

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

AUDIT AND FINANCE COMMITTEE MEETING

Capitol Extension
Hearing Room E2.030
1100 Congress Avenue
Austin, Texas 78701

September 1, 2022
9:30 a.m.

MEMBERS:

AJAY THOMAS, Chair
LEO VASQUEZ, Member
ANNA MARIA FARIAS, Member

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EXECUTIVE SESSION	
OPEN SESSION	
ADJOURN	

P R O C E E D I N G S

9:36 a.m.

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2
3 MR. THOMAS: Good morning, everybody. Welcome
4 to the September 1st meeting of the Audit and Finance
5 Committee. I want to take this opportunity to welcome a
6 new member to the Committee. Board member Ana Maria
7 Farias. Welcome to the Committee. Glad you are a member.
8 We will take a quick roll.

9 Ms. Farias.

10 MS. FARIAS: Here.

11 MR. THOMAS: Mr. Chairman.

12 MR. VASQUEZ: Here.

13 MR. THOMAS: Excellent. All members
14 represented.

15 Today's agenda, there are approval of two sets
16 of minutes from the previous meetings -- the Audit and
17 Finance Committee meetings that took place on June 16, and
18 also on March 10 of this year -- since we did not have a
19 quorum at the June meeting to approve those March minutes.

20 At the March meeting of the Audit and Finance
21 Committee, the State Auditor's Office presented as an
22 action item their report on the 2021 TDHCA financial
23 statements. The report was recommended for approval to the
24 full Board.

25 During that meeting, Mr. Scott, Director of our

1 Internal Audit presented two report items. The internal
2 audit of the information technology general controls and
3 the internal audit of the previous participation review
4 function at TDHCA, as well as a report on the status of the
5 internal and external audit activities.

6 At the June 16 meeting of the Audit and Finance
7 Committee, all agenda items were presented as report items,
8 and the Committee did not vote on any items, since we did
9 not have a quorum.

10 At that meeting, Mr. Joe Guevara, Director of
11 Financial Administration presented the fiscal year 2023
12 operating budget and the fiscal year 2023 Housing Finance
13 Division budget. Mr. Scott presented the Internal Audit
14 report of the physical inspection processes for TDHCA
15 funded properties and the Internal Audit report on the
16 Texas Home Ownership Program. He also provided an update
17 on internal and external audit activities.

18 The minutes are in your packets. May I have a
19 motion to approve the minutes?

20 MR. VASQUEZ: So moved.

21 MS. FARIAS: Second.

22 MR. THOMAS: We have a motion made by Chairman
23 and second by Ms. Farias. All members voting, say aye.

24 (A chorus of ayes.)

25 MR. THOMAS: Opposed?

1 (No response.)

2 MR. THOMAS: The motion passes. Moving to our
3 report items. The first report item on today's agenda is
4 the presentation and discussion of the follow-up Internal
5 Audit of Migrant Labor Housing Facilities Inspection
6 Processes, and this will be presented by Mr. Scott.

7 MR. SCOTT: Thank you, Chairman. This audit was
8 a continuation of the two audits we conducted in 2019.
9 Internal Audit review of TDHCA's licensing, inspection, and
10 outreach for migrant labor housing, and follow up review of
11 the migrant labor housing.

12 Migrant labor housing inspection rated high on
13 the 2022 Annual Risk Assessment, due to legislative and
14 public interest in this function. In addition, this
15 function has been moved under new management and a new
16 division at TDHCA. There was also a new rule governing
17 this function.

18 For this audit, we reviewed and evaluated the
19 new rule and changes that have taken place since our last
20 reviews of the program. We also visited a total of ten
21 housing facilities in different parts of Texas. The
22 housing facilities that we visited were a mix of apartment
23 complexes, single family homes, hotel and motel, and
24 manufactured homes and trailers.

25 The condition of these facilities vary greatly

1 from one location to another. Some of the facilities were
2 in great shape, and seemed to be relatively new buildings.

3 And some, such as one in South Texas, did not
4 seem to meet the safety standards, including smoke and fire
5 alarms, functioning fire extinguishers, and they had
6 exposed electric wires.

7 This specific facility was given a virtual
8 inspection by TWC and received a Passing report. The
9 applicant submitted TWC's report along with their self-
10 certificate form to TDHCA to obtain their license.

11 Based on our observation of the inspection and
12 licensing processes, and the conditions of some of the
13 facilities that we visited we have made recommendations for
14 improvement. Management agreed to some of our
15 recommendations, and they accepted the risk on others, due
16 to lack of financial resources.

17 So, that is my presentation on the migrant labor
18 housing inspection audit. So, I will be happy to answer
19 any question there may be.

20 MR. THOMAS: Members have any questions?

21 MR. VASQUEZ: I just sort of have a general
22 question. So, do you feel with numbers, locations or sites
23 that were able to review -- will that number go up next
24 year?

25 MR. SCOTT: I take direction from you guys.

1 MR. VASQUEZ: Well, I mean, from the Department
2 folks who are actually doing the regular inspections; not
3 necessarily your audit of that process.

4 MR. SCOTT: right now, that is being done under
5 an MOU with Manufactured Housing Division. And Wendy is
6 here. She is over the inspection processes for the tax
7 credit properties.

8 And at the last meeting, I did an audit of the
9 tax credit properties inspections. And I thought that our
10 review indicated that those were very well done.

11 This one we do via MOU with Manufactured Housing
12 Division. And so they -- I guess I would need somebody
13 from management to answer that question. But, yes.

14
15 MR. WILKINSON: Bob Wilkinson, Executive
16 Director. Normally, I would have Homer come up. He
17 retired yesterday.

18 MR. VASQUEZ: Yes. I know.

19 MR. WILKINSON: We -- I think it is 100 percent
20 inspection. It is not selective. It is just if they have
21 an H-2A Visa with the Texas Workforce Commission, we take
22 that workforce inspection to where we are not double-
23 inspecting everyone.

24 And otherwise we do inspect them. It is through
25 an MOU with the Manufactured Housing Division. The reason

1 being they already had these inspectors that are inspecting
2 the installation of manufactured housing all across the
3 state, so they are already in these rural areas.

4 And I believe they are asking for some more
5 money from us, and the number of inspections will go up
6 because the number of licensees will go up. There has been
7 a huge explosion in the number of licensees, because
8 several years ago, before I was in this role, I guess the
9 TDHCA's program found TWC's program, which was obviously
10 very similar in their licensing for you know, migrant
11 farmer housing.

12 And so it was an obvious list that should also
13 be under state licensure, just looking at the statute. So
14 I mean, it has gone up from 40-something to however many
15 hundred now. I don't know if we will see that same rate of
16 explosive growth, but it will increase.

17 MR. VASQUEZ: But, and again, I guess I am
18 hearkening back to times before. Yes. The Board members
19 of yore.

20 MR. SCOTT: I mean, it is true the number of
21 licensed facilities has increased greatly.

22 MR. VASQUEZ: Right. And I remember we went
23 through all this process to get the advertising out, for
24 lack of a better word. But the -- you are saying that it
25 is -- the sites are 100 percent inspected by --

1 MR. SCOTT: By TWC or by Manufactured Housing
2 Division, you know, through an MOU with us. It is not like
3 tax credit properties where --

4 MR. VASQUEZ: Right. Where it is just --

5 MR. SCOTT: -- once every three years.

6 MR. VASQUEZ: Yes.

7 MR. SCOTT: Yes.

8 MR. VASQUEZ: Okay. Well, that is good to hear.

9 And you are saying what they are doing, their audit of
10 those inspections is --

11 MR. SCOTT: Well, yes. We were doing an audit
12 to test the inspection processes. And you know, the ones
13 in Central Texas looked really good. Some of the other
14 ones, closer to the border, not so good, as far as -- one
15 of the ones we looked at had a virtual inspection done, and
16 we described in the report what we found. So, just, I
17 think, if we had some kind of quality assurance process in
18 place, when we get -- where we rely on these reports that
19 we get in from other agencies, that would help.

20 MR. VASQUEZ: Well, again, I just -- a couple of
21 years back, when this kind of first -- or came around last
22 time, even though we were not the ones specifically
23 designated to do the inspections, the physical
24 inspections --

25 MR. SCOTT: Well, we are.

1 MR. VASQUEZ: You know, we are, kind of. It
2 comes back to us. So just having that monitoring, to make
3 sure that it is being done right.

4 MR. WILKINSON: We work with the Workforce
5 Commission, probably through the Governor's Office, to fix
6 some of these issues.

7 MS. FARIAS: A quick question. The actual
8 housing, whether manufactured or otherwise, are those owned
9 by Texans, or are they owned by someone from another state?

10 MR. WILKINSON: They would have to be licensed
11 either way, whatever the homeownership structure. I would
12 imagine most of these are owned by Texans.

13 MR. SCOTT: Yes. Most of the ones we looked at
14 are owned by the farmers.

15 MS. FARIAS: Okay.

16 MR. THOMAS: A general question. Mr. Scott, in
17 your remarks and your report, you had stated that we made a
18 series of recommendations to the audit. Some of those were
19 accepted, possibly implemented.

20 But some of them, due to costs or for other
21 reasons were not. When you noted in the report that there
22 were some conditions that questioned safety standards or
23 other regulations, which ones weren't necessarily accepted?
24 And do we have the mechanism to follow back up at a later
25 time?

1 MR. SCOTT: Again, going back to the model of
2 the tax credit properties that receive inspections, to
3 supplement what they do, they have outsourced vendors that
4 do some of the inspections. So that might -- we were
5 thinking that might help with this program as well.

6 MR. WILKINSON: And we like using vendors. But
7 there is a rider that gives us, I think it is like 30 grand
8 a year to do this, run this program.

9 Where it is going to -- it just increased to 50,
10 or we are asking for 50 a year. But it is just not enough
11 to really beef up what we can pay for inspection.

12 MR. VASQUEZ: Okay.

13 MR. WILKINSON: It is kind of a money loser for
14 us, for the program right now.

15 MR. VASQUEZ: Sure.

16 MR. THOMAS: Very good. Any other questions
17 from members?

18 (No response.)

19 MR. THOMAS: Thank you, Mr. Scott. The next
20 report item is the presentation and discussion of internal
21 audit of Information Technology (IT) application controls,
22 and this report will be presented by Mr. Scott as well.

23 MR. SCOTT: I thank you, Chairman. Okay. Yes,
24 the IT applications controls audit focused on similar areas
25 as the IT general controls audit, but at an application

1 level. Application controls apply to systems, components,
2 processes, and data for a given technology application.

3 Application controls were reviewed for selected
4 applications used by TDHCA and Manufactured Housing to
5 manage mission critical program and administrative data and
6 activity. Application controls are related specifically to
7 critical information systems, software programs that are
8 necessary for the accurate and proper processing of
9 critical business functions on the software. OIA
10 reviewed the IT applications controls in place at TDHCA and
11 found that in general application controls are functioning
12 as designed. We made some recommendations for improvement
13 and highlighted the Legislative Appropriations Request made
14 by TDHCA for the 2024, 2025 cycle.

15 We also noted that one of the critical Microsoft
16 programs that TDHCA relies upon, will not to be supported
17 by the vendor in 2025, and it would be completely retired
18 in 2026.

19 MR. THOMAS: Thank you, Mr. Scott. Any
20 questions from members on this report item?

21 (No response.)

22 MR. THOMAS: Very well. Thank you. And then
23 the last item on today's agenda is the report on the status
24 of Internal and External Audit activities. Mr. Scott is up
25 for this item as well.

1 MR. SCOTT: Thank you, Chairman. On the
2 internal audit plan, we have started work on the Texas
3 Rental Relief Program, procurement of administrative
4 contracts audit. And we'll be starting soon on the
5 follow-up audit of the manufactured housing inspection
6 process, as that is for the manufactured homes.

7 With these two audits, our annual audit plan for
8 2022 will be completed. We have also started on our annual
9 risk assessment process. And we will be sharing with the
10 Committee and the Board in the next few weeks the process
11 and the spreadsheet.

12 And we'll ask for input from the Board,
13 management, and State Auditor Office, and so forth. We
14 plan to present the proposed 2023 internal audit annual
15 work plan at the December meeting of the Audit and Finance
16 Committee.

17 On the external audit side, the State Auditor's
18 Office is conducting their annual audit of the TDHCA
19 financial statements as part of the statewide audit and
20 also their audit of the revenue bond program, which they do
21 in accordance with the Public Investment Act.
22 CliftonLarsonAllen is conducting the federal compliance
23 portion of the statewide audit.

24 And that is my presentation on the audit plan
25 and external audits. I would be happy to answer any

1 questions there may be.

2 MR. THOMAS: Thank you, Mr. Scott. Any
3 questions from members?

4 MR. VASQUEZ: A little bit of a question here.

5 MR. THOMAS: Mr. Vasquez.

6 MR. VASQUEZ: Where does it -- is this an
7 internal or external audit, when the reviews of the results
8 for the rent relief program that is basically shut down or
9 closing down now? And then the homeowners assistance, who
10 is reviewing those?

11 MR. SCOTT: That is a good question. Okay. So
12 as Chief Audit Executive, according to the standards, I am
13 required to determine that external audits are sufficient
14 and so forth.

15 Right now, the CliftonLarsonAllen, they are
16 doing the statewide audit. Their audit follows specific
17 federal compliance requirements that they need to test.
18 And then the state auditor is doing some work in this
19 regard.

20 So I would like to rely as much as possible on
21 the external audits to make sure that the risk that were
22 identified in the annual risk assessment are covered.

23 MR. VASQUEZ: So do you feel comfortable that
24 those two programs specifically are getting enough eyes on
25 them to see whether the processes works, and then the end

1 results, what fraud in the programs by outsiders that tried
2 to get extra payments?

3 MR. SCOTT: Okay.

4 MR. VASQUEZ: Who is looking at that?

5 MR. SCOTT: Okay. So the fraud is mainly being
6 looked at by the State Auditor's Office Special
7 Investigations Unit and the Federal Office of Inspector
8 General.

9 They also have contracted -- the program has
10 contracted with Deloitte to do quality assurance work. I
11 hope that answers your question.

12 MR. VASQUEZ: Okay. So those organizations are.
13 We are not doing that.

14 MR. SCOTT: We are trying to get as much help as
15 possible.

16 MR. WILKINSON: We are doing it in conjunction
17 with our internal audit as well.

18 MR. SCOTT: Yes. Internal Audit is working on
19 it, too.

20 MR. VASQUEZ: Okay. Thanks.

21 MR. THOMAS: Very good. Any other questions for
22 Mr. Scott on this report item?

23 (No response.)

24 MR. THOMAS: If there no more questions, then
25 that concludes today's meeting. Thank you everybody for

1 attending. The meeting is officially adjourned at 9:54
2 a.m.

3 (Whereupon, at 9:54 a.m., the meeting was
4 concluded.)

C E R T I F I C A T E

MEETING OF: TDHCA Board Audit & Finance Committee

LOCATION: Austin, Texas

DATE: September 1, 2022

I do hereby certify that the foregoing pages, numbers 1 through 17, 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: September 9, 2022

/s/ Carol Bourgeois
(Transcriber)

On the Record Reporting
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