

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

AUDIT AND FINANCE COMMITTEE MEETING

Texas Capitol Building
Capitol Extension
Room E2.016
1100 Congress Avenue
Austin, Texas

September 6, 2018
7:32 a.m.

MEMBERS:

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

I N D E X

| <u>AGENDA ITEM</u> | <u>PAGE</u> |
|---|-------------|
| CALL TO ORDER, ROLL CALL CERTIFICATION OF QUORUM | 3 |
| ACTION ITEMS: | |
| ITEM 1: Presentation, discussion, and possible action to Approve the Audit Committee Minutes Summary for June 28, 2018 and July 12, 2018 | 3 |
| ITEM 2: Presentation, discussion, and possible action to Approve the Fiscal Year 2019 Internal Audit Work Plan. | 4 |
| REPORT ITEMS: | |
| 1. Presentation and discussion of Internal Audit of Neighborhood Stabilization Program (NSP) Close out process | 8 |
| 2. Presentation and discussion of newly revised TDHCA's Fraud, Waste and abuse policy | 9 |
| 3. Presentation and discussion of report required under Texas Government Code §2306.070 for submission to legislative bodies, status of other recent legislative submissions | 10 |
| PUBLIC COMMENT ON MATTERS OTHER THAN ITEMS FOR WHICH THERE WERE POSTED AGENDA ITEMS | none |
| EXECUTIVE SESSION | none |
| OPEN SESSION | -- |
| ADJOURN | 10 |

P R O C E E D I N G S

1
2 MS. THOMASON: Good morning, and welcome to the
3 September 6 meeting of the TDHCA Audit and Finance
4 Committee. And I apologize in advance. I'm struggling
5 with some allergies, so excuse my sniffing and coughing.

6 Let's take roll. Sharon Thomason, I'm present.

7 Paul Braden?

8 MR. BRADEN: Here.

9 MS. THOMASON: Asusena Reséndiz:

10 MS. RESÉNDIZ: Present.

11 MS. THOMASON: And Leo Vasquez is absent today.

12 So we have a couple of action items. Action
13 item 1 is the approval of the minutes from the June 28
14 and the July 12, 2018 meetings we had. At the June 28
15 meeting, the committee recommended approval of the revised
16 Internal Audit Charter and also the fiscal year 2019
17 Housing Finance Division budget. The director of Internal
18 Audit, Mr. Mark Scott, discussed the recent internal and
19 external audit activities, and the director of accounting,
20 Mr. Ernie Palacios, discussed the agency operating budget
21 items. And at the July 12 meeting, the director of
22 External Affairs, Mr. Michael Lyttle, discussed potential
23 budgeting adjustments and how they were determined, and
24 the committee voted to accept the presentation and
25 recommended it to the full Board.

1 The minutes are included in your books for the
2 Audit and Finance Committee. Can I have a motion to
3 approve the minutes from both the June and July Audit
4 Committee meetings?

5 MR. BRADEN: So moved.

6 MS. RESÉNDIZ: Second.

7 MS. THOMASON: All right. All in favor
8 obviously? Yes.

9 (A chorus of ayes.)

10 MS. THOMASON: Any opposed?

11 (No response.)

12 MS. THOMASON: Okay. The second action item is
13 the presentation and possible approval of the 2019
14 Internal Audit Plan, and Mr. Scott will present that for
15 us.

16 MR. SCOTT: Thank you, Ms. Thomason.

17 The audit plan was prepared with an updated
18 risk assessment matrix. When I presented the audit plan
19 last year, it was recommended that the matrix be updated;
20 last year's peer review also suggested that the matrix be
21 updated. Additionally, there was a recent agency
22 reorganization which was taken into account during the
23 audit planning process. For audit planning purposes, risk
24 is sometimes synonymous with important, so the fact that
25 something is on the audit plan does not have a negative

1 connotation.

2 The first new audit on the plan is complaint
3 resolution. This is an important agency interface with
4 the public. It is also a statutory requirement. The
5 audit will review the intake and resolution procedures.

6 Multifamily revenue bonds was the second one,
7 and last year we audited the single family revenue bond
8 processes. There has been interest expressed also for the
9 multifamily bonds. We will review the controls and
10 processes for multifamily revenue bonds.

11 The next one is the internal audit performance
12 measures, and this will review the process for developing
13 the measures as well as their utility. We will also
14 review their accuracy.

15 The fourth audit is of the inspections of
16 migrant labor housing. This audit will review the
17 processes in place for conducting inspections.

18 The audit of the Enforcement Division will
19 evaluate the processes for reviewing cases of non-
20 compliance and addressing sanctions. We will review the
21 effectiveness of the sanctions and also the recourse or
22 appeals process available to those who are sanctioned.

23 Number six is the audit of the certification of
24 construction costs. This is an important step in
25 preventing overstatement of the cost basis for the

1 multifamily developments. TDHCA relies on the
2 certification from CPAs in a way that is similar to
3 reliance on single audits for monitoring subrecipients.
4 There still has to be proper procedures for receipt and
5 analysis of reports.

6 And the seventh item is public information
7 requests, and this is another important agency interface
8 with the public. Also, legal compliance with the Public
9 Information Act is critical.

10 So at that point I'll ask if there's any
11 questions on the new audits on the plan.

12 MS. THOMASON: Any questions for Mark?

13 MR. BRADEN: Mark, so this is for fiscal year
14 2019, so what is the actual timing of these audits?

15 MR. SCOTT: Well, I have new staff so we should
16 be able to do them pretty quickly. If there's a
17 preference by the Audit Committee, I'll certainly take
18 that into account, but it depends on the logistics. If it
19 looks like something will be a short audit and there's a
20 window of time, I'll put it in there. The order that
21 they're presented on the audit plan is not necessarily the
22 order we'll take it in, but if the Audit Committee has
23 preference, we'll definitely do those.

24 MR. BRADEN: I don't know if there's anything
25 on this list that you maybe want to take first as opposed

1 to the order it's presented.

2 MS. THOMASON: Do you have anything?

3 MS. RESÉNDIZ: My question was if staff had
4 outlined these items already to see which you want to do
5 first.

6 MR. SCOTT: Not as far as which should be
7 first, but I did get good input. Brooke Boston gave me a
8 really good list of items to look at in the audit plan and
9 some others, so I did get input, but as far as like which
10 ones to do at which time, I haven't received any.

11 Also, in addition to if somebody wants one done
12 first, if there's a certain timing that would be
13 excessively inconvenient for management, if they'll tell
14 me about it, I'll take that into account as well.

15 MR. BRADEN: I mean, you know, resolution of
16 complaints, you have it number one, if there's some logic
17 to that, but I do think, as you just mentioned, take into
18 account what's convenient to management so we're not
19 disrupting the business of the agency.

20 MR. SCOTT: Yes, sir.

21 Okay. Are there any other questions?

22 (No response.)

23 MR. SCOTT: We're finishing up the 2018 audit
24 plan. As I said, Cheryl Kemp is the new staff member for
25 Internal Audit; she has a really good finance background.

1 The big carryover audit is the loan servicing audit, and
2 the plan also includes consulting and administrative
3 activities, as well as an allocation for external audit
4 coordination.

5 And so with that, I will ask for the committee
6 to vote to recommend approval of the 2019 Internal Audit
7 Plan to the full Board.

8 MS. THOMASON: Do I have a motion to recommend
9 approval of the 2019 Audit Plan to the full Board?

10 MR. BRADEN: So moved.

11 MS. THOMASON: A second?

12 MS. RESÉNDIZ: Second.

13 MS. THOMASON: All in favor?

14 (A chorus of ayes.)

15 MS. THOMASON: And none opposed, so we will do
16 that. Thank you very much.

17 Now on to report items. We have three report
18 items that we will discuss and the first is the
19 presentation and discussion of the internal audit of the
20 Neighborhood Stabilization closeout process, and Mark will
21 brief us on that.

22 MR. SCOTT: The NSP audit, we conducted a
23 review of the closeout procedures for the Neighborhood
24 Stabilization Program, or NSP. NSP is a stimulus program
25 for which the activities span several years. The purpose

1 of NSP was to acquire and redevelop foreclosed properties
2 that might otherwise become sources of abandonment or
3 blight. The first stage of the program, NSP-1, is
4 scheduled for closeout by HUD in 2019.

5 OIA reviewed the closeout procedures for
6 individual contracts. We tested the reconciliations
7 between the housing contract system and the Disaster
8 Recovery Grant Reporting system, or DRGR system. We also
9 tested other requirements such as subrecipient compliance
10 with the Single Audit Act, proper draw amounts, and other
11 elements, and we found no audit exceptions.

12 MS. THOMASON: Okay. Thank you.

13 Does anyone have any questions about that?

14 (No response.)

15 MS. THOMASON: Our second report item is going
16 to be the presentation of the TDHCA's newly revised fraud,
17 waste and abuse standard operating procedure. Mark.

18 MR. SCOTT: Internal Audit Standard 2120.82
19 says the internal activity must evaluate the potential
20 for the occurrence of fraud and how the organization
21 manages fraud risk. We had the agency reorganization and
22 so we took that opportunity to rewrite the SOP. It also
23 takes into account that we have a Fraud, Waste and Abuse,
24 or FWA, Committee. The new policy coordinates staff
25 responsibilities with the protocol of the FWA Committee.

1 MS. THOMASON: Are there any questions.

2 (No response.)

3 MS. THOMASON: All right. Thank you.

4 Our next item is related to the Finance
5 Administration Division, and Mr. David Cervantes, the
6 TDHCA CFO, will present that item.

7 MR. CERVANTES: Good morning, Madam Chair,
8 members. For the record, my name is David Cervantes,
9 director of Administration.

10 The report item before the committee relates to
11 a statutorily required scheduled providing information on
12 revenues collected by the Department in the last three
13 years and containing an explanation of variance between
14 fees budgeted within operating budgets and fees collected
15 for the most recent year if that variance is above 3
16 percent. Under Section 2306.070 of Texas Government Code,
17 the Department must provide the schedule to the Senate
18 Committee on Finance, the House Committee on
19 Appropriations, and the Legislative Budget Board.

20 The schedule being presented meets the
21 statutory requirement. It reflects in separate schedules
22 the two types of fees collected by the Department:
23 housing finance fees such as bond, tax credit program
24 administration, compliance and asset management fees; and
25 fees associated with the regulation of the Manufactured

1 Housing agency, such as licensing and inspection fees.

2 Variances found within each fee type is explained.

3 Submission of this report is linked in statute
4 with the Legislative Appropriations Request, otherwise
5 known as the LAR. TDHCA brought items for fiscal years
6 2020-21 LAR to the Board earlier in the year. Information
7 on the schedule is consistent with the similar information
8 included in different schedules within the Department's
9 2020-21 LAR.

10 If you will permit me, I would like to provide
11 a brief update on the LAR. TDHCA submitted the 20-21 LAR
12 to the Office of the Governor, the Legislative Budget
13 Board, and other oversight offices on August 3, 2018. On
14 August 30 of 2018, the Office of the Governor and the
15 Legislative Budget Board held a hearing on the LAR. Tim
16 Irvine presented the agency's budget and answered
17 questions. Senate Finance and House Appropriations staff,
18 who will be reviewing TDHCA's LAR, were also present, as
19 was a representative of the Speaker's Office. These
20 hearings are typically brief and this one was no
21 different, it lasted probably about 15 minutes or so.

22 So with that, I will close and stand ready to
23 answer any questions you may have on this particular item.

24 MS. THOMASON: Thank you.

25 Are there any questions?

1 (No response.)

2 MS. THOMASON: All right. Thank you very much.

3 MR. CERVANTES: Okay. Thank you very much.

4 MS. THOMASON: And with no further business, is
5 there anyone, Tim, do you have anything?

6 (Mr. Irvine indicated a negative response from
7 the audience.)

8 MS. THOMASON: Okay. Then with no further
9 business, we are adjourned at 7:45. Thank you.

10 (Whereupon, at 7:45 a.m., the meeting was
11 adjourned.)

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MEETING OF: TDHCA Finance & Audit Committee

LOCATION: Austin, Texas

DATE: September 6, 2018

I do hereby certify that the foregoing pages, numbers 1 through 13, inclusive, are the true, accurate, and complete transcript prepared from the verbal recording made by electronic recording by Nancy H. King before the Texas Department of Housing and Community Affairs.

DATE: September 12, 2018

/s/ Nancy H. King
(Transcriber)

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