TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

AUDIT AND FINANCE COMMITTEE MEETING

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

December 12, 2019
8:00 a.m.

MEMBERS:

SHARON THOMASON, Chair
PAUL A. BRADEN, Member (absent)
ASUSENA RESENDIZ, Member (absent)
LEO VASQUEZ, Member
INDEX

AGENDA ITEM                                PAGE

CALL TO ORDER   3
ROLL CALL      3
CERTIFICATION OF QUORUM   --

ACTION ITEMS:

ITEM 1: Presentation, discussion, and possible action to approve the Audit and Finance Committee Minutes Summary for September 5, 2019.

ITEM 2: Presentation, discussion, and possible action to approve the Fiscal Year 2020 Internal Audit Work Plan.

ITEM 3: Presentation, discussion, and possible action to accept the report on the Draft Computation of Housing Finance Division total and Unencumbered Fund Balances and Transfers to the Housing Trust Funds.

REPORT ITEMS:

ITEM 1: Presentation and discussion of the Internal Audit Performance Measures at TDHCA.

ITEM 2: Presentation and discussion of the Internal Audit of the Enforcement Committee at TDHCA.


ITEM 4: Report on the status of the External Audit activities

PUBLIC COMMENT ON MATTERS OTHER THAN ITEMS FOR WHICH THERE WERE POSTED AGENDA ITEMS   --

EXECUTIVE SESSION   none
OPEN SESSION   --
ADJOURN     20
PROCEEDINGS

MS. THOMASON: Good morning and welcome to the December 12 meeting of the TDHCA Audit and Finance Committee. I will take roll. It’s fairly obvious, missing a couple today. Sharon Thomason, I’m present. Paul Braden is absent. Asusena Reséndiz is absent.

Leo --

MR. VASQUEZ: Here.

MS. THOMASON: -- is here. So since we do not have a quorum today, we will not be taking any votes. All items will be presented as discussion items.

The first discussion item is the Presentation, Discussion and Possible Action -- not really --

MR. SCOTT: Later action.

MS. THOMASON: Later -- to Approve the Fiscal Year '20 Audit Workplan, and Mr. Scott -- I’m sorry.

20 --


MS. THOMASON: 2020. Mr. Scott will present that item.

MR. SCOTT: Thank you, Madam Chair. On this 2020 Audit Plan, we have several large audits on the plan, and we utilize a standard risk assessment matrix to prepare the plan. As we go through it, I’ll cite some of the factors that caused us to choose the audit.
The first new audit is the purchasing function. This has not been audited in recent years. And additionally, the director of the division recently retired.

The next audit is the Section 8 program. This has also not been audited recently. The program has a high number of transactions and some susceptibility to fraud.

The physical inspection function within the Compliance Division is the next audit. This section ensures that developments are habitable, well-maintained, ready for occupancy, that they follow the appropriate accessibility standards, and that they comply with program rules and regulations.

The next audit is the Section 811 program, and it’s relatively new. It started in 2015. It has never been audited. The program is for low-income individuals with disabilities.

Next on the plan is the Continuity of Operations Plan, or COOP, and it addresses such things as business continuity and disaster recovery. Agencies are required to have a COOP, per the Texas Administrative Code.

For the 2020 Audit Plan, we have just one carryover project, and that was the Multifamily Bond
audit. This audit was suggested by Mr. Braden back when we presented the single-family bond audit.

So I’ll be glad to answer any questions as far as the 2020 Audit Plan, and then I’m going to present it later this morning for approval to the full Board.

MS. THOMASON: Okay. Any questions? Leo?

MR. VASQUEZ: I have a question on the Section 8 audit.

MR. SCOTT: Okay.

MR. VASQUEZ: We’re really, in this audit, only looking at the internal department administration of that.

MR. SCOTT: That is correct.

MR. VASQUEZ: We’re not really looking at the rubber meets the road -- all the individual jurisdictions?

MR. SCOTT: That is correct. That program is audited fairly thoroughly in that way by the federal monitors. And plus, we have a fraud hotline and we get plenty of information through that about what’s going on out in the areas.

MR. VASQUEZ: Okay. I just want to make that clarification. That’s --

MR. SCOTT: Yes.

MR. VASQUEZ: -- internal to us.

MR. THOMASON: Okay. Thank you, Mark. Our next discussion item is the draft of the Computation of

ON THE RECORD REPORTING
(512) 450-0342
Housing Finance Division Total and Unencumbered Fund Balances and Transfers to the Housing Trust Fund. Mr. Ernie Palacios will present that.

MR. PALACIOS: Good morning, Madame Chair and Members of the Committee. For the record, I’m Ernie Palacios, Director of Financial Administration for the Department.

Action Item 3 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 that are not subject to any restrictions, precluding their immediate transfer to the Housing Trust Fund.

Such restrictions include being subject to a state or federal law, or other applicable legal requirements, such as the General Appropriations Act, being held in trust subject to the terms of the bond indenture, or having been designated by the Department’s governing Board for a specific use or contingency.

Pursuant to Texas Government 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, meeting certain
threshold and criteria. The statute also requires the
Department to undergo an annual independent audit of its
unencumbered fund balances and to transfer excess funds to
the Housing Trust Fund, based on the calculations set
forth in the statute.

The draft computation of unencumbered fund
balances report as of August 31, Exhibit A, reflect the
funds held by the Department deemed to be unencumbered,
150,172. The calculation of bond debtedness report,
Exhibit B, only includes bonds and notes outstanding, not
rated in the highest long-term debt rating category, to
calculate the 2 percent threshold of 13,539,502. On the
list of bond ratings, Exhibit C, are from rating agencies.

So the unencumbered fund balance is less than
the 2 percent 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, 2019, yielded a zero
transfer to the Housing Trust Fund. Again, this report is
included for review in the year-end financial audit
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 Fund Balances and Transfers to the Housing Trust Fund report. The independent audit report along with the State Auditor’s opinion will be presented at the next Audit and Finance Committee meeting in March.

This completes my remarks. I’m available for any questions that you may have.

MR. VASQUEZ: Since we're pressed for time only -- it’s one question. I was actually curious, are these funds all co-mingled, or is it actually in nine separate funds?

MR. PALACIOS: They're all in separate funds. They’re not commingled.

MR. VASQUEZ: Oh, so I assume it should be relatively easy, then, to figure out --

MR. PALACIOS: Yes. Yes.

MR. VASQUEZ: -- which is aligned to which one.

MR. PALACIOS: Correct.

MR. VASQUEZ: Okay. All right. That’s good. I’m glad they’re not.

MR. PALACIOS: No, no, no. Definitely have a lot backed against them.

MS. THOMASON: Thank you very much. Since we can’t take action, this one’s the item that will be on the
consent agenda?

MR. PALACIOS: Right. It will be on the consent report agenda.

MS. THOMASON: Okay. Thank you. Thank you.

Next we do have four items that really are report items. The first is the Internal Audit Report of Performance Measures at TDHCA, and that will be presented by Mark.

MR. SCOTT: Thank you, Madame Chair. The State of Texas uses a performance measure system for state agencies. These measures are reported to the LBB and audited by the State Auditor’s office. The SAO has very prescriptive methodologies for maintaining and reporting performance measures.

The primary objective for this internal audit was to help the agency be ready for any future SAO audit. When the SAO issues a report that says an agency’s performance measures are inaccurate or can’t be certified, it sounds very bad. And I’ll just say, all you have to do is Google recently some of the reports that came out on another agency.

The SAO does not report on how well an agency meets their targets. They just look at the accuracy and documentation. Performance measures cover things like number of people served, cost efficiencies, numbers of inspections performed, amounts of funds provided.
They are reported to the LBB as far as whether the measures were met, so the Legislature can monitor agency performance. As for this internal audit, TDHCA, we noted that there was a recent establishment of a database dedicated to the performance measure function, and our review of the measures indicated that they were reliable based on the SAO’s testing methodology.

We were able to recompute them and verify accuracy. They would be -- according the SAO’s system, they would be certified with qualification. To meet the SAO’s strict certified standard, some further controls were recommended.

The recommendations related to strengthening policies and procedures and management reviews of performance measure reporting.

So if there’s any questions?

MS. THOMASON: Any questions? Leo?

MR. VASQUEZ: I have a couple questions on this. This may extend beyond just the internal audit function, but actual operations of the department areas. I’m curious, does our audit do anything to establish whether these metrics that we’re trying to measure are useful in any way?

MR. SCOTT: That’s a very --

MR. VASQUEZ: We want to help at least 10
people in the state of Texas.

MR. SCOTT: That’s an excellent question.

MR. VASQUEZ: Great. We met that. But in reality, should we be helping 100,000 people?

MR. SCOTT: No. That’s an excellent question, and it wasn’t entirely the scope of this audit. There is a group that works on that. I think Brooke Boston would be the best person to answer that question.


So to answer your question, are they helpful?

MR. VASQUEZ: Okay. Let me break up into two subparts. Do we evaluate whether the metrics, the targets that we’re trying to hit are reasonable?

And then what do we do as a department -- and this is really, I understand, a really broad question, but -- what do we do to use this information to improve our performance? Or reevaluate this where those targets should be and such?

MS. BOSTON: Right. So the LBB process for performance measures development is actually fairly collaborative with the agencies. And so every two years, the LBB will reach out to us and ask us, Do you want your measures -- so not the actual target, but the measure itself -- do you want those changed at all?

So over the years, we have done that when we
have thought the answer to the question was, this isn’t a very useful measure. We have some that aren’t super impactful, like having a 100 percent complaint response rate.

Well, because we respond to them all, it’s always 100 percent. So they do want to know how many complaints we’re getting and they want to see that it’s 100 percent, but it’s not like you really can go over the measure. So it’s helpful. It shows we’re doing something we’re supposed to be doing.

But, for example, with the Community Affairs programs. They would be asking us, how many people did you help? How many people got touched by a CSBG dollar, for instance?

We would answer with just raw numbers, and so that wasn’t particularly helpful because you don’t have much of a sense. You could have just maybe given them one type of assistance and they’re still in poverty.

So over time we’ve continued to work with the LBB on trying to tailor that program’s measure to be something more meaningful. Like did they get out of poverty and stay out of poverty? So, yes, I think it’s -- from my perspective, at least, it’s nice that it’s collaborative, because if we find that a tool is fairly useless or one of the measures is useless, they let
us -- usually they’ll let us take it away as long as we replace it with something else.

So the question about how useful the information is, and does it reveal if we want changes kind of feeds into that. The targets themselves we also are given an opportunity to revise, so if we’ve seen -- now, you have to do it almost two years out. So it could be that we see an uptick in a federal funding source.

We let the LBB know, we raise the target, and then the following year we might see a federal decrease. So now we have a target that’s higher than what we can do something with.

However, even in cases like that we -- there’s a place in our quarterly performance measures where we’re allowed to explain any variance. So if we’ve gone over, we have the explanation there. We’re having a boom year, or we say federal funding decreased. So does that get to --

MR. VASQUEZ: Yes. Somewhat.

MS. BOSTON: Okay.

MR. VASQUEZ: Maybe Bobby can help.

MR. WILKINSON: Bobby Wilkinson, Executive Director. There’s a little bit of nuance to it. To remove a measure or to add a measure, traditionally, the LBB analyst and the assigned budget and policy analyst
from the Governor’s office would have to agree.

LBB -- its staff, we’re talking -- is somewhat hesitant to change them up too often and remove them because they’re the keepers of this data and they want to see historical trends. My remarks are about all agencies, not specifically TDHCA. There was an initiative -- I think we did in ’15 and ’17 from the Governor’s office -- to just try to reduce the overall number of performance measures to try to make them more meaningful.

Also, you have the key measures, which are listed in Appropriations Act, and the non-key, which have less visibility. How often do legislators in a hearing ask about performance measures? Not very often.

Typically when performance measures would be spoken of, it would be in a down-budget year and if you cut us 4 percent, we’re not going to be able to meet our performance measures. That’s the largest discussion of performance measures I’ve seen in Senate Finance and House Appropriations and such.

MR. VASQUEZ: Just to reclarify, I guess, Mark, our audit purpose is not necessarily evaluating whether we hit the performance measures. It’s the -- are we calculating and measuring them accurately?

MR. SCOTT: As part of our background, I scan through whether we were hitting them and looked at the
explanations of variance and so forth. But the fact that
the SAO certification is so important, we spend our time
on that.

Now, we could do an audit where -- I’ve been
asked by other agencies to do an audit where I evaluated
the usefulness of the measures and how well the agency was
meeting the measures. But as I said, Brooke has a group
that does that, so I don’t know if you all would want me
to do that or not.

MR. VASQUEZ: It’s just, I think, helpful for
the Board to understand where we lie on that spectrum of
just accuracy of tracking to usefulness and implementation
of findings and results based on that.

MR. WILKINSON: I could bring you something on
performance measures, and then -- so understand as far as
changing it, it’s a collaborative process with the
Governor’s office and LBB.

MR. VASQUEZ: And again, data’s great, but, you
know, what are we doing with it is really how we’re making
it better. Thank you.

MR. SCOTT: Thank you for your question.

MS. BOSTON: And I would just mention, too,
because we produce something in most cases -- we’re
producing a unit or a voucher or -- I mean, our measures
are --
MR. VASQUEZ: Quantifiable.

MS. BOSTON: Yeah. So they really are a picture of what we do. So whereas I could see in some agencies the measures might not seem like they’re solidly connected to what you what do, with us, I feel like they’re a pretty accurate measure of what we do. We try to then make sure the targets are accurate.

From the compliance side, we measure like numbers of monitoring visits and we have a goal, and then when you hit that goal. So for us, I feel like the measurement of the widget, so to speak, happening is a pretty good measure of what we’re doing.

MR. VASQUEZ: Yes.

MS. THOMASON: Thank you, Brooke.

Our next report item is the Internal Audit of the Enforcement Committee to be presented by Mr. Scott.

MR. SCOTT: Thank you, Madame Chair. The Enforcement Committee is a mechanism established by Rule 2.302 to facilitate the resolution of outstanding noncompliance issues related to state and federally funded programs that are administered by TDHCA.

The focus of the Committee is to promote full compliance and to deter future noncompliance, rather than to create a punitive process. Administrative penalties and debarment are tools used by the Committee to achieve
compliance. The Committee’s role is to make recommendations to TDHCA’s Executive Director regarding enforcement actions for his review and approval before they’re presented to the Board for the Board’s approval.

As part of our review, we looked at two -- we audited two master files from the administrative referral phase to its final resolution and found no areas of noncompliance with the rules under which the Committee operates. We made two recommendations to improve consistency and reliability of the operation, as well as ensuring the continuity of the functions.

Management agreed with our recommendations and will be evaluating different options that would meet our recommendations.

MS. THOMASON: Any questions? Leo? No?

Okay. Our next report item is the Presentation and Discussion of the Internal Audit Annual Report. Mark will present that, also.

MR. SCOTT: Thank you, Madame Chair. Yes, the annual report on internal audit. This is a statutorily required report, which reconciles audits on the plan to the audits completed we have to send to the oversight bodies. I guess Bobby maybe used to get those at the Governor’s office.

Management -- so we completed nine of the ten
reports on the plan. The multifamily revenue bond audit
is the only carryover. That, as I mentioned earlier, when
we did the single-family bond audit, Mr. Braden had
requested we do that audit.

MS. THOMASON: Yes. Okay. Are there any
questions with this item? Okay. Then moving on to our
final report item. That is the Status of the External
Audit Activities, and Mr. Scott will update us on those.

MR. SCOTT: Okay. Yes, since the last Audit and
Finance Committee meeting, the State Auditor’s office has
continued work on the financial statement portion of the
statewide audit. They also audit the computations and
funds that were Ernie’s item on the unencumbered balances.

That audit’s going well. I’ve spoken with
them. While they were doing this audit a few months ago,
they also issued two reports related to the financial data
schedule that’s prepared for HUD.

One was what’s called a relation-to audit, in
which they opine that the schedule was prepared in a
consistent manner with the other TDHCA financial
statements. For auditors, that’s a very important report.
For non-auditors, maybe not.

The other was a report on internal controls
over the input of the data that goes into that schedule.
That was also a clean report.
They were also doing this audit statewide on classifications of information technology staff, and that report will come out fairly soon. It will be a report not just on this agency, but on several agencies. But all the Board members will probably get a copy of the report.

They had a few systems analysts they looked at and they thought that they should be reclassified as system support staff, as I understand it. I also understand that there’s no resultant salary changes.

Then, okay, the State Auditor’s office -- when they do what’s called the statewide audit, they hire a contractor, a big accounting firm, to do the federal compliance component of the statewide audit.

They replaced KPMG with CliftonLarsonAllen, CLA. CLA is the firm that is working on it now. They are auditing LIHEAP and CSBG. This audit’s also going well, so far.

So the SAO will issue the reports in either late December or early January. CLA, since they have to report on the entire state, all the different federal programs, their audit report usually lags a few months behind. So they’ll probably issue the report February or March. Something like that.

So that concludes my presentation on the external audit. I’ll be happy to answer any questions.
MS. THOMASON: Okay. Any questions?

MR. VASQUEZ: I’m good.

MS. THOMASON: Okay. If we have no questions, then that concludes our meeting at 8:23. Thank you very much.

(Whereupon, at 8:23 a.m., the meeting has adjourned.)
CERTIFICATE

MEETING OF: TDHCA Audit & Finance committee
LOCATION: Austin, Texas
DATE: December 12, 2019

I do hereby certify that the foregoing pages, numbers 1 through 21, inclusive, are the true, accurate, and complete transcript prepared from the verbal recording made by electronic recording by Elizabeth Stoddard before the Texas Department of Housing and Community Affairs.

DATE: December 17, 2019

(Transcriber)

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

ON THE RECORD REPORTING
(512) 450-0342