

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 RESÉNDIZ, Member (absent)  
LEO VASQUEZ, Member

ON THE RECORD REPORTING  
(512) 450-0342

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ITEM 2: Presentation, discussion, and possible action to approve the Fiscal Year 2020 Internal Audit Work Plan.	3
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.	5
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P R O C E E D I N G S

1  
2 MS. THOMASON: Good morning and welcome to the  
3 December 12 meeting of the TDHCA Audit and Finance  
4 Committee. I will take roll. It's fairly obvious,  
5 missing a couple today. Sharon Thomason, I'm present.  
6 Paul Braden is absent. Asusena Reséndiz is absent.

7 Leo --

8 MR. VASQUEZ: Here.

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

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

14 MR. SCOTT: Later action.

15 MS. THOMASON: Later -- to Approve the Fiscal  
16 Year '20 Audit Workplan, and Mr. Scott -- I'm sorry.  
17 20 --

18 MR. SCOTT: 2020.

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

21 MR. SCOTT: Thank you, Madam Chair. On this  
22 2020 Audit Plan, we have several large audits on the plan,  
23 and we utilize a standard risk assessment matrix to  
24 prepare the plan. As we go through it, I'll cite some of  
25 the factors that caused us to choose the audit.

1           The first new audit is the purchasing function.  
2           This has not been audited in recent years. And  
3           additionally, the director of the division recently  
4           retired.

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

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

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

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

24          For the 2020 Audit Plan, we have just one  
25          carryover project, and that was the Multifamily Bond

1 audit. This audit was suggested by Mr. Braden back when  
2 we presented the single-family bond audit.

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

6 MS. THOMASON: Okay. Any questions? Leo?

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

9 MR. SCOTT: Okay.

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

12 MR. SCOTT: That is correct.

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

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

20 MR. VASQUEZ: Okay. I just want to make that  
21 clarification. That's --

22 MR. SCOTT: Yes.

23 MR. VASQUEZ: -- internal to us.

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

1 Housing Finance Division Total and Unencumbered Fund  
2 Balances and Transfers to the Housing Trust Fund. Mr.  
3 Ernie Palacios will present that.

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

8 Action Item 3 is a Draft Computation of the  
9 Housing Finance Division Total and Unencumbered Fund  
10 Balances and Transfers to the Housing Trust Fund. Housing  
11 Finance Division unencumbered funds are the funds  
12 associated with any and all of the Department's Housing  
13 Finance activity that are not subject to any restrictions,  
14 precluding their immediate transfer to the Housing Trust  
15 Fund.

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

22 Pursuant to Texas Government 2306.204 and  
23 2306.205, the Department is required to transfer to the  
24 Housing Trust Fund by January 10 of the following year a  
25 portion of the unencumbered funds, if any, meeting certain

1 threshold and criteria. The statute also requires the  
2 Department to undergo an annual independent audit of its  
3 unencumbered fund balances and to transfer excess funds to  
4 the Housing Trust Fund, based on the calculations set  
5 forth in the statute.

6 The draft computation of unencumbered fund  
7 balances report as of August 31, Exhibit A, reflect the  
8 funds held by the Department deemed to be unencumbered,  
9 150,172. The calculation of bond indebtedness report,  
10 Exhibit B, only includes bonds and notes outstanding, not  
11 rated in the highest long-term debt rating category, to  
12 calculate the 2 percent threshold of 13,539,502. On the  
13 list of bond ratings, Exhibit C, are from rating agencies.

14 So the unencumbered fund balance is less than  
15 the 2 percent threshold. It does not meet the first  
16 threshold in Texas Government Code 2306.205 for any  
17 transfer to the Housing Trust Fund.

18 The draft computation of unencumbered fund  
19 balances report as of August 31, 2019, yielded a zero  
20 transfer to the Housing Trust Fund. Again, this report is  
21 included for review in the year-end financial audit  
22 performed by the State Auditor's office and is therefore  
23 subject to revision based on such audit.

24 At this point, we respectfully request  
25 acceptance of the Draft Computation of the Housing Finance

1 Division Total and Unencumbered Fund Balances and  
2 Transfers to the Housing Trust Fund report. The  
3 independent audit report along with the State Auditor's  
4 opinion will be presented at the next Audit and Finance  
5 Committee meeting in March.

6 This completes my remarks. I'm available for  
7 any questions that you may have.

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

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

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

16 MR. PALACIOS: Yes. Yes.

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

19 MR. PALACIOS: Correct.

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

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

24 MS. THOMASON: Thank you very much. Since we  
25 can't take action, this one's the item that will be on the



1 consent agenda?

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

4 MS. THOMASON: Okay. Thank you. Thank you.  
5 Next we do have four items that really are report items.  
6 The first is the Internal Audit Report of Performance  
7 Measures at TDHCA, and that will be presented by Mark.

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

14 The primary objective for this internal audit  
15 was to help the agency be ready for any future SAO audit.

16 When the SAO issues a report that says an agency's  
17 performance measures are inaccurate or can't be certified,  
18 it sounds very bad. And I'll just say, all you have to do  
19 is Google recently some of the reports that came out on  
20 another agency.

21 The SAO does not report on how well an agency  
22 meets their targets. They just look at the accuracy and  
23 documentation. Performance measures cover things like  
24 number of people served, cost efficiencies, numbers of  
25 inspections performed, amounts of funds provided.

1           They are reported to the LBB as far as whether  
2 the measures were met, so the Legislature can monitor  
3 agency performance. As for this internal audit, TDHCA, we  
4 noted that there was a recent establishment of a database  
5 dedicated to the performance measure function, and our  
6 review of the measures indicated that they were reliable  
7 based on the SAO's testing methodology.

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

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

16           So if there's any questions?

17           MS. THOMASON: Any questions? Leo?

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

24           MR. SCOTT: That's a very --

25           MR. VASQUEZ: We want to help at least 10

1 people in the state of Texas.

2 MR. SCOTT: That's an excellent question.

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

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

9 MS. BOSTON: Hi. Brooke Boston. Good morning.  
10 So to answer your question, are they helpful?

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

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

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

25 So over the years, we have done that when we

1 have thought the answer to the question was, this isn't a  
2 very useful measure. We have some that aren't super  
3 impactful, like having a 100 percent complaint response  
4 rate.

5 Well, because we respond to them all, it's  
6 always 100 percent. So they do want to know how many  
7 complaints we're getting and they want to see that it's  
8 100 percent, but it's not like you really can go over the  
9 measure. So it's helpful. It shows we're doing something  
10 we're supposed to be doing.

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

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

19 So over time we've continued to work with the  
20 LBB on trying to tailor that program's measure to be  
21 something more meaningful. Like did they get out of  
22 poverty and stay out of poverty? So, yes, I think it's --  
23 from my perspective, at least, it's nice that it's  
24 collaborative, because if we find that a tool is fairly  
25 unuseful or one of the measures is unuseful, they let

1 us -- usually they'll let us take it away as long as we  
2 replace it with something else.

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

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

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

19 MR. VASQUEZ: Yes. Somewhat.

20 MS. BOSTON: Okay.

21 MR. VASQUEZ: Maybe Bobby can help.

22 MR. WILKINSON: Bobby Wilkinson, Executive  
23 Director. There's a little bit of nuance to it. To  
24 remove a measure or to add a measure, traditionally, the  
25 LBB analyst and the assigned budget and policy analyst

1 from the Governor's office would have to agree.

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

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

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

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

24 MR. SCOTT: As part of our background, I scan  
25 through whether we were hitting them and looked at the

1 explanations of variance and so forth. But the fact that  
2 the SAO certification is so important, we spend our time  
3 on that.

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

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

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

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

21 MR. SCOTT: Thank you for your question.

22 MS. BOSTON: And I would just mention, too,  
23 because we produce something in most cases -- we're  
24 producing a unit or a voucher or -- I mean, our measures  
25 are --

1 MR. VASQUEZ: Quantifiable.

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

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

13 MR. VASQUEZ: Yes.

14 MS. THOMASON: Thank you, Brooke.

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

17 MR. SCOTT: Thank you, Madame Chair. The  
18 Enforcement Committee is a mechanism established by Rule  
19 2.302 to facilitate the resolution of outstanding  
20 noncompliance issues related to state and federally funded  
21 programs that are administered by TDHCA.

22 The focus of the Committee is to promote full  
23 compliance and to deter future noncompliance, rather than  
24 to create a punitive process. Administrative penalties  
25 and debarment are tools used by the Committee to achieve



1 compliance. The Committee's role is to make  
2 recommendations to TDHCA's Executive Director regarding  
3 enforcement actions for his review and approval before  
4 they're presented to the Board for the Board's approval.

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

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

15 MS. THOMASON: Any questions? Leo? No?

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

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

25 Management -- so we completed nine of the ten

1 reports on the plan. The multifamily revenue bond audit  
2 is the only carryover. That, as I mentioned earlier, when  
3 we did the single-family bond audit, Mr. Braden had  
4 requested we do that audit.

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

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

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

18 One was what's called a relation-to audit, in  
19 which they opine that the schedule was prepared in a  
20 consistent manner with the other TDHCA financial  
21 statements. For auditors, that's a very important report.

22 For non-auditors, maybe not.

23 The other was a report on internal controls  
24 over the input of the data that goes into that schedule.  
25 That was also a clean report.

1           They were also doing this audit statewide on  
2           classifications of information technology staff, and that  
3           report will come out fairly soon. It will be a report not  
4           just on this agency, but on several agencies. But all the  
5           Board members will probably get a copy of the report.

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

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

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

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

24           So that concludes my presentation on the  
25           external audit. I'll be happy to answer any questions.

1 MS. THOMASON: Okay. Any questions?

2 MR. VASQUEZ: I'm good.

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

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

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C E R T I F I C A T E

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)

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