which includes: a 1 percent allowance for potential salary increases for employees such as merits, re-classes and other items the Department may want to consider throughout the fiscal year; also funding for two additional FTEs in our Multifamily area and our Subrecipient Monitoring area; and also included in this category is a legislative increase included in the General Appropriations Act for our executive director. There's an increase in payroll related costs of $85,191, proportional to the salary increase.

Out-of-state travel increased $16,000 in the areas of Compliance, Program Controls, Bond Finance, Multifamily and Community Affairs.

Professional fees increased $289,000 related to the expanded contract for inspection services and annual ongoing maintenance of the Community Affairs software project.

Repairs and maintenance decreased $121,000,
primarily related to a decrease in computer-related annual maintenance costs.

Advertising decreased $79,000, primarily due to the inclusion of an FY19 marketing initiative by the Texas Homeownership Division.

Temporary help decreased $28,000, primarily due to the removal of a redesign of the Texas Homeownership programs, offset by an increase in the agency's security services.

Furniture and equipment increased $226,000 due to an anticipated increase in the capital expenditures for items such as computers and printers, the majority of which will occur in the first year of the biennium.

Monthly capital outlay decreased $1,007,600 due to the following projects no longer being part of the capital budget, such as our PeopleSoft financial upgrade of about $200,000, the cybersecurity project of $180,000, and new software needed by the Community Affairs Division costing about $600,000.

The Department's cap FTEs is 313; the budget has 311 FTEs. 247 are TDHCA personnel and 64 are Manufactured Housing Division staff, two less than appropriated.

The method of finance was affected as follows: General revenue related to earned federal funds decreased
$103,000, or 4.7 percent, primarily related to the addition of the National Housing Trust Fund. Federal funds decreased $129,000, or 1.9 percent, primarily related to the capital budget project for Community Affairs.

Appropriated receipts had a decrease of $51,700, or a .3 percent decrease. This is primarily due to the capital budget projects. And finally, the interagency contracts had a decrease of $196,000, primarily related to the conclusion of the Money Follows the Person program.

Also, I would like to note for the record, in accordance with the 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, and I'm available for any questions.

MS. THOMASON: Thank you.

Are there any questions about the budget?

MR. VASQUEZ: I have a couple.

Great that the overall budget seems to be dropping one percent, however, that's all attributed -- virtually all attributable to this capital outlay decrease. These are canceled projects? Can you explain a little bit more as to how?
MR. PALACIOS: Well, the capital projects were in our 2018-2019 fiscal years, and they were completed or pretty much completed in that fiscal year, so when we did our LAR for this next biennium, we didn't have any major projects such as that. The only thing we had in our capital budget was our regular replacement of computers, some other ongoing maintenance of our People Soft programs, that type of thing.

MR. VASQUEZ: So we transferred from capital outlay into furniture and equipment?

MR. PALACIOS: Correct. Those other categories, furniture and equipment and repairs and maintenance.

MR. VASQUEZ: Well, all those computers and things you talked about.

MR. PALACIOS: Exactly.

MR. VASQUEZ: So you really moved part of the million dollars from capital outlay into the furniture and equipment category.

MR. PALACIOS: Some of those other categories. Right. We have an increase in our salaries and wages, so that took up some of that also.

MR. VASQUEZ: And again, I'm just trying to understand on the capital projects, they were completed or they were just dropped?
MR. PALACIOS: They were completed.

MR. VASQUEZ: Like a million dollars under budget?

MR. PALACIOS: No, no.

MR. VASQUEZ: In previous periods? I mean, we still had another million for that?

MR. PALACIOS: We had a million dollars allocated in our 2019 budget to get those finished, and it was part of our LAR, our previous LAR, so we didn't have to carry those forward into the next LAR.

MR. VASQUEZ: Because we overestimated by a million dollars on those projects? Again, we have a million dollars in FY 2019.

MS. THOMASON: It was spent.

MR. PALACIOS: Right.

MR. VASQUEZ: That was spent, so it was completed in 2019.

MS. THOMASON: Is there a threshold for what would be your typical -- you have an amount every year for computer replacement and things like that. The capital outlay, is there a threshold where something moves from furniture or equipment into capital outlay?

MR. PALACIOS: It's not so much a threshold, it's the type of project that it is. So for example, we had our CAPPs financials project, which is considered a
major initiative, and so that was when we prepared the LAR for the prior biennium, it was considered a capital project, and like our cybersecurity and like our Community Affairs software project that was $600,000. So those were major projects that were considered that. Even in that year we had some regular computer replacement and that type of thing.

MS. THOMASON: So the capital projects are more -- they're not going to recur.

MR. PALACIOS: Exactly. Unless there's a new initiative.

MS. THOMASON: Which is why we don't see it in 2020; there's no anticipated major capital.

MR. PALACIOS: Correct.

MS. THOMASON: Does that help?

MR. VASQUEZ: Yes. And this was just a step to where I'm getting to.

MR. PALACIOS: Okay.

MR. VASQUEZ: Let's get to the bottom line. So without that million dollar line item change, we're really up over $700,000 on the fiscal year budget. I mean, that's a one million line item reduction.

MR. PALACIOS: Right, correct.

MR. VASQUEZ: So it's taking out those one-time capital expenditures. We've really increased the budget,
say, $700,000.

MR. PALACIOS: Correct. Which we had anticipated when we built our LAR for 2020 and 2021. That was part of our just regular growth, the agency's need, that type of thing.

MR. VASQUEZ: I would just encourage all of us to recognize the reality of what we're spending on a regular basis, not the one-time projects. I fear if we just get too relaxed and say, oh, we reduced our budget 1 percent -- well, we didn't reduce the operating budget 1 percent.

MR. PALACIOS: Bottom line, correct.

MR. VASQUEZ: So let's continue to just try harder next year.

MR. PALACIOS: Okay.

MS. THOMASON: Any other questions?

MS. RESÉNDIZ: I have a question, Madam Chair. Thank you so much for that report.

MR. PALACIOS: You're welcome.

MS. RESÉNDIZ: What all falls under advertising? I may be simplifying that question a little too much, but I'd just like the detail of it because Comm is right under it, so I would think that those would go together, but that's just me.

MR. PALACIOS: Advertising?
MS. RESÉNDIZ: Because I see that it went down almost 50 percent.

MR. PALACIOS: Right, correct. In advertising in 2019 we had an initiative to revamp some of the marketing for the Texas Homeownership Division, and so that would be something that would fall in that category.

I was trying to think what other type of advertising we have.

MS. RESÉNDIZ: How are we advertising the migrant farm worker program?

MR. PALACIOS: That's not something that I know was included in this category for this fiscal year. There wasn't anything specific, like so much allocated to that.

MS. RESÉNDIZ: Would you just find out for me?

MR. PALACIOS: Sure. Let me get back to you.

MS. RESÉNDIZ: Thank you so much.

MS. THOMASON: Are there any other questions?

(No response.)

MS. THOMASON: Okay. Thank you very much.

MR. PALACIOS: You're welcome.

MS. THOMASON: If there are no more questions, then can I have a motion to recommend to the full Board approval of the 2020 TDHCA operating budget?

MR. BRADEN: So moved.

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

MS. THOMASON: All in favor?

(A chorus of ayes.)

MS. THOMASON: Perfect. Thank you very much, Ernie.

Our next item is presentation of the fiscal year 2020 Housing Finance Division budget, which Mr. Palacios will also present.

MR. PALACIOS: Now I would like to turn your attention to item 3, the Housing Finance Division budget. This particular item is a subset of the larger budget, and it's in relation to the Housing Finance budget that we are required to submit under the Texas Government Code and in compliance with the General Appropriations Act.

This subset of the budget is specific to fees that we generate, typically referred to as the Texas 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 you may have on this item.

MS. THOMASON: Thank you.

Any questions on this item?

(NO response.)

MS. THOMASON: Okay. If not, then can I have a motion to recommend to the full Board approval of the
Housing Finance budget for 2020?

MR. BRADEN: So moved.

MS. THOMASON: And a second?

MS. RESÉNDIZ: Second.

MS. THOMASON: All in favor?

(A chorus of ayes.)

MS. THOMASON: Thank you very much.

MR. PALACIOS: Also, at this time I'd like to acknowledge Kristi Vavra and Paul Ford. Kristi is the manager of the Financial Services over budget, payroll and travel, and Paul is our senior budget analyst. They have both done an incredible job in the development of this budget and in keeping targets of this budget in line.

MS. THOMASON: Thank you.

MR. PALACIOS: Thank you.

MS. THOMASON: All right. And we'll move to report items. Our first item is going to be the Internal Audit report in construction cost certifications, and Mark will present that to us.

MR. SCOTT: Thank you, Madam Chair.

We audited the construction cost certification processes and the controls that are in place. The developers prepare development-cost schedules that the audit firms audit. The audit firm will go through the costs and take out costs that exceed certain limits or
were incurred outside the eligibility period.

We audited the TDHCA controls over the certifications with emphasis on the audit reports that are received from independent CPAs. We have a recommendation to set up a system whereby Asset Management will verify that the CPAs are in good standing and are licensed in the state of Texas. Also, we had an observation that in our sample one CPA firm provided both the market analysis and the independent cost certification auditor's report, and this latter was not a formal finding.

As a part of our audit we conducted recomputations of tax credit amounts. Actually, the 9 percent and 4 percent tax credits were designed per the IRS Code to yield over a ten-year period a net present value equal to 70 percent of the adjusted basis for the competitive tax credits and 30 percent of the adjusted basis for the non-competitive tax credits.

For the competitive tax credits, a floor of 9 percent was set as a result of the stimulus program. We performed various re-calculations using the IRS prescribed formulas and discount rates and the test sample was accurate.

And as a final note on this topic, there was a nationwide audit conducted by the Government Accountability Office that we reviewed, and the GAO report
cited Texas as having the lowest per unit cost of the states that they reviewed, so that was a positive note.

Are there any questions on that audit?

(No response.)

MS. THOMASON: Okay. If not, our next report item is an update on external audit activity. Mark.

MR. SCOTT: There are several external audits taking place right now. The State Auditor's Office has started the financial statement part of the statewide audit. This is an audit of the entire state's expenditures and financial activities. As a reminder, TDHCA also engages SAO to audit the bond activity and the trust funds that are maintained outside the State Treasury.

And part of the statewide audit is the audit of federal compliance related to the major federal programs. In the past KPMG has performed this work. A new firm, CliftonLarsonAllen, is doing the federal compliance piece this year. For TDHCA they have selected LIHEAP and CSBG to audit.

The SAO is also auditing the Manufactured Housing Division, and that agency is administratively attached to TDHCA. For this audit they are reviewing the I.T. services that we provide to Manufactured Housing, and so far I've spoken with them and they don't have any
issues related to the I.T. services.

And also, there's one more, the SAO is conducting a classification audit of TDHCA I.T. staff, information technology staff, and this is a review of whether the I.T. positions are correctly classified based on the work that they do. And they're doing this over several agencies, so it's not just us.

And that's the external audits.

MS. THOMASON: Any questions for Mark?

(No response.)

MS. THOMASON: Okay. Without any questions, I believe that concludes our meeting today at 7:47. Thank you.

(Whereupon, at 7:47 a.m., the meeting was concluded.)
CERTIFICATE

MEETING OF:     TDHCA Audit & Finance Committee

LOCATION:      Austin, Texas

DATE:      June 27, 2019

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:  July 1, 2019

(Transcriber)

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