

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

AUDIT AND FINANCE COMMITTEE MEETING

John H. Reagan Building
Room JHR 140
105 W. 15th Street
Austin, Texas

June 27, 2019
7:30 a.m.

MEMBERS:

SUSAN THOMASON, Chair
PAUL A. BRADEN, Member
ASUSENA RESÉNDIZ, Member
LEO VASQUEZ, Member

ON THE RECORD REPORTING
(512) 450-0342

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ROLL CALL	
CERTIFICATION OF QUORUM	
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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 June 27 meeting of the TDHCA Audit and Finance Committee.

4 We'll take roll. Sharon Thomason present.

5 Paul Braden?

6 MR. BRADEN: Here.

7 MS. THOMASON: Asusena Reséndiz?

8 MS. RESÉNDIZ: Present.

9 MS. THOMASON: And Leo Vasquez?

10 MR. VASQUEZ: Here.

11 MS. THOMASON: Perfect.

12 Item 1 is the approval of the minutes from our
13 March 21, 2019 Audit and Finance Committee meeting.

14 At that meeting we had an action item related
15 to the acceptance of the State Auditor's Office audit of
16 the TDHCA financial statements. The SAO presented their
17 report, and the Committee voted to recommend approval of
18 the reports to the full Board.

19 Director of Internal Audit Mark Scott also went
20 over the internal audit of the public information request
21 function and the audit of TDHCA's licensing, inspections
22 and outreach for the migrant labor housing. The Committee
23 members also asked management several followup questions
24 about the audit, and we had a good discussion about that.

25 Those minutes are included in the notebook for

1 the Audit and Finance Committee. Do I have a motion to
2 approve the minutes from the March Audit and Finance
3 Committee meeting?

4 MS. RESÉNDIZ: So move to approve.

5 MS. THOMASON: A second?

6 MR. BRADEN: Second.

7 MR. VASQUEZ: Second.

8 MS. THOMASON: All in favor?

9 (A chorus of ayes.)

10 MS. THOMASON: Moving on to action item number
11 2 is the presentation for the fiscal year 2020 TDHCA
12 operating budget, and Ernie Palacios will present that to
13 us.

14 Good morning.

15 MR. PALACIOS: Good morning, Madam Chair,
16 members of the Committee. For the record, I'm Ernie
17 Palacios, director of Financial Administration.

18 Over the last several months we've been meeting
19 with division directors and managers to develop an
20 internal operating budget for fiscal year 2020. Behind
21 item 2 is the internal operating budget which includes a
22 comparison report with the 2019 operating budget. I would
23 like to provide you information related to the amount of
24 the budget, the expenditure categories of where this money
25 will be used, and lastly, the financing associated with

1 recommending this budget for the upcoming fiscal year.

2 The proposed budget is \$27.8 million. This
3 represents a \$286,000, or 1 percent decrease from the
4 current budget. The decrease is primarily attributed to a
5 decrease in our capital budget, offset by small increases
6 and decreases in several cost categories, such as salaries
7 and wages, which increased \$358,000 and which includes: a
8 1 percent allowance for potential salary increases for
9 employees such as merits, re-classes and other items the
10 Department may want to consider throughout the fiscal
11 year; also funding for two additional FTEs in our
12 Multifamily area and our Subrecipient Monitoring area; and
13 also included in this category is a legislative increase
14 included in the General Appropriations Act for our
15 executive director. There's an increase in payroll
16 related costs of \$85,191, proportional to the salary
17 increase.

18 Out-of-state travel increased \$16,000 in the
19 areas of Compliance, Program Controls, Bond Finance,
20 Multifamily and Community Affairs.

21 Professional fees increased \$289,000 related to
22 the expanded contract for inspection services and annual
23 ongoing maintenance of the Community Affairs software
24 project.

25 Repairs and maintenance decreased \$121,000,

1 primarily related to a decrease in computer-related annual
2 maintenance costs.

3 Advertising decreased \$79,000, primarily due to
4 the inclusion of an FY19 marketing initiative by the Texas
5 Homeownership Division.

6 Temporary help decreased \$28,000, primarily due
7 to the removal of a redesign of the Texas Homeownership
8 programs, offset by an increase in the agency's security
9 services.

10 Furniture and equipment increased \$226,000 due
11 to an anticipated increase in the capital expenditures for
12 items such as computers and printers, the majority of
13 which will occur in the first year of the biennium.

14 Monthly capital outlay decreased \$1,007,600 due
15 to the following projects no longer being part of the
16 capital budget, such as our PeopleSoft financial upgrade
17 of about \$200,000, the cybersecurity project of \$180,000,
18 and new software needed by the Community Affairs Division
19 costing about \$600,000.

20 The Department's cap FTEs is 313; the budget
21 has 311 FTEs. 247 are TDHCA personnel and 64 are
22 Manufactured Housing Division staff, two less than
23 appropriated.

24 The method of finance was affected as follows:
25 General revenue related to earned federal funds decreased

1 \$103,000, or 4.7 percent, primarily related to the
2 addition of the National Housing Trust Fund. Federal
3 funds decreased \$129,000, or 1.9 percent, primarily
4 related to the capital budget project for Community
5 Affairs.

6 Appropriated receipts had a decrease of
7 \$51,700, or a .3 percent decrease. This is primarily due
8 to the capital budget projects. And finally, the
9 interagency contracts had a decrease of \$196,000,
10 primarily related to the conclusion of the Money Follows
11 the Person program.

12 Also, I would like to note for the record, in
13 accordance with the Internal Auditing Standards and the
14 Board's Internal Audit Charter, the budget includes the
15 Internal Audit Division's annual operating budget.

16 This concludes my remarks on this item, and I'm
17 available for any questions.

18 MS. THOMASON: Thank you.

19 Are there any questions about the budget?

20 MR. VASQUEZ: I have a couple.

21 Great that the overall budget seems to be
22 dropping one percent, however, that's all attributed --
23 virtually all attributable to this capital outlay
24 decrease. These are canceled projects? Can you explain a
25 little bit more as to how?

1 MR. PALACIOS: Well, the capital projects were
2 in our 2018-2019 fiscal years, and they were completed or
3 pretty much completed in that fiscal year, so when we did
4 our LAR for this next biennium, we didn't have any major
5 projects such as that. The only thing we had in our
6 capital budget was our regular replacement of computers,
7 some other ongoing maintenance of our People Soft
8 programs, that type of thing.

9 MR. VASQUEZ: So we transferred from capital
10 outlay into furniture and equipment?

11 MR. PALACIOS: Correct. Those other
12 categories, furniture and equipment and repairs and
13 maintenance.

14 MR. VASQUEZ: Well, all those computers and
15 things you talked about.

16 MR. PALACIOS: Exactly.

17 MR. VASQUEZ: So you really moved part of the
18 million dollars from capital outlay into the furniture and
19 equipment category.

20 MR. PALACIOS: Some of those other categories.
21 Right. We have an increase in our salaries and wages, so
22 that took up some of that also.

23 MR. VASQUEZ: And again, I'm just trying to
24 understand on the capital projects, they were completed or
25 they were just dropped?

1 MR. PALACIOS: They were completed.

2 MR. VASQUEZ: Like a million dollars under
3 budget?

4 MR. PALACIOS: No, no.

5 MR. VASQUEZ: In previous periods? I mean, we
6 still had another million for that?

7 MR. PALACIOS: We had a million dollars
8 allocated in our 2019 budget to get those finished, and it
9 was part of our LAR, our previous LAR, so we didn't have
10 to carry those forward into the next LAR.

11 MR. VASQUEZ: Because we overestimated by a
12 million dollars on those projects? Again, we have a
13 million dollars in FY 2019.

14 MS. THOMASON: It was spent.

15 MR. PALACIOS: Right.

16 MR. VASQUEZ: That was spent, so it was
17 completed in 2019.

18 MS. THOMASON: Is there a threshold for what
19 would be your typical -- you have an amount every year for
20 computer replacement and things like that. The capital
21 outlay, is there a threshold where something moves from
22 furniture or equipment into capital outlay?

23 MR. PALACIOS: It's not so much a threshold,
24 it's the type of project that it is. So for example, we
25 had our CAPPs financials project, which is considered a

1 major initiative, and so that was when we prepared the LAR
2 for the prior biennium, it was considered a capital
3 project, and like our cybersecurity and like our Community
4 Affairs software project that was \$600,000. So those were
5 major projects that were considered that. Even in that
6 year we had some regular computer replacement and that
7 type of thing.

8 MS. THOMASON: So the capital projects are
9 more -- they're not going to recur.

10 MR. PALACIOS: Exactly. Unless there's a new
11 initiative.

12 MS. THOMASON: Which is why we don't see it in
13 2020; there's no anticipated major capital.

14 MR. PALACIOS: Correct.

15 MS. THOMASON: Does that help?

16 MR. VASQUEZ: Yes. And this was just a step to
17 where I'm getting to.

18 MR. PALACIOS: Okay.

19 MR. VASQUEZ: Let's get to the bottom line. So
20 without that million dollar line item change, we're really
21 up over \$700,000 on the fiscal year budget. I mean,
22 that's a one million line item reduction.

23 MR. PALACIOS: Right, correct.

24 MR. VASQUEZ: So it's taking out those one-time
25 capital expenditures. We've really increased the budget,

1 say, \$700,000.

2 MR. PALACIOS: Correct. Which we had
3 anticipated when we built our LAR for 2020 and 2021. That
4 was part of our just regular growth, the agency's need,
5 that type of thing.

6 MR. VASQUEZ: I would just encourage all of us
7 to recognize the reality of what we're spending on a
8 regular basis, not the one-time projects. I fear if we
9 just get too relaxed and say, oh, we reduced our budget
10 1 percent -- well, we didn't reduce the operating budget
11 1 percent.

12 MR. PALACIOS: Bottom line, correct.

13 MR. VASQUEZ: So let's continue to just try
14 harder next year.

15 MR. PALACIOS: Okay.

16 MS. THOMASON: Any other questions?

17 MS. RESÉNDIZ: I have a question, Madam Chair.
18 Thank you so much for that report.

19 MR. PALACIOS: You're welcome.

20 MS. RESÉNDIZ: What all falls under
21 advertising? I may be simplifying that question a little
22 too much, but I'd just like the detail of it because Comm
23 is right under it, so I would think that those would go
24 together, but that's just me.

25 MR. PALACIOS: Advertising?

1 MS. RESÉNDIZ: Because I see that it went down
2 almost 50 percent.

3 MR. PALACIOS: Right, correct. In advertising
4 in 2019 we had an initiative to revamp some of the
5 marketing for the Texas Homeownership Division, and so
6 that would be something that would fall in that category.

7 I was trying to think what other type of advertising we
8 have.

9 MS. RESÉNDIZ: How are we advertising the
10 migrant farm worker program?

11 MR. PALACIOS: That's not something that I know
12 was included in this category for this fiscal year. There
13 wasn't anything specific, like so much allocated to that.

14 MS. RESÉNDIZ: Would you just find out for me?

15 MR. PALACIOS: Sure. Let me get back to you.

16 MS. RESÉNDIZ: Thank you so much.

17 MS. THOMASON: Are there any other questions?

18 (No response.)

19 MS. THOMASON: Okay. Thank you very much.

20 MR. PALACIOS: You're welcome.

21 MS. THOMASON: If there are no more questions,
22 then can I have a motion to recommend to the full Board
23 approval of the 2020 TDHCA operating budget?

24 MR. BRADEN: So moved.

25 MS. THOMASON: A second?

1 MS. RESÉNDIZ: Second.

2 MS. THOMASON: All in favor?

3 (A chorus of ayes.)

4 MS. THOMASON: Perfect. Thank you very much,
5 Ernie.

6 Our next item is presentation of the fiscal
7 year 2020 Housing Finance Division budget, which Mr.
8 Palacios will also present.

9 MR. PALACIOS: Now I would like to turn your
10 attention to item 3, the Housing Finance Division budget.

11 This particular item is a subset of the larger
12 budget, and it's in relation to the Housing Finance budget
13 that we are required to submit under the Texas Government
14 Code and in compliance with the General Appropriations
15 Act.

16 This subset of the budget is specific to fees
17 that we generate, typically referred to as the Texas
18 Housing Finance budget of the Department. At this time we
19 are prepared to certify this budget as well, and I'm
20 available for any questions you may have on this item.

21 MS. THOMASON: Thank you.

22 Any questions on this item?

23 (NO response.)

24 MS. THOMASON: Okay. If not, then can I have a
25 motion to recommend to the full Board approval of the

1 Housing Finance budget for 2020?

2 MR. BRADEN: So moved.

3 MS. THOMASON: And a second?

4 MS. RESÉNDIZ: Second.

5 MS. THOMASON: All in favor?

6 (A chorus of ayes.)

7 MS. THOMASON: Thank you very much.

8 MR. PALACIOS: Also, at this time I'd like to
9 acknowledge Kristi Vavra and Paul Ford. Kristi is the
10 manager of the Financial Services over budget, payroll and
11 travel, and Paul is our senior budget analyst. They have
12 both done an incredible job in the development of this
13 budget and in keeping targets of this budget in line.

14 MS. THOMASON: Thank you.

15 MR. PALACIOS: Thank you.

16 MS. THOMASON: All right. And we'll move to
17 report items. Our first item is going to be the Internal
18 Audit report in construction cost certifications, and Mark
19 will present that to us.

20 MR. SCOTT: Thank you, Madam Chair.

21 We audited the construction cost certification
22 processes and the controls that are in place. The
23 developers prepare development-cost schedules that the
24 audit firms audit. The audit firm will go through the
25 costs and take out costs that exceed certain limits or

1 were incurred outside the eligibility period.

2 We audited the TDHCA controls over the
3 certifications with emphasis on the audit reports that are
4 received from independent CPAs. We have a recommendation
5 to set up a system whereby Asset Management will verify
6 that the CPAs are in good standing and are licensed in the
7 state of Texas. Also, we had an observation that in our
8 sample one CPA firm provided both the market analysis and
9 the independent cost certification auditor's report, and
10 this latter was not a formal finding.

11 As a part of our audit we conducted
12 recomputations of tax credit amounts. Actually, the 9
13 percent and 4 percent tax credits were designed per the
14 IRS Code to yield over a ten-year period a net present
15 value equal to 70 percent of the adjusted basis for the
16 competitive tax credits and 30 percent of the adjusted
17 basis for the non-competitive tax credits.

18 For the competitive tax credits, a floor of 9
19 percent was set as a result of the stimulus program. We
20 performed various re-calculations using the IRS prescribed
21 formulas and discount rates and the test sample was
22 accurate.

23 And as a final note on this topic, there was a
24 nationwide audit conducted by the Government
25 Accountability Office that we reviewed, and the GAO report

1 cited Texas as having the lowest per unit cost of the
2 states that they reviewed, so that was a positive note.

3 Are there any questions on that audit?

4 (No response.)

5 MS. THOMASON: Okay. If not, our next report
6 item is an update on external audit activity. Mark.

7 MR. SCOTT: There are several external audits
8 taking place right now. The State Auditor's Office has
9 started the financial statement part of the statewide
10 audit. This is an audit of the entire state's
11 expenditures and financial activities. As a reminder,
12 TDHCA also engages SAO to audit the bond activity and the
13 trust funds that are maintained outside the State
14 Treasury.

15 And part of the statewide audit is the audit of
16 federal compliance related to the major federal programs.

17 In the past KPMG has performed this work. A new firm,
18 CliftonLarsonAllen, is doing the federal compliance piece
19 this year. For TDHCA they have selected LIHEAP and CSBG
20 to audit.

21 The SAO is also auditing the Manufactured
22 Housing Division, and that agency is administratively
23 attached to TDHCA. For this audit they are reviewing the
24 I.T. services that we provide to Manufactured Housing, and
25 so far I've spoken with them and they don't have any

1 issues related to the I.T. services.

2 And also, there's one more, the SAO is
3 conducting a classification audit of TDHCA I.T. staff,
4 information technology staff, and this is a review of
5 whether the I.T. positions are correctly classified based
6 on the work that they do. And they're doing this over
7 several agencies, so it's not just us.

8 And that's the external audits.

9 MS. THOMASON: Any questions for Mark?

10 (No response.)

11 MS. THOMASON: Okay. Without any questions, I
12 believe that concludes our meeting today at 7:47. Thank
13 you.

14 (Whereupon, at 7:47 a.m., the meeting was
15 concluded.)

C E R T I F I C A T E

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3 MEETING OF: TDHCA Audit & Finance Committee

4 LOCATION: Austin, Texas

5 DATE: June 27, 2019

6 I do hereby certify that the foregoing pages,
7 numbers 1 through 18, inclusive, are the true, accurate,
8 and complete transcript prepared from the verbal recording
9 made by electronic recording by Nancy H. King before the
10 Texas Department of Housing and Community Affairs.

11 DATE: July 1, 2019
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18 _____
(Transcriber)

19
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