

AUDIT AND FINANCE COMMITTEE MEETING BOOK OF JUNE 28, 2018



Sharon Thomason, Chair
Paul Braden, Member
Asusena Reséndiz, Member
Leo Vasquez, III, Member

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
AUDIT AND FINANCE COMMITTEE MEETING**

**AGENDA
7:30 AM
June 28, 2018**

**JOHN H. REAGAN BUILDING
JHR 140, 105 W 15th STREET
AUSTIN, TEXAS 78701**

CALL TO ORDER, ROLL CALL	Sharon Thomason, Chair
CERTIFICATION OF QUORUM	Sharon Thomason, Chair

The Audit and Finance Committee of the Governing Board of the Texas Department of Housing and Community Affairs ("TDHCA") will meet to consider and may act on any of the following:		
ACTION ITEMS:		
ITEM 1:	Presentation, discussion, and possible action to approve the Audit Committee Minutes Summary for May 24, 2018	Mark Scott Director of Internal Audit
ITEM 2:	Presentation, discussion, and possible action to approve the update to the Internal Audit Charter	Mark Scott Director of Internal Audit
ITEM 3:	Presentation, discussion, and possible action on the FY 2019 Operating Budget	Ernie Palacios Director of Financial Administration
ITEM 4:	Presentation, discussion, and possible action on the FY 2019 Housing Finance Division Budget	Ernie Palacios Director of Financial Administration
REPORT ITEMS:		
1.	Presentation and discussion, of Internal Audit review of the implementation status of prior audit findings and recommendations	Mark Scott Director of Internal Audit
2.	Discussion of Recent Internal and External Audit Activities	Mark Scott Director of Internal Audit

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

EXECUTIVE SESSION

The Committee may go into Executive Session (close its meeting to the public) on any agenda item if appropriate and authorized by the Open Meetings Act, Tex. Gov't Code, Chapter 551 and under Tex. Gov't Code, §2306.039.	
1.	Pursuant to Tex. Gov't Code, §551.074 the Audit Committee may go into Executive Session for the purposes of discussing personnel matters including to deliberate the appointment, employment, evaluation, reassignment, duties, discipline, or dismissal of a public officer or employee.
2.	Pursuant to Tex. Gov't Code, §551.071(1) the Committee may go into executive session to seek the advice of its attorney about pending or contemplated litigation or a settlement offer.
3.	Pursuant to Tex. Gov't Code, §551.071(2) the Committee may go into executive session for the purpose of seeking the advice of its attorney about a matter in which the duty of the attorney to the governmental body under the Texas Disciplinary Rules of Professional Conduct of the State Bar of Texas clearly conflicts with Tex. Gov't Code, Chapter 551.
4.	Pursuant to Tex. Gov't Code, §2306.039(c) the Committee may go into executive session to receive reports from the Department's internal auditor, fraud prevention coordinator, or ethics advisor regarding issues related to fraud, waste, or abuse.

OPEN SESSION

If there is an Executive Session, the Committee will reconvene in Open Session and may take action on any items taken up in Executive Session. Except as specifically authorized by applicable law, the Audit Committee may not take any actions in Executive Session.

ADJOURN

To access this agenda and details on each agenda item in the board book, please visit our website at www.tdhca.state.tx.us or contact Mark Scott, TDHCA Internal Audit Director, 221 East 11th Street Austin, Texas 78701-2410, 512.475-3813 and request the information.

Individuals who require auxiliary aids, services or sign language interpreters for this meeting should contact Terri Roeber, ADA Responsible Employee, at 512-475-3959 or Relay Texas at 1-800-735-2989, at least five (5) days before the meeting so that appropriate arrangements can be made.

Non-English speaking individuals who require interpreters for this meeting should contact Elena Peinado, 512-475-3814, at least five (5) days before the meeting so that appropriate arrangements can be made.

Personas que hablan español y requieren un intérprete, favor de llamar a Elena Peinado, al siguiente número 512-475-3814 por lo menos cinco días antes de la junta para hacer los preparativos apropiados.

NOTICE AS TO HANDGUN PROHIBITION DURING THE OPEN MEETING OF A GOVERNMENTAL ENTITY IN THIS ROOM ON THIS DATE:

Pursuant to Section 30.06, Penal Code (trespass by license holder with a concealed handgun), a person licensed under Subchapter H, Chapter 411, Government Code (handgun licensing law), may not enter this property with a concealed handgun.

De acuerdo con la sección 30.06 del código penal (ingreso sin autorización de un titular de una licencia con una pistola oculta), una persona con licencia según el subcapítulo h, capítulo 411, código del gobierno (ley sobre licencias para portar pistolas), no puede ingresar a esta propiedad con una pistola oculta.

Pursuant to Section 30.07, Penal Code (trespass by license holder with an openly carried handgun), a person licensed under Subchapter H, Chapter 411, Government Code (handgun licensing law), may not enter this property with a handgun that is carried openly.

De acuerdo con la sección 30.07 del código penal (ingreso sin autorización de un titular de una licencia con una pistola a la vista), una persona con licencia según el subcapítulo h, capítulo 411, código del gobierno (ley sobre licencias para portar pistolas), no puede ingresar a esta propiedad con una pistola a la vista.

NONE OF THESE RESTRICTIONS EXTEND BEYOND THIS ROOM ON THIS DATE AND DURING THE MEETING OF THE AUDIT COMMITTEE OF THE TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS.

ACTION ITEMS

1

AUDIT AND FINANCE COMMITTEE ACTION REQUEST

INTERNAL AUDIT DIVISION

June 28, 2018

Presentation, discussion and possible action on Audit and Finance Committee Meeting Minutes Summary for May 24, 2018.

RECOMMENDED ACTION

RESOLVED, that the Audit and Finance Committee Meeting Minutes Summary for May 24, 2018 are hereby approved as presented.

**MINUTES OF THE AUDIT AND FINANCE COMMITTEE MEETING
OF THE GOVERNING BOARD OF THE
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS**

On Thursday, May 24, 2018, at 7:06 a.m. the meeting of the Audit and Finance Committee (the “Committee”) of the Governing Board (the “Board”) of the Texas Department of Housing and Community Affairs (“TDHCA” or the “Department”) was held in the John H. Reagan Building, Room JHR 140, at 105 W 15th street, Austin, Texas. Sharon Thomason presided over the meeting, and Mark Scott served as secretary. Committee members Sharon Thomason, Paul A. Braden, and Asusena Resendiz were in attendance and represented a quorum for the committee meeting. Mr. Loe Vasquez was absent from the meeting.

The first action item on the agenda was approval of the minutes of the March 22nd, 2018 meeting of the Committee. Minutes were adopted as presented, and were approved.

The second and third action items, Presentation of the Agency Strategic Plan for Fiscal Years 2019 – 2023, and Presentation regarding Policy Items for Inclusion in the Legislative Appropriations Request for State Fiscal Years 2020-2021, were presented by Michael Lyttle, Chief of External Affairs for TDHCA. Mr. Lyttle stated that these two agenda items relate to the State’s two-year budget cycle, the Department’s strategic plan, and the legislative appropriations request for what’s called LAR. At the end of his presentation Mr. Lyttle offered to answer any questions that Committee members may have.

Mr. Irvine provided more background to the two items and also H-2a Visa program, which relates to the temporary or seasonal agricultural workers. He said that Tom Gouris has been working with Michael Lyttle to develop some branding and get out the message to agricultural employers. Ms. Resendiz asked about the employers’ reaction to this information. Mr. Irvine responded that there have not been a lot of direct engagements with employers at this point, but it is anticipated that in near future new rules will be presented for revision which will result in a lot of public interactions and opportunity to provide input.

With no further questions Ms. Thomason asked for motion to approve the two items for presentation at the Board meeting. Motion moved by Mr. Braden and second by Ms. Resendiz. The Committee voted to approve the two items.

Next agenda item, Report on Internal Audit review of the Emergency Solutions Grant (ESG) program, was presented by Mr. Scott. He stated that ESG program was selected for audit because of staff and management changes, in addition to other risk assessment factors during FY2018 audit planning. The ESG’s processes and controls were tested, and a questionnaire / survey was sent out to sub-recipients’ management staff and also to the members of the sub-recipients’ board that had once been clients of the program. The overall responses were very favorable about the program and staff. The review of sub-recipient audits and also the questionnaires indicated that more specification of the lead agency’s monitoring requirements would be beneficial.

Mr. Scott concluded his presentation, and asked for any questions that the Committee members may have. With no questions from the Committee members Ms. Thomason concluded the meeting. The audit and Finance Committee meeting was adjourned at 7:25 am.

2

AUDIT and FINANCE COMMITTEE ACTION REQUEST

INTERNAL AUDIT DIVISION

June 28, 2018

Presentation, Discussion, and Possible Action on the 2018 Internal Audit Charter

RECOMMENDED ACTION

WHEREAS, the Internal Audit Division is required by audit standards to develop a charter, and to periodically update the charter,

NOW, therefore it is hereby

RESOLVED, that the 2018 Internal Audit Charter is hereby approved as presented.

BACKGROUND

Internal Audit Standards (the *Institute of Internal Auditor's International Standards for the Professional Practice of Internal Auditing*) require periodic approval of the Internal Audit Charter. Standard 1000's interpretation is "The internal audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility. The internal audit charter establishes the internal audit activity's position within the organization, including the nature of the chief audit executive's functional reporting relationship with the board; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the internal audit charter resides with the board."



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

www.tdhca.state.tx.us

Rick Perry
GOVERNOR

BOARD MEMBERS

J. Paul Oxer, *Chair*
Juan S. Muñoz, PhD, *Vice Chair*
Leslie Bingham-Escareño
T. Tolbert Chisum
Tom H. Gann
J.B. Goodwin

TDHCA Internal Audit Charter Effective October 17, 2001, Amended June 28, 2018 as approved by the Department's Governing Board

Mission:

The Office of Internal Audit (OIA) has been established at the Texas Department of Housing and Community Affairs (TDHCA) to provide independent, objective assurances and consulting services to TDHCA Board and management. The OIA helps TDHCA accomplish its objectives by bringing a systematic, disciplined approach for evaluating and improving the effectiveness of risk management, controls, and governance. The OIA helps the TDHCA to identify and manage financial and other risks, identify economies and efficiencies, safeguard assets, ensure compliance with legislative and regulatory requirements, and report accurate and reliable information to TDHCA's customers. It also provides a proactive and systematic approach for the identification of business improvements. The OIA conducts TDHCA's program of internal auditing under the authority of and in accordance with the Texas Internal Auditing Act, located in the Texas Government Code, Title 10, Chapter 2102.

The OIA is managed by the Chief Audit Executive (CAE). The CAE reports functionally to the TDHCA Governing Board and administratively to the Chief Executive Officer at TDHCA. The CAE must be certified as a Certified Public Accountant (CPA) or Certified Internal Auditor (CIA), to achieve compliance with the Internal Auditing Act. The operational title of the CAE is the Director of Internal Audit. The Governing Board has established an Audit and Finance Committee, which meets approximately four times per year. In accordance with the most recent peer review of the internal audit function, the Audit and Finance Committee will review and recommend approval of the following to the Board, and the Board will:

- Approve the internal audit department's charter
- Approve the risk-based internal audit plan
- Approve the internal audit department's budget and resource plan
- Approve the remuneration of the Chief Audit Executive

Standards of Audit Practice

The program of internal auditing follows the Texas Internal Auditing Act, Standards for the Professional Practice of Internal Auditing, Code of Ethics, and applicable auditing standards.

The CAE has the duty and authority to ensure that TDHCA is in compliance with the Internal Auditing Act, and the requirements of external audits including the statutes relating to the State Auditor's Office.

Annual Audit Plan

The OIA is responsible for developing an annual audit plan using risk assessment techniques which identify individual audits to be conducted during each year. The plan must be presented to the



Governing Board for their review and approval during open meetings. Deviations from the audit plan should be documented; and major deviations should be approved by the Governing Board.

The risk assessment process includes the following steps:

- Identification of Auditable Units and Risks
This includes identification of activities for all divisions / programs risks associated with each activity, and requesting input from executive management team as well as Board members. Requests or suggestions for special audits are also included in the potential audit population.
- Risk Measurement and Prioritization
This process includes evaluating the likelihood that an adverse event or outcome could occur, and the potential ramifications if it did in fact occur.

Code of Ethics

Internal Auditors at TDHCA are expected to uphold and adhere to the following principles;

- Integrity
- Objectivity
- Confidentiality
- Competency

Integrity and Professional Conduct

Audits and reviews are to be conducted in a professional manner, with the goal of providing value to TDHCA's Governing Board, management, and staff. Internal auditors are expected to perform their work with honesty, diligence, and responsibility. Arrangements for conducting audits should cause the least possible disruption to the operations or activities under audit. Efforts will be made to minimize inconvenience to operating staff in the examination of records.

Independence and Objectivity

In accordance with the Internal Audit Act, the CAE shall report directly to the Governing Board and shall be independent of operational duties that could impair the independence of the auditing program. The CAE will work with members of TDHCA management, as designated by the Board and the Executive Director, to ensure the performance of the internal audit plan and compliance with the requirements of external audit functions related to the agency's operations. The CAE will keep the full Governing Board apprised of the progress of both internal and external audits.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited, and must exhibit the highest level of professional objectivity in accessing and evaluating the activity under review.

Internal auditors are to remain free from interference by any element in the organization, and to report to the CAE any situation in which an actual or potential impairment to independence or objectivity may reasonably be inferred.

Confidentiality

OIA treats its working papers as confidential. Internal auditing working papers may sometimes be requested by members of the public pursuant to the Public Information Act, by means of an open-record request. The Office of Attorney General has in the past ruled that internal audit work papers can be exempted from open-records request. In the event of court proceedings, client privilege cannot be invoked with respect to working papers. Working papers and files are to be protected at all times against access by unauthorized persons.

Completed audit reports are public documents, and are provided in accordance with the statute to the Governing Board, TDHCA management, the State Auditor's Office, the Legislative Budget Board, the Office of the governor, and the Sunset Commission.

Competency

The CAE is responsible for ensuring that audits are conducted by staff with the necessary skills, knowledge and abilities to successfully complete the audit in accordance with professional standards. Internal audit promotes and encourages the advancement of audit staff through dissemination of related information and th active participation in professional groups and organizations.

Scope of Work and Responsibility of Internal Audit

Internal auditing encompasses the examination and evaluation of the adequacy and effectiveness of the Department's system of internal control and the quality of performance in carrying out its assigned responsibilities. The scope of audit activities includes, but not limited to:

- Identifying risk associated with TDHCA operations, including administrative systems, accounting systems, and information-technology systems.
- Evaluating and assessing significant change-management functions and need or change services, processes, and operations coincident with their development, implementation, and / expansion.
- Proactive consulting with management to improve control systems and operational effectiveness (See section on Advisory Services).
- Reviewing the reliability and integrity of financial and operating information and the means used to identify measure, classify, and report such information.
- Reviewing systems established to ensure compliance with policies, plans, procedures, laws and regulations that could have a significant impact on operations.
- Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of assets.
- Reviewing and appraising the economy and efficiency with which resources are employed.
- Reviewing operations or programs to ascertain whether results are consistent with established objectives and goals, and determining whether the operations or programs are being carried out as planned.
- Tracking, assessing, and reporting on management's actions taken in response to audit recommendations.
- Assisting in the investigation of significant issues within the TDHCA and notifying the TDHCA Governing Board and management as appropriate.
- Evaluation of the scope of work of external auditors, as appropriate, for the purpose of providing optimal audit coverage to TDHCA at a reasonable overall cost.

Access to Information Needed for the Program of Internal Auditing

Authorization is granted for the full and free access to any of the TDHCA's records (either manual or electronic), physical properties, activities, and personnel relevant to a review. In addition, audit personnel may make direct contact with any level of management or staff concerned with an audit. Documents and information given to internal auditors will be handled in the same prudent manner as by those employees normally accountable for them. All confidential information obtained as part of a review will remain confidential. TDHCA staff members are required to cooperate in ongoing efforts to ensure compliance with audit requirements.

Scope and Resource Impairments

All scope limitation or potential limitations should be brought to the attention of the Chief Audit Executive, and significant issues in this regard will be reported to the Governing Board.

Internal Audit shall be free from control or undue influence in the selection and application of audit techniques, procedures and programs. Internal Audit shall be free from control or undue influence in the determination of facts revealed by the examination or in the development of recommendations or opinions as a result of the examination. Internal Audit shall be free from undue influence in the selection of areas, activities, personal relationships and managerial policies to be examined.

Advisory/Consulting Services

The OIA may provide advisory services, the nature and scope of which are agreed upon with the Governing Board and management. They are intended to add value and improve TDHCA's operations. The types of advisory services the OIA provides include the following:

Assessment Services are those in which the auditor examines/evaluates a past, present or future aspect of an operation and gathers, compiles, and/or analyzes information to assist management in making decisions. Assessments are provided as timely as possible and generally do not include specific recommendations for management.

Facilitation services are those in which the auditor assists management in examining organizational performance for the purpose of promoting change. In a facilitation role, such as a Control Self Assessment, the auditor does not judge organizational performance. Instead, the auditor guides Management in identifying organizational strengths and opportunities for improvements.

Liaison services are those in which the auditor attends meetings and/or reviews the work products of an internal or external work group. The purpose of the liaison service is to advise the group on how their activities may affect the agency's risk profile.

Quality Assurance

The CAE shall establish and maintain a program of quality assurance designed to evaluate the OIA's activities. The purpose of this program is to provide reasonable assurance that all work performed by the OIA conforms to established guidelines. The program includes training, supervision, and internal and external reviews. The CAE is responsible for ensuring that audits are conducted by staff with the necessary skills, knowledge and abilities to successfully complete the audit in accordance with professional standards. The State Auditor's Office and other external audit organizations review OIA reports and periodically review OIA working papers.

Training

Each fiscal year, the OIA will be allocated a budget for training and educational materials. Internal auditors will maintain their professional proficiency through continuing education and training. Professional development will be provided through a variety of methods including progressively challenging audit assignments, professional certifications, external training courses, performance appraisals, and participation in professional organizations.

Auditors will acquire continuing professional education (CPE) hours sufficient to comply with professional standards and/or meet applicable licensing requirements. Internal Auditors at TDHCA are expected to obtain at least 40 hours of CPE each fiscal year.

Supervision

The quality assurance program will include audit supervision by CAE to ensure conformance with internal auditing standards and the internal OIA policies and procedures. This includes periodic meetings with CAE to discuss and review statuses of each audit engagement.

Internal and External Reviews

Internal reviews will be performed periodically to appraise the quality of the audit work performed. These reviews will include reviews of working papers, periodic discussions of the status of projects, annual self assessment, and accountability for time budgets. External peer reviews will be arranged and conducted in accordance with the Institute of Internal Auditing guidelines, *The Professional Practices Framework* and the Government Accountability Office guidelines.

Internal Audit Reports

Written reports, which include management’s responses, are prepared and issued following the conclusion of each audit. These reports include background information related to the areas audited as well as scope of the audit, the overall conclusion of the auditors, findings, recommendations, and management comments and action plans. Draft audit reports will be provided to appropriate members of management team to review and provide corrective action plans when appropriate. Audit reports will be discussed and presented to the Board at periodic open meetings of the Texas Department of Housing and Community Affairs.

Internal Audit is responsible for communicating completed audit reports to the State Auditor’s Office, the Legislative Budget Board, the Office of the Governor, and the Sunset Commission within 30 days after the report is submitted to the TDHCA’s Governing Board.

Audit Follow-up Responsibilities

Internal auditors are required to follow-up to ascertain that appropriate action is taken on audit findings. A report to the Governing Board on recommendation-implementation status will be provided periodically and no less than annually.

Communication of Internal Audit Activities to the Governing Board.

Results of internal audit work are communicated to management and the Governing Board in periodic written reports. Internal Audit reports and other audit activities are discussed in periodic open meetings of the Texas Department of Housing and Community Affairs. In limited and appropriate circumstances, matters may be addressed in Executive Session with the concurrence of the Legal Division that one or more specific provisions of law permit such treatment.

In addition to overseeing audit matters in accordance with this charter, this committee will review and make recommendations to the Board with respect to finance items such as the Department’s operating budget and the development of its Legislative Appropriations Request and review financial statements.

PASSED and APPROVED this 28th day of June 2018

Chair of the Governing Board _____

Executive Director _____

Board Secretary _____

Chief Audit Executive _____

3

BOARD ACTION REQUEST
FINANCIAL ADMINISTRATION DIVISION
JUNE 28, 2018

Presentation, discussion, and possible action on the FY 2019 Operating Budget

RECOMMENDED ACTION

WHEREAS, the Governing Board of the Texas Department of Housing and Community Affairs (the “Department” or “TDHCA”) is required to approve a FY 2019 Operating Budget; and

WHEREAS, the Department is required to submit the budget to the Governor’s Office and the Legislative Budget Board (“LBB”);

NOW, therefore, it is hereby

RESOLVED, that the FY 2019 Operating Budget, in the form presented to this meeting, is hereby approved; and

FURTHER RESOLVED, that upon approval by the TDHCA Governing Board, the Department will submit the budget to the Governor’s Office and the LBB.

BACKGROUND

In accordance with Tex. Gov’t Code Chapter 2306, TDHCA is charged with preparing an operating budget for Board adoption on or before September 1 of each fiscal year. The budget includes operational expenses distributed among the Department’s divisions. It does not include federal or state program funds that pass through to subrecipients except for administrative funds used by the Department associated with those federal or state funds that are retained and reflected in the budget. This budget anticipates maximizing all federal administrative resources. In addition, in accordance with internal auditing standards and the Board’s internal audit charter, the budget includes the Internal Audit Division’s annual operating budget.

This FY 2019 Internal Operating Budget, which the Board is being asked to approve, corresponds to the second year of the biennial General Appropriations Act (“GAA”) passed by the 85th Texas Legislature which appropriated \$237,199,630. In total, this budget provides for expenditures and associated revenues of \$27,996,084 or a \$200,174 (0.7%) increase over the prior year budget.

The budget reflects 309 Full Time Equivalents (“FTEs”) (64 are related to the Manufactured Housing Division) which is four less than appropriated.

Additionally, the Housing Finance Division budget, which is funded with fees generated from the Department’s Bond, Housing Tax Credit, Asset Management, and Compliance activities, decreased by \$146,973 or -0.9%. This decrease is primarily attributed to the Capital Budget and decreased use of FTEs mentioned above.

For a complete explanation of the aforementioned budget categories and details, please see the accompanying Comparison Report.

TEXAS DEPT. OF HOUSING AND COMMUNITY AFFAIRS

FY 2019 Operating Budget

Comparison Report

June 28, 2018

This Comparison Report provides an explanation of some of the changes to cost categories.

In total, this FY 2019 Operating Budget is \$27,996,084 or a \$200,174 (0.7%) increase over the prior year budget. Below are the highlights of the FY 2019 Budget. Please refer to the "Comparison by Expense Object" schedule on Page 3.

1. **Salaries/Wages and Payroll Related Costs.** These two line items represent 80.3% of the total operating budget.

The budget reflects 309 Full Time Equivalents ("FTEs").

The Salaries and Wages line item increased by \$62,874 or 0.3%. This total increase from 2018 is primarily due to the normal growth rate of 1% offset by salary savings related to 3 FTEs. The three unfunded FTEs are a result of efficiencies gained in the areas of Human Resources, Compliance, and Fair Housing, Data Management, and Reporting; the positions may be repurposed elsewhere within the budget. One FTE was repurposed from the Compliance Division to the Multifamily Finance Division for assistance with the National Housing Trust Fund.

Payroll related costs increased \$15,090. The increase in payroll related costs is proportional to the increase in salaries.

2. **Travel In-State.** In-State travel increased by \$45,000. This increase is in the areas of Compliance, Community Affairs, and Section 8 to ensure compliance with program rules and guidelines and to provide training and technical assistance.
3. **Materials and Supplies.** Materials and supplies increased by \$14,629 primarily related to the purchase of loan origination software.
4. ***Repairs/Maintenance.** Repairs and Maintenance increased by \$87,728 primarily due to computer related annual maintenance costs.
5. **Insurance/Employee Bonds.** Insurance and Employee Bonds increased by \$11,650 due to increased premiums.
6. **Employee Tuition.** Employee Tuition increased by \$5,500 due to more staff taking college level courses to enhance their job related skills.

7. **Advertising.** Agency advertising costs increased \$81,200 or 95.4%. The increase in advertising costs is due to a marketing initiative by the Texas Homeownership Division estimated to cost an additional \$80,000 in FY19.
8. **Temporary Help.** Temporary Help increased \$58,720 or 58.8%. The increase in this category is primarily due to increasing costs of meeting transcription services and a web redesign of the Texas Homeownership Programs.
9. ***Furniture and Equipment.** Included in this category is the Legislature's approval of the Department's Legacy Systems Modernization Project as it relates to non-capital expenses associated with the Department's Capital Projects such as update and replacement of end-user computers and operational software upgrades, including a Microsoft Office upgrade, server operating system upgrades, and additional database server software licenses. The benefits of these planned purchases include increased security, better performance for end-user computers, and the ability to provide continued support for TDHCA's enterprise systems, such as the Central Database, PeopleSoft Financials, MITAS Financials/Service, and the Manufactured Housing System.

This line item decreased \$19,683 or 28.6% due to an anticipated decrease in capital expenditures for items such as computers and printers compared to the first year of the biennium.

10. ***Capital Outlay.** This category is also included in the Department's Legacy System Modernization Project as it relates to capital expenses such as server hardware upgrades and network equipment enhancements, to ensure systems remain supported by vendors and security and reliability remain at high levels. This section also includes the PeopleSoft financials Centralized Accounting and Payroll/Personnel System ("CAPPS") upgrade of \$200,000, the Cyber Security Project of \$180,000 – of which \$80,000 was moved forward from FY18 to FY19 for continued expenditures. New software needed by the Community Affairs division costing \$600,000 was originally budgeted in FY18 but has also been moved to FY19 for continued work on this project. Capital Outlay decreased \$132,400 due to the items mentioned above in the agency's LAR.

**The Department's Capital Projects are included in Repairs/Maintenance, Furniture and Equipment and Capital Outlay. These projects include CAPPS Financials, Community Affairs reporting, Cyber Security, Legacy Modernization, PeopleSoft Maintenance and DCS-Disaster Recovery Services. The current budget primarily includes \$494,260 in new funding plus \$700,000 from the prior year for Community Affairs and Cyber Security activities.*

Comparison by Expense Object

	2018 Budget (a)	2019 Budget (b)	Variance (b-a)	Percentage Change	Appropriated Admin
Salaries and Wages	\$ 18,067,478	\$ 18,130,352	\$ 62,874	0.3%	
Payroll Related Costs	4,336,195	4,351,285	15,090	0.3%	
Travel In-State	493,732	538,732	45,000	9.1%	
Travel Out-of-State	125,394	125,394	-	0.0%	
*Professional Fees	1,221,018	1,222,098	1,081	0.1%	
Material and Supplies	258,913	273,542	14,629	5.7%	
*Repairs/Maintenance	643,953	731,680	87,728	13.6%	
Printing and Reproduction	16,747	16,247	(500)	-3.0%	
Rentals and Leases	162,969	158,101	(4,868)	-3.0%	
Membership Fees	84,232	84,582	350	0.4%	
Staff Development	141,250	147,500	6,250	4.4%	
Insurance/Employee Bonds	397,524	409,174	11,650	2.9%	
Employee Tuition	2,500	8,000	5,500	220.0%	
Advertising	85,150	166,350	81,200	95.4%	
Freight/Delivery	25,550	27,350	1,800	7.0%	
Temporary Help	99,860	158,580	58,720	58.8%	
*Furniture and Equipment	68,933	49,250	(19,683)	-28.6%	
Communication and Utilities	356,735	366,286	9,550	2.7%	
*Capital Outlay	1,183,929	1,007,600	(176,329)	-14.9%	
State Office of Risk Management	23,846	23,981	134	0.6%	
Total Department	27,795,908	\$ 27,996,084	\$ 200,174	0.7%	\$ 28,260,982
					99.1%
* Budget categories that include Capital Budget items					
FTEs	312	309	(3.00)	-1.0%	
Method of Finance:					
General Revenue:					
GR-General Revenue	\$ 820,752	\$ 810,708	\$ (10,044)	-1.2%	
GR-Earned Federal Funds	2,089,809	2,206,653	116,844	5.6%	
Federal Funds-Non-HERA	6,733,690	6,959,086	225,396	3.3%	
Federal Funds-Neighborhood Stabilization Program (HERA)	101,133	114,790	13,657	13.5%	
Appropriated Receipts - Housing Finance	17,171,157	17,024,184	(146,973)	-0.9%	
Appropriated Receipts - Manufact. Housing	512,113	512,645	532	0.1%	
Interagency Contracts	367,254	368,017	764	0.2%	
Total, Method of Finance	\$ 27,795,908	\$ 27,996,084	\$ 200,174	0.7%	

Note: Appropriated Receipts - Housing Finance include Bond Administration Fees, Housing Tax Credit Fees, Asset Management Fees and Compliance Fees.

Methods of Finance

The 2019 Budget includes the following sources:

General Revenue

State appropriated funds including Housing Trust Fund, Housing and Health Services Coordinating Council, Homeless Housing and Services Program, and funding for Migrant Labor Housing initiatives.

Earned Federal Funds - Federal funds appropriated for indirect costs associated with administering federal funds.

Federal Funds

Federal Funds-(Non-Housing and Economic Recovery Act (“HERA”)) - Core federal programs such as Community Services Block Grant, Emergency Solutions Grant, HOME, U.S. Dept. of Energy (“DOE”), Section 8 Housing, Section 811 PRA Program, Low Income Home Energy Assistance Program, and National Housing Trust Fund.

Neighborhood Stabilization Program - Federally appropriated funds specifically designated for HERA-NSP.

Appropriated Receipts - Housing Finance (“HF”):

Bond Admin Fees - Appropriated receipts associated with our Single Family and Multifamily bond programs such as application fees, issuance fees, and administration fees.

Low Income Housing Tax Credit Fees - Appropriated receipts associated with our housing tax credit program such as application fees and commitment fees.

Compliance Fees - Fees assessed to multifamily developers for the purpose of ensuring long-term compliance.

Asset Oversight Fees - Fees assessed to Tax Credit Assistance Program (“TCAP”) and Exchange property owners for the purpose of safeguarding the Department’s financial interest in their properties.

Appropriated Receipts (MH) - Manufactured Housing Division fees generated through inspecting, licensing, and titling activities.

Interagency Contracts - Contract with the Texas Department of Agriculture for the Office of Colonia Initiatives (“OCI”) Self-Help Center’s operation and administration; a contract with the Texas Health and Human Services Commission (“HHSC”) for the Money Follows the Person program; and a potential contract still in negotiation with HHSC for Home and Community-Based Services-Adult Mental Health Program (“HCBS-AMH”), a program that supports individuals with mental illnesses.



FISCAL YEAR 2019
OPERATING BUDGET
(September 1, 2018 through August 31, 2019)

June 28, 2018

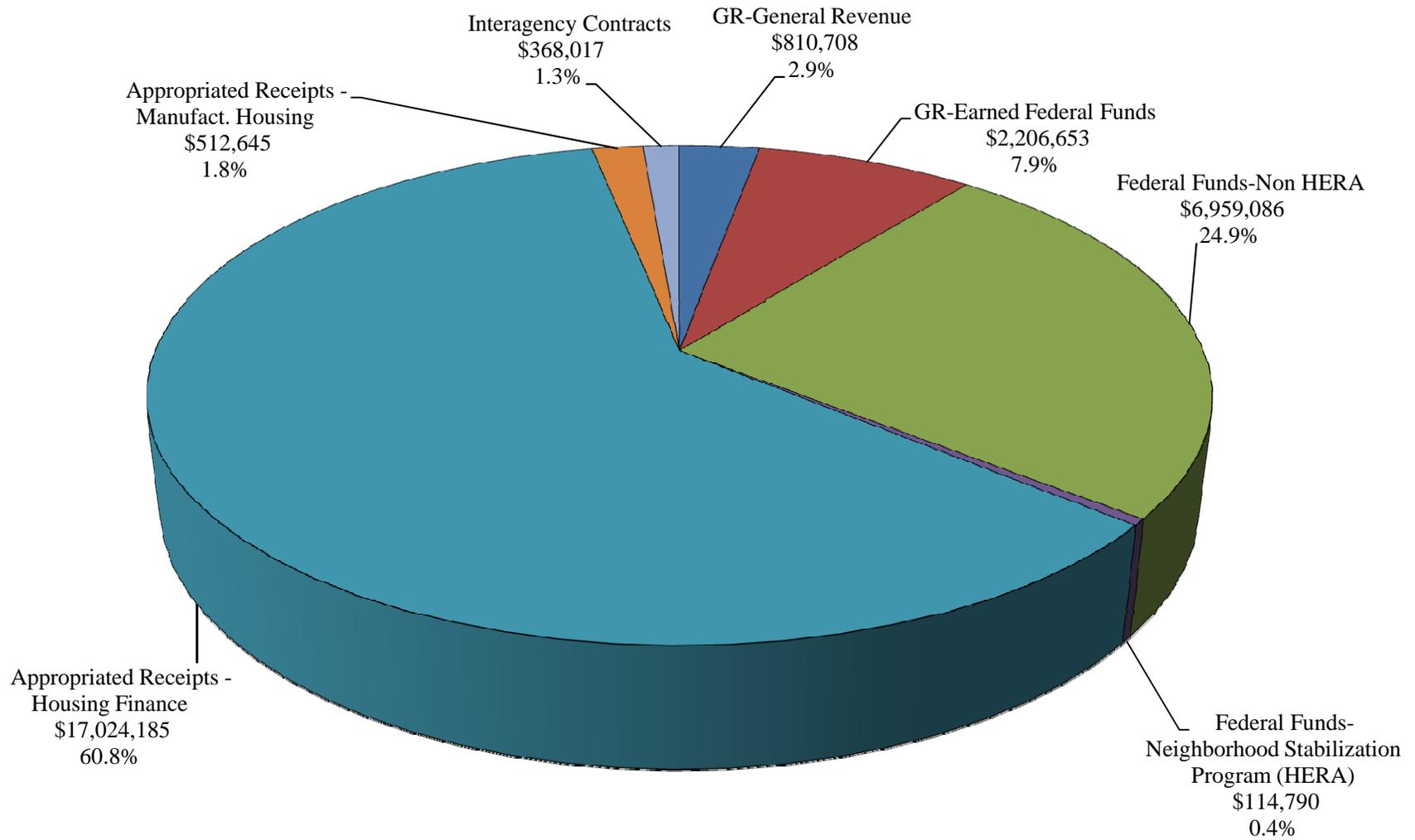
Prepared by the Financial Administration Division

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY
AFFAIRS FY-2019 OPERATING BUDGET**

T A B L E O F C O N T E N T S

Method of Finance Chart..... 1
Agency Wide – By Method of Finance..... 2

Texas Department of Housing and Community Affairs FY 2019 Method of Finance



Total Budget: \$27,996,084

Agency Wide - By Method of Finance

September 1, 2018 thru August 31, 2019

Budget Categories	General Revenue	Federal Funds	Appropriated Receipts	Interagency Contract	MH	Total
					Appropriated Receipts	
Salaries	2,018,914	4,341,120	11,126,711	240,223	403,384	18,130,352
Payroll Related Costs	572,178	1,058,432	2,566,209	57,654	96,812	4,351,285
Travel In-State	31,452	201,198	263,885	41,904	293	538,732
Travel Out-of-State	3,943	40,640	80,811	-	-	125,394
Professional Fees	66,230	339,633	816,187	-	47	1,222,098
Materials/Supplies	48,972	38,245	183,942	2,126	257	273,542
Repairs/Maintenance	115,237	75,806	540,102	-	535	731,680
Printing and Reproduction	1,539	3,456	11,042	200	10	16,247
Rental/Lease	23,134	30,903	102,481	1,500	84	158,101
Membership Dues	1,629	22,593	60,214	-	147	84,582
Staff Development	13,961	45,979	85,071	2,000	489	147,500
Insurance/Employee Bonds	58,560	71,307	264,615	4,501	10,191	409,174
Employee Tuition	1,696	-	6,304	-	-	8,000
Advertising	218	1,500	164,633	-	-	166,350
Freight/Delivery	3,078	1,713	22,549	-	10	27,350
Temporary Help	12,352	19,662	116,410	10,110	45	158,580
Furniture/Equipment	1,810	11,289	30,351	5,800	-	49,250
Communications/Utilities	36,988	65,241	261,743	2,000	313	366,286
Capital Outlay	-	704,100	303,500	-	-	1,007,600
State Office of Risk Management	5,469	1,058	17,425	-	28	23,981
Total	3,017,361	7,073,876	17,024,184	368,017	512,645	27,996,084
Budget by Method of Finance, 2018	2,910,561	6,834,823	17,171,157	367,254	512,113	27,795,908
Variance from 2018	106,800	239,053	(146,973)	763	532	200,174

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BOARD ACTION REQUEST
FINANCIAL ADMINISTRATION DIVISION
JUNE 28, 2018

Presentation, discussion, and possible action on the FY 2019 Housing Finance Division Budget

RECOMMENDED ACTION

WHEREAS, the Governing Board of the Texas Department of Housing and Community Affairs (the “Department” or “TDHCA”) is required to approve a FY 2019 Housing Finance Division Budget; and

WHEREAS, the Department is required to submit the budget to the Governor’s Office and the Legislative Budget Board (“LBB”);

NOW, therefore, it is hereby

RESOLVED, that the FY 2019 Housing Finance Division Budget, in the form presented to this meeting, is hereby approved; and

FURTHER RESOLVED, that upon approval by the TDHCA Governing Board, the Department will submit the budget to the Governor’s Office and the LBB.

BACKGROUND

In accordance with Tex. Gov’t Code §2306.113, the Department shall create a separate annual budget for the Housing Finance Division to certify the housing program fee revenue that supports the Department. While at the time the statute was created such a division existed, the duties associated with the Housing Finance Division have been spread among multiple divisions in the agency as reorganizations to improve efficiency have occurred. This budget is a subset of the whole operating budget and shows the Housing Finance revenues also known as Appropriated Receipts that support the operating budget.

This FY 2019 Housing Finance Division Budget, which the Board is being asked to approve, is \$17,024,184. The Housing Finance Budget complies with the provisions of the General Appropriations Act (“GAA”).

In addition, in accordance with Tex. Gov’t Code §§2306.117 and 2306.118, the Department incurs operational and nonoperational expenses in carrying out the functions of the Housing Finance Division. These types of expenses may be paid only from revenues or funds provided under this Chapter. The revenue and funds of the Department received by or payable through the programs and functions of the Housing Finance Division, other than funds necessary for the operation of the Housing Finance Division and appropriated funds, shall be administered outside the treasury with the Texas Treasury Safekeeping Trust Company.



Housing Finance Budget Appropriated Receipts

September 1, 2018 thru August 31, 2019

Budget Categories	Executive Administration	Agency Administration	Program Controls and Oversight	Bond Finance	Programs	Capital Budget	Payroll Related Costs	Total
Salaries	1,549,016	2,866,263	4,228,960	901,575	1,580,896			11,126,711
Payroll Related Costs	-		-	-			2,566,209	2,566,209
Travel In-State	50,457	8,038	160,940	20,500	23,950			263,885
Travel Out-of-State	29,794	5,437	16,580	21,000	8,000			80,811
Professional Fees	112,663	254,232	370,680	51,618	3,508	23,486		816,187
Materials/Supplies	19,925	59,640	65,033	14,265	25,079			183,942
Repairs/Maintenance	28,748	157,467	166,498	49,035	40,067	98,288		540,102
Printing and Reproduction	2,187	1,484	337	6,150	884			11,042
Rental/Lease	7,202	53,025	21,226	13,107	7,920			102,481
Membership Dues	49,228	2,896	6,564	1,350	175			60,214
Staff Development	11,761	23,114	28,587	8,200	13,409			85,071
Insurance/Employee Bonds	31,326	75,842	101,724	18,585	37,137			264,615
Employee Tuition	-	2,804	1,000	2,500	-			6,304
Advertising	1,500	1,133	-	162,000	-			164,633
Freight/Delivery	1,615	8,886	7,180	4,600	268			22,549
Temporary Help	33,202	10,888	10,679	52,551	9,090			116,410
Furniture/Equipment	2,500	7,274	8,274	1,800	1,270	9,233		30,351
Communications/Utilities	33,565	58,424	95,904	43,173	30,677			261,743
Capital Outlay	-	-	-	-	-	303,500		303,500
State Office of Risk Management	1,598	6,815	5,743	971	2,299			17,425
Total	1,966,288	3,603,662	5,295,909	1,372,981	1,784,630	434,507	2,566,209	17,024,184

Method of Finance:

Single Family Bond Administration Fees	1,773,371
Multifamily Bond Administration Fees	558,134
Compliance Fees	3,561,948
Housing Tax Credit Fees	2,478,828
Asset Management Fees	494,987
Subtotal:	8,867,268
Central Support Single Family Bond Administration Fees	367,494
Central Support Multifamily Bond Administration Fees	824,760
Central Support Compliance Fees	3,892,044
Central Support Housing Tax Credit Fees	2,514,072
Central Support Asset Management Fees	558,546
Subtotal:	8,156,916
Total, Method of Finance	17,024,184

REPORT ITEMS

R1

AUDIT and FINANCE COMMITTEE REPORT ITEM

INTERNAL AUDIT DIVISION

June 28, 2018

Presentation and discussion of the Report on the Internal Audit review of the implementation status of prior audits findings and recommendations.



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

www.tdhca.state.tx.us

Greg Abbott
GOVERNOR

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Sharon Thomason, Member
Leo Vasquez, Member

June 28, 2018

Writer's direct phone # 512.475.3813
Email: mark.scott@tdhca.state.tx.us

TO: Board Members of the Texas Department of Housing and Community Affairs ("TDHCA")

RE: Internal Audit Report on the Implementation Status of Prior Audit Recommendations,
Report # 18-002

Dear Board Members,

The TDHCA Fiscal Year 2018 Internal Audit Plan provides for a review of the implementation status of prior audit recommendations. The purpose of this report is to provide information regarding the status of management's efforts to address issues and recommendations noted during both internal and external audit work.

SCOPE AND METHODOLOGY

Our follow-up work covers TDHCA Office of Internal Audit (OIA) open findings and related recommendations made in audit reports dated through December 29th, 2017. An open finding is defined as a finding that was not completely addressed, or for which further action was still required, at the time of this review.

BACKGROUND

The TDHCA undergoes internal and external audits on a regular basis. Internal audits and external audits and reviews may include findings and associated recommendations that require follow-up to ensure that the issues identified during the audits have been addressed. External audits by the State Auditor's Office and federal oversight agencies may also include either formal findings or informally communicated issues that require follow-up. The Institute of Internal Auditors Standards state that "the chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management. The chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior

management has accepted the risk of not taking action. The internal audit activity must monitor the disposition of results of consulting engagements to the extent agreed upon with the client.”

The following report provides an inventory of internal and external audits, and the related open findings. Findings that have been fully implemented will not be carried forward for future follow up activities.

Internal Audit reports addressed during this follow-up project include:

- a) Review of the Sources and Uses of Funds at TDHCA, Report # 16-001
- b) Internal Audit of the Real Estate Analysis Division, Report # 16-002
- c) Internal Audit of the Fair Housing Division, Report # 16-003
- d) Internal Audit Review of Compliance Monitoring Division, Report # 16-004
- e) Review of Operations in TDHCA’s Information Systems Division, Report # 17-001
- f) Review of the Contract for Deed Conversion Program, Report # 17-003, and
- g) Review of the Low-Income Housing Tax Credit Program, Report # 17-004

For detailed status of each Internal Audit finding and recommendation see **Appendix A**.

External audits

External audits and reviews of TDHCA are conducted by the State auditor’s Office (SAO), the Comptroller’s Office, the Sunset Commission, and other oversight agencies. They are also conducted by Federal Funding agencies, and their various departments such as Inspector General’s Office and program monitoring. Both State and Federal audits track the status of findings related to TDHCA.

KPMG:

a. Low Income Home Energy Assistance Program (LIHEAP), Ref # 2016-028

For the federal fiscal year 2015 LIHEAP annual report, the TDHCA did not retain documentation for some of the reported items. The Department has developed a process that requires the capture and retention of the backup documentation that supports the actual reported numbers in the LIHEAP Annual Report at the time of submission.

As of this review TDHCA has implemented a temporary solution as an interim measure. The permanent solution to develop and implement a household level data system for the LIHEAP grant is currently in progress and is expected to go live in September 2019.

The finding remains open

b. HOME Investment Partnership Program, Ref # 2015-027

TDHCA shall maintain internal control over Federal programs that provides reasonable assurance that they are managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grants agreements that could have a material effect on each of its Federal Program.

The recommendation has been implemented and finding is closed

U.S Department of Health and Human Services:

U. S Department of Health and Human Services (HHS), Administration for Children and Families (ACF), Office of Community Services (OCS) conducted a compliance review of the State of Texas’ Federal Fiscal Year 2013 LIHEAP. The Final report was issued in January 2018 and Management has provided their responses in February 2018. The implementation status of HHS recommendations will be included in the Internal Audit follow up report in FY19.

A report from HHS on the TDHCA Community Service Block Grant (CSBG) was issued on June 7th, 2018. The implementation status of its recommendations will be included in the Internal Audit follow up report in FY19.

We express our appreciation to TDHCA management and staff for their courtesy and cooperation during this work.

Sincerely,



Mark E. Scott, CPA, CIA, CISA, CFE, MBA
Director of Internal Audit

Cc: Tim Irvine, Executive Director
Beau Eccles, General Counsel
Brooke Boston, Director of Programs and Analysis
Patricia Murphy, Director of Compliance
Brent Stewart, Director of Real Estate Analysis
Curtis Howe, Director of Information Services
Marni Holloway, Director of Multifamily Finance
Suzanne Hemphill, director of Fair Housing, Data Management and Reporting

Appendix A

STATUS OF INTERNAL AUDIT RECOMMENDATIONS AS OF JUNE 8TH, 2018

1) Audit Report # 16-001

Review of the Sources and Uses of Funds at TDHCA, Issued July 28th, 2016

OIA Finding and Recommendation:
NONE

2) Audit Report # 16-002

Internal Audit of the Real Estate Analysis Division, Issued on April 19th, 2016

OIA Finding and Recommendations:

- I. Underwriting reports are not always completed and posted prior to the decision deadline for the Competitive 9% LIHTC Award Allocation. As a result, the Governing Board and other stakeholders do not have the benefit of the comprehensive analytical reports when making their decision regarding affordable housing developments.

REA should complete the underwriting reports and ensure the reports are available to stakeholders including the TDHCA Governing Board before the allocation and funding decisions are made.

- II. REA deviated from the *Underwriting and Loan Policy Rules* related to:
Presenting applications to EARAC when a significant confluence of concerns was identified
- Review and evaluation of personal credit reports when evaluating the overall capacity of the development team

REA should comply with the Underwriting and Loan Policy rules in Texas Administrative Code. If the rules or portions thereof are no longer relevant or applicable, the rules should be revised accordingly.

Management's response and reported status:

- I. All underwriting reports for the 2016 tax credit allocation cycle were completed prior to the Board's consideration of the applications for approval.
The Division was not fully staffed for the 2017 cycle. Not all underwriting reports for the 2017 cycle were completed prior to the Board's consideration of the applications. All of the transactions that had not been fully underwritten were approved by the Board subject to completion of the underwriting reports and affirmative recommendation. The Division is fully staffed and currently underwriting the 2018 applications.

The recommendation has been implemented and finding is closed.

- II. The rules were revised such that a presentation to EARAC when a significant confluence of concern is identified for an application is optional as determined by the Director of Real Estate Analysis.

The rules were also changed to allow for review and evaluation of credit reports in cases only when warranted.

The recommendation has been implemented and finding is closed.

3) Audit Report # 16-003

Internal Audit of the Fair Housing Division, Issued on October 13th, 2016

OIA Findings and Recommendations:

- I. The training offered to TDHCA staff on Fair Housing should be offered quarterly or at some appropriate interval. This could be accomplished in the same way that information technology training is required.
- II. It is recommended that policies and procedures for Fair Housing be written and made available to all staff of TDHCA. Requirements and checklists for applications of local public housing authorities, for-profit and not-for-profit entities, multi-family, and in some cases single-family should include certification that the entity complies with federal, state, and local Fair Housing rules and regulations. Even though there are individual policies and procedures for certain processes, there is not currently a set of formal standard operating procedures for Fair Housing.

Management's response and reported status:

- I. In January 2017, the Department's Executive Director and Director of Human resources amended the agency's employment policy to require all employees to take online Fair Housing Training offered through the Texas Workforce Commission, Civil Rights Division. A refresher course is required every two years and is tracked by Human Resources staff. This is in addition to other periodic trainings that have been offered by Fair Housing Division.
The recommendation has been implemented and finding is closed.
- II. At the time of this follow up management was drafting a SOP for the Fair Housing work specific to FHDMMR.
The finding remains open

4) Audit Report # 16-004

Internal Audit Review of Compliance Monitoring Division, Issued on November 10th, 2016

OIA Findings and Recommendations:

- I. The timeliness of reporting on compliance activities could be improved.
- II. Reporting on time spent on compliance activities allocated among different programs could be improved.

Management's response and reported status:

- I. The division's Standard Operating Procedures (SOPs) have been updated to reflect the necessary changes to ensure compliance with federal regulations.
The recommendation has been implemented and finding is closed.
- II. Management memos have been distributed to the compliance staff on November 4th, 2016 to provide clear guidance for time card reporting.
The recommendation has been implemented and finding is closed.

5) Audit Report # 17-001

Review of Operations in TDHCA's Information Systems Division, Issued on August 24th, 2017

OIA Findings and Recommendations:

- I. IS should develop a protocol for testing information systems and designate an individual to be responsible for the internal risk assessment component of the overall governance structure.
- II. The division should develop and implement a more comprehensive program of IS training for users.

Management's response and reported status:

- I. The division created a new full-time position in FY 2018 budget to be dedicated to security testing and quality assurance of agency's software application. This position has not been filled as of this follow up due to lack of qualified applicants. The division plans to repost the position using different methods to reach broader potential applicants. The division also purchased vulnerability assessment tool and has begun using it. The new web application firewall is currently being evaluated on development and test instances of TDHCA's web-based system.

The finding remains open

- II. The rollout of the general IS training subscriptions was completed in February 2018, and the rollout of the required security training in January 2018.

The recommendation has been implemented and finding is closed.

6) Audit Report # 17-003

Review of the contract for Deed Conversion Program, Issued on November 29th, 2017

OIA Findings and Recommendations:

NONE

7) Audit Report # 17-004

Review of the Low-Income Housing Tax Credit (LIHTC) Program, Issued on June 5th, 2017

OIA Findings and Recommendations:

- I. The division should develop a Standard Operating Procedures (SOP)
- II. Management should implement a filing system that includes consistent sub-files and verification of posted information

Management's response and reported status:

- I. Management's original response, as of June 5th, 2017, stated that "The Multifamily Finance Division accepts the finding and will update the Division's Standard Operating Procedures (SOP) prior to December 29th, 2017". No updates have been provided to OIA.

The finding remains open

- II. Management's original response, as of June 5th, 2017, stated that "The Multifamily Finance Division will include a management sampling process in the SOP. A sample of priority applications will be performed periodically during the competitive LIHTC cycle starting in 2018 to review for accuracy and legibility of documents". No updates have been provided to OIA.

The finding remains open

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AUDIT and FINANCE COMMITTEE REPORT ITEM

INTERNAL AUDIT DIVISION

JUNE 28, 2016

DISCUSSION OF RECENT EXTERNAL AUDIT ACTIVITY

ORAL PRESENTATION