TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

AUDIT AND FINANCE COMMITTEE MEETING

VIA TELEPHONE AND WEB LINK

March 26, 2020
8:10 a.m.

MEMBERS:

SHARON THOMASON, Chair
PAUL A. BRADEN, Member
LEO VASQUEZ, Member
AGENDA ITEM

CALL TO ORDER 3
ROLL CALL
CERTIFICATION OF QUORUM

ACTION ITEMS:

ITEM 1: Presentation, discussion, and possible action to approve the Audit and Finance Committee Minutes Summary for September 5 and December 12, 2019 3

ITEM 2: Presentation, discussion, and possible recommendation of approval of the State Auditor's Office audit of the TDHCA Financial Statements 4

REPORT ITEMS:

ITEM 1: Presentation and discussion of Internal Audit of Multifamily Bond Program 7

ITEM 2: Report on the status of the External Audit activities 12

PUBLIC COMMENT ON MATTERS OTHER THAN ITEMS FOR WHICH THERE WERE POSTED AGENDA ITEMS none

EXECUTIVE SESSION none

OPEN SESSION --

ADJOURN 14
MS. THOMASON: Good morning. Welcome to the March 26, 2020 meeting of the Texas Department of Housing and Community Affairs Finance and Audit Committee. This meeting is being conducted via telephone conference.

I am going to go ahead and take roll.

Mr. Braden?

MR. BRADEN: Here.

MS. THOMASON: Mr. Vasquez?

MR. VASQUEZ: Here.

MS. THOMASON: Okay. And I am here, so we do have a quorum.

We'll move on to our first action item. It is the approval of the minutes from the September and the December 2019 meetings.

In the September meeting the director of Internal Audit, Mark Scott, presented a report to us on the following Internal Audit items: the internal audit of the compliance resolution process, the Internal Audit review of the implementation status for prior audit findings and recommendations, as well as the Internal Audit follow-up visits of the migrant labor housing facilities. Mr. Scott also discussed recent internal and external audit activities.

At the December meeting we did not have a
quorum so we did not vote on any items but proceeded to report those items that included discussion of the 2020 Annual Internal Audit Plan and presentation of the internal audit of the TDHCA performance measures.

The report from the Audit and Finance Committee was accepted by the full Board in the December meeting. Additionally, the Annual Audit Plan was approved by the full TDHCA Board as well.

So with that, may I have a motion to approve the minutes from both the September and December meetings?

MR. VASQUEZ: Move to approve both meetings.

MS. THOMASON: Thank you.

A second? Can I have a second, Paul?

MR. BRADEN: Second.

MS. THOMASON: That was a second for approving the Committee meeting minutes from September and December, so all in favor aye.

(A chorus of ayes.)

MS. THOMASON: So action item number 1 passes. Thank you.

The next item is presentation by the State Auditor's Office of the annual audits of the TDHCA financial statements. I believe that we have Robert Pagenkopf with us this morning online.

MR. PAGENKOPF: Good morning, Madam Chair,
members. My name is Robert Pagenkopf, and I'm a project manager with the State Auditor's Office. This morning we'll be discussing the results of our most recent financial audits of the Department.

As this is my first year to manage this project, I quickly learned that there were a number of deliverables related to this specific project. As part of that we issued two unmodified opinions as part of the audit. One was for the Department's basic financial statements for fiscal year 2019 and one was for the Department's Revenue Bond Program financial statements for fiscal year 2019.

In both cases we determined that these financial statements were materially correct and reported in accordance with Generally Accepted Accounting Principles, or GAAP. In other words, we determined that the statements as issued were not misleading to the reader of those financial statements.

Additionally, we also concluded that the Department's Housing Finance Division's computation of unencumbered fund balances complies with Texas Government Code Sections 2306.204 and 2306.205.

We also issued a report on the Department's compliance with the Public Funds Investment Act for the fiscal year ending August 31, 2019. The result of that
work disclosed no issues of noncompliance or other matters that are required to be reported under Government Auditing Standards.

I would also like to briefly mention a communication that you all received at the end of our audit on December 20, 2019. It was a document with a long title that started with "Required communication with those charged with governance." I wanted to quickly point out that that document states that we did not identify any misstatements that require correction and that we did not encounter any disagreements with management during the audit.

Prior to the fiscal year 2019 audit work, we also issued an unmodified or clean opinion on the Department's fiscal year 2018 financial data schedule as it related to fiscal year 2018 basic financial statements.

Additionally, we performed agreed-upon procedures and determined that the electronic submission of certain information to the U.S. Department of Housing and Urban Development's Real Estate Assessment Center agreed with related hard copy documents.

Lastly, I would like to thank Mr. Cervantes and his team, the entire Financial Administration Division, Ernie, Joe in accounting, the Bond Finance and Information Security divisions, as well as Mr. Scott in Internal Audit.
for their assistance and cooperation throughout the audit. They were a great help, and I know we took up a lot of their time, so really do appreciate that.

Other than that, that includes my comments, and I'd be happy to address any questions that you may have.

MS. THOMASON: Thank you, Robert.

Leo, Paul, do you have any questions about the State Auditor's Office report?

MR. VASQUEZ: No questions. Sounds good.

MR. BRADEN: No questions.

MS. THOMASON: Okay. Thank you.

Seeing that we don't have any questions, may I have a motion to recommend approval of the State Auditor's Office report to the full Board?

MR. BRADEN: So moved.

MS. THOMASON: And a second?

MR. VASQUEZ: I second.

MS. THOMASON: Okay. All those in favor aye.

(A chorus of ayes.)

MS. THOMASON: Great.

Our next item is a report item, the internal audit of the TDHCA Multifamily Bond Program, and I know Mark was having some difficulties joining us this morning. Is he on, or will Neda be reporting on that item?

MS. SANJAR: I'm on the phone right now but I
know he is still trying to connect so let me just double-check with him for one second. Otherwise, I can present his item.

MS. THOMASON: Okay. Thank you.

MS. CANTU: Neda, we're still working -- this is Naomi Cantu over at TDHCA -- we're still working on getting Mark connected, so if you want to go ahead.

MS. SANJAR: Okay. We'll do that then.

Well, good morning again, everybody, and I'm sorry for the technical difficulty that Mark can't present this item himself.

Internal audit of the Multifamily Bond Program.

The SAO's audit of the TDHCA's financial statements that was just presented included an audit of the Revenue Bond Program and the related financial statement. The audit is required by the Public Fund Investment Act, Texas Government Code 2256.

The Revenue Bond Program as a financial entity, where TDHCA is the conduit issuer, is well described in the SAO's audit report. TDHCA’s Internal Audit Division is required to audit the operational internal controls of the agency's major programs.

Our audit report lays out the roles and responsibilities of TDHCA and other parties for the Multifamily Bond Program. The bondholders are paid
ultimately by the property developers from cash, mortgage payments or income from mortgage-backed securities. The program does not create a liability to TDHCA or the State of Texas.

We evaluated and tested various controls of the Multifamily Bond Program. We found overall that the program is well run with good controls in place internally and that the outside parties are appropriately monitored. The report outlines the operational activities of the program.

We found a few things that we wanted to put on the radar that we put as recommendations such as cross-training and procurement. One thing that may be effective within the next three years is a change in the Government Accounting Standards, or GASB standards, related to the conduit bond issuers.

Under the new GASB standard 91, TDHCA will not record certain assets and liabilities that are related to the Revenue Bond Program. The financial reports will look quite different when the new GASB is implemented. The Revenue Bond Program showed $1.7 billion as liability for FY 2019, of which $938 million is related to the Multifamily Bond Program. Under the new GASB these amounts should be shown as a footnote based on our understanding.
That concludes the presentation of our audit of the Multifamily Bond Program. Are there any questions?

MR. BRADEN: Actually, I have a question. This is Paul Braden.

When is the effective date of that GASB change?

MS. SANJAR: My understanding is there is no exact effective date, but I can double check on that for you. What we were told, it's sometime within the next three years, but I can check on that for you.

MR. BRADEN: So we don't know when it will show up in our accounting statements yet. Right?

MS. THOMASON: Sometime in the next three years.

MS. SANJAR: I'm sorry. I went offline for a second because I was trying to reach out to Mark to confirm that, and yes, it is within the next three years.

MR. VASQUEZ: I have a question.

MS. SANJAR: Our understanding is that by latest FY 2022.

MS. CANTU: This is Naomi Cantu, moderator. I believe Suzi Nelson has something to say. Again, if you have a question or would like to chime in please raise your hand in the Gotowebinar attendee and then we can see that you want to speak.

Okay, Ms. Nelson, you can speak.
MS. NELSON: Hi. This is Suzi Nelson with Internal Audit.

And, Paul, relative to your question, the feedback I got from the Finance Division, the actual GASB is effective December 31, 2020, that you can start implementing it; however, because of implementation timelines and waiting for guidance from the Comptroller's Office, it looks like at the latest fiscal year '22. So you'll have a couple of cycles before this comes in, and I'm sure that they will alert us before it happens.

MR. BRADEN: Okay. Thank you.

MR. VASQUEZ: This is Leo. I have a question, and I don't know who can answer it.

So is this effectively creating off balance sheet debt that we're moving into a footnote?

MS. NELSON: Okay. Can I take that one? This is Suzi.

MR. VASQUEZ: Sure.

MS. NELSON: So effectively, over time, due to the conduit nature of the securities, meaning that the ultimate liability through all the agreements goes through to the owner-developer. So it's just clarifying the reporting across all governmental entities because some government entities, like TDHCA, have been reporting it fully on their books even though the State of Texas nor
TDHCA has any liability related to the security. So the
GASB was simply trying to make it consistent across all
agencies how they would report it.

MR. VASQUEZ: Okay. So we were just the
conduit anyway, and we have no liability as a state or a
department.

MS. NELSON: That is correct.

MR. BRADEN: I actually think this is a real
positive change and more accurately reflects what those
bonds represent, so I was glad to hear this.

MR. VASQUEZ: Sounds good.

MS. NELSON: I agree.

MS. THOMASON: Thank you. If we have no
further questions, we will move on.

Our other report item will be a discussion of
the recent external audit activities, and if Mr. Scott has been able to join us, he will present that, otherwise
Neda.

MS. SANJAR: Yes, ma'am. I think he hasn't
been able to join us yet, so the next item is external
audits. There were four audits of TDHCA issued since the
last Audit and Finance Committee meeting. These reports
are posted on the SAO website and sent out to state
leadership offices.

An audit of the HR classification of IT staff
was issued in January. It was report number 20-701. For
TDHCA there were a few minor reclassifications that were
recommended by SAO and implemented by TDHCA management.

The federal portion of the statewide single
audit was completed in February by Clifton Larson Allen,
CLA, audit number 20-555. At TDHCA they audited the Low
Income Housing Energy Assistance Program, or LIHEAP.

They also audited the Community Services Block
Grant, CSBG. There was an issue with LIHEAP related to
manual entry of some data that as not correct when first
audited. The corrections were made and program management
is moving to automate the process.

The financial statement portion of the
statewide audit, also report number 20-555, was issued in
February by the State Auditor's Office. This is an audit
of the state combined annual financial report (CAFR), and
it includes TDHCA's financial statement.

The stand-alone audit of the TDHCA financial
statements, report number 20-016, was issued in December.
This was discussed by the SAO staff earlier today. It
covered the Revenue Bond Program and had a different scope
than the statewide financial statement audit. Both audits
resulted in unmodified, or “clean,” opinions on TDHCA's
financial statements.

And that concludes the external audit
presentation. If there are any questions, I will try to answer or reach out for answer to Mark.

MS. THOMASON: Are there any questions on those four audits?

MR. VASQUEZ: Sounds good.

MS. THOMASON: Okay. Thank you.

MS. SANJAR: Thank you.

MS. THOMASON: All right. If there are no more questions or items, then this meeting is adjourned at 8:26 a.m.

(Whereupon, at 8:26 a.m., the meeting was adjourned.)
CERTIFICATE

MEETING OF: TDHCA Board Audit & Finance Committee
LOCATION: Austin, Texas
DATE: March 26, 2020

I do hereby certify that the foregoing pages, numbers 1 through 15, inclusive, are the true, accurate, and complete transcript prepared from the verbal recording made by electronic recording by Latrice Porter before the Texas Department of Housing and Community Affairs.

DATE: March 31, 2020

(Transcriber)

On the Record Reporting
7703 N. Lamar Blvd., #515
Austin, Texas 78752