

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

AUDIT AND FINANCE COMMITTEE MEETING

John H. Reagan Building  
JHR 140  
1400 Congress Avenue  
Austin, Texas 78701

June 16, 2022  
9:30 a.m.

MEMBERS:

AJAY THOMAS, Chair  
LEO VASQUEZ, Member

*ON THE RECORD REPORTING*  
*(512) 450-0342*

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P R O C E E D I N G S

1  
2 MR. THOMAS: Good morning, everyone. Thank you  
3 for joining us. Welcome to the June 16, 2022 meeting of  
4 the Audit and Finance Committee of the Texas Department of  
5 Housing and Community Affairs.

6 Let's go ahead and take roll this morning.  
7 Member Vasquez?

8 MR. VASQUEZ: Here.

9 MR. THOMAS: Thank you. And we have three  
10 action items and three report items on today's agenda.  
11 Since we have two vacant committee positions, we do not  
12 have a full quorum today. We will not vote officially on  
13 any items.

14 The two action items related to the fiscal year  
15 2023 budget will be presented as report items to the  
16 committee, and then later today they will be presented to  
17 the full board for their approval.

18 We will start this morning with the  
19 presentation, discussion, and possible action on the fiscal  
20 year 2023 operating budget, and this will be presented to  
21 us by the director of Financial Administration, Mr. Joe  
22 Guevara.

23 MR. GUEVARA: Good morning. For the record, I'm  
24 Joe Guevara, director of Financial Administration.

25 Item number 2 relates to the Department's

1 operating budget for fiscal year 2023. Over the past  
2 several months our budget team has been collaborating with  
3 our division directors and managers to develop this budget.

4 This budget is within the spending limits  
5 outlined in the General Appropriations Act for the 22-23  
6 biennium and will be the foundation for our legislative  
7 appropriation request for the 24-25 biennium.

8 We developed this budget to address personnel,  
9 technology, and administrative needs within the Department.

10 In addition, it outlines temporary and necessary growth to  
11 support one-time programs created in response to the  
12 Coronavirus pandemic and other activities which has charged  
13 our agency with administering over \$4.2 billion in funds  
14 over the next couple of years.

15 So behind item 2 is the internal operating  
16 budget, which includes a detailed comparison report  
17 compared to the previous year. We have reformatted this  
18 report to provide you a comparison each year as a whole,  
19 along with an adjusted report excluding temporary in the  
20 capital budget. We believe that this will give you a  
21 transparent look to compare our core operations.

22 So in summary, the 2023 proposed budget is  
23 \$115.7 million, which increased \$9.7 million or 9.1  
24 percent. The structure of this budget can be divided into  
25 three components: the one-time temporary federally funded

1 programs, our ongoing permanent activities, and our capital  
2 budget.

3 First I'd like to discuss the temporary  
4 component of the budget. The budget expenditures related  
5 to temporary programs account for \$86.6 million of our  
6 budget, which is approximately 75 percent of our budget,  
7 and accounts for approximately \$9.2 million of our total  
8 increase for the year.

9 This temporary administrative funding will be  
10 utilized for expenditures related to personnel and  
11 outsourced professional services and other general  
12 administrative expenses for these programs.

13 It also proposes to fund 91 Article 9 temporary  
14 FTEs that would be employed during the course of spending  
15 these grant funds. The temporary growth is about 38 from  
16 fiscal year '22, and it's associated with the Housing  
17 Stabilization Services, the Homeowners Assistance Fund, the  
18 HOME ARPA Program, and the new weatherization program  
19 that's being launched currently.

20 In addition, professional services increased  
21 \$3.4 million. The increase is attributed to new contracts  
22 with outside vendors to assist in the administration of the  
23 Homeowners Assistance Fund and the LIWAP and LIHEAP  
24 programs under American Rescue Plan Act. And these new  
25 contracts are offset by the conclusion of the contracts

1 with four different vendors that assisted with the rental  
2 assistance program that is currently at the tail-end of the  
3 spending as we speak.

4           Secondly, the budget expenditures related to our  
5 core programs account for \$20 million with an increase of  
6 \$299,000, so our core operations only increased 1.08  
7 percent compared to FY22. In the report that's in your  
8 packet, the adjusted various column in the comparison lists  
9 the changes in the categories and the impact of the budget  
10 to fiscal year 2022.

11           Some variances to highlight in the comparison  
12 report are as follows: Salaries and wages increased  
13 \$290,000 or 1.25 percent. This is primarily due to the  
14 funding of two repurposed FTEs to address an increase in  
15 single family and multifamily activities in addition to our  
16 normal 1 percent growth that we budget into our budget.

17           Also, the professional services line item  
18 increased \$81,000. This is primarily due to a planned  
19 outsourcing vendor to assist the subrecipient monitoring  
20 area.

21           And lastly, the other major change in the budget  
22 is under the temporary help line item. This item increased  
23 \$77,000, and it's primarily related to the planned use of  
24 temporary staff for the Real Estate Analysis Division, to  
25 assist them during the peak time of the tax credit season.

1           Fortunately, we were able to offset some of this  
2 growth through reduction in other categories such as rents  
3 and leases and communications, which led to a minimum  
4 growth in our budget.

5           The last component of our budget is our capital  
6 projects budget, which increased \$141,000, mainly to  
7 address cybersecurity, system maintenance, and equipment  
8 needs within the Department.

9           Overall, this budget is reflective of 404 FTEs,  
10 91 being Article 9 temporary, 249 are TDHCA permanent  
11 employees, and 64 are related to the Manufactured Housing  
12 Division staff. Lastly, we project that we will have  
13 enough revenue to support these expenditures appropriated  
14 to general revenue, federal funds, and appropriated  
15 receipts.

16           Also, I would like to note for the record, in  
17 accordance with the Internal Auditing Standards and the  
18 Board's internal audit charter, the budget includes the  
19 Internal Audit Division operating budget as well in this  
20 budget.

21           So this concludes my remarks on this item, so  
22 I'm available for any questions that you have.

23           MR. THOMAS: Thank you, Mr. Guevara. Great job  
24 presenting it, and I think that the material presented was  
25 done in a very transparent way and appreciate that.

1           Just to emphasize a couple of points I think you  
2 made, so just for clarity for everybody, the core budget  
3 essentially remained flat year over year, but there was a  
4 minimal increase that was programmatic growth.

5           And then the 38 full-time employees and where we  
6 saw some increases in the budget, those are really tied to  
7 the programs that came out of COVID funds and federal funds  
8 that once those grants are completed and those monies are  
9 finished, then those essentially temporary employees then  
10 fall away. They're not just full-time employees on to the  
11 agency that then we have to come up with the additional  
12 funding to maintain that level of payroll or increase or  
13 positions. Correct?

14           MR. GUEVARA: That's correct. All 91 Article 9  
15 temporary employees are funded with temporary funds, and  
16 once those grants are expended, you know, those employees  
17 will be phased out accordingly over the next couple of  
18 years.

19           MR. THOMAS: Excellent.

20           Any other questions from members, Mr. Vasquez?

21           MR. VASQUEZ: Actually you highlighted the key  
22 points that I was hoping that we would make. So it's great  
23 that it nets out to only a 1 percent increase for the core  
24 functions of the Department, and I think that says even  
25 more in that the Department is doing more.

1           I mean, yes, the temporary employees covered by  
2 federal funds increased to cover that, but nevertheless  
3 there's more core administration that needs to be managed,  
4 so I think with the increase of activity that we're doing,  
5 it's impressive that we're able to stay flat, essentially  
6 flat at 1 percent.

7           MR. THOMAS: Right.

8           MR. VASQUEZ: One percent we can deal with.

9           MR. GUEVARA: I guess just in anticipation of  
10 the 24-25 biennium, a lot of the feedback we received from  
11 our division leadership, there was some requests for  
12 additional staffing and retention staff and development, so  
13 we will plan accordingly in our legislation appropriations  
14 request to include those asks as Appropriation and we'll  
15 probably see some growth in the coming years in the core  
16 programs.

17           MR. VASQUEZ: And lastly I was just going to say  
18 I commend y'all for putting together this where we can look  
19 at it from different cross-section ways by department and  
20 by personnel, by expense object, et cetera. That's very  
21 helpful.

22           MR. THOMAS: Good job. Thank you.

23           MR. GUEVARA: Thank you.

24           MR. THOMAS: Don't go away yet. The next item  
25 on the agenda is presentation, discussion, and possible

1 action on the fiscal year 2023 Housing Finance Division  
2 Budget, and it will be presented by Mr. Guevara as well.

3 MR. GUEVARA: Now I would like to turn your  
4 attention to item number 3, the Housing Finance Budget.  
5 This particular item is a subset of the internal operating  
6 budget.

7 It is in relation to the Housing Finance Budget  
8 that we're required to submit under the Texas Government  
9 Code 2306 and in compliance with the General Appropriations  
10 Act. This subset of the budget is specific to the fees  
11 generated by the single family and multifamily bonds, tax  
12 credit and compliance activities, typically referred to as  
13 the Housing Finance Budget.

14 At this time we're prepared to certify this  
15 budget as well, and I'm here to answer any questions you  
16 may have regarding this.

17 MR. THOMAS: Thank you, Mr. Guevara. I have no  
18 questions.

19 Mr. Vasquez, do you have any questions?

20 MR. VASQUEZ: No. And also, just so everyone  
21 knows, Mr. Guevara gave me a good overview update on the  
22 budget earlier this week, so I appreciate being able to go  
23 through that in detail. It looks good.

24 MR. THOMAS: I also enjoyed one of those detail  
25 sessions, so I appreciate that from staff as well.

1 Thank you. Very well done.

2 MR. GUEVARA: Thank you.

3 MR. THOMAS: Moving to report items, the first  
4 report item on the agenda today is the presentation and  
5 discussion of the follow-up internal audit of the physical  
6 inspection processes at TDHCA, and it will be presented by  
7 the director of Internal Audit, Mark Scott.

8 MR. SCOTT: Thank you, Chairman.

9 The audit of the Physical Inspections Section  
10 was a continuation of an audit started in 2020, at which  
11 time we couldn't go out to the properties because of COVID  
12 restrictions. We were able to go out for the inspection  
13 visits of two developments during this audit.

14 Each visit consisted of notifying the property  
15 management company and the property owners 15 days prior to  
16 the visit, meeting with the development managers on the day  
17 of the visit and viewing the ADA and amenities requirements  
18 and inspecting individual units.

19 The property managers are expected to have  
20 informed all the tenants of this visit. For each  
21 development, 20 percent of the units are selected for  
22 inspection. This included ADA standards, fire detection  
23 equipment and other safety aspects of the units.

24 The processes were very thorough, and the sample  
25 selection included a variety of units. The inspections

1 took from about 9:00 a.m. to around 3:00 in the afternoon  
2 for the first development, and we finished a little earlier  
3 on the second development since it was one single building.

4 We were very favorably impressed with the thoroughness of  
5 the processes.

6 Due to the high volume of inspections that is  
7 required for different programs, and limited resources of  
8 the Physical Inspections Division, some of the UPCS  
9 inspections -- that's Uniform Physical Condition  
10 Standards -- are outsourced to outside contractors.

11 We noted suggestions for improvements on the  
12 current contract for the outsourced inspections performed  
13 by OSI, or On-Site Insight. We also noted that the various  
14 funding sources for the buildings might have varying  
15 requirements, so the training requirements for each need to  
16 be kept up to date.

17 So those are my comments on the audit. I'll be  
18 happy to answer any questions there may be.

19 MR. THOMAS: Thank you, Mr. Scott.

20 Just a couple of things: One, obviously very  
21 important to do since we had the gap with COVID and the  
22 disruption there. The sample size that's created for the  
23 inspection done randomly, there's no set sort of zoning or  
24 certain selected groups?

25 MR. SCOTT: I take it was a judgmental sample,

1 but just from what I looked at, it looked like a very  
2 thorough sample because it had pretty much everything you  
3 can imagine we saw.

4 MR. THOMAS: And from the comments it sounds  
5 like going through the detailed inspections came away duly  
6 impressed with how they were doing.

7 MR. SCOTT: Impressed with how they do the  
8 inspections, yes, sir.

9 MR. THOMAS: Great. Thank you very much, Mr.  
10 Scott.

11 Any comments or questions from Member Vasquez?

12 MR. VASQUEZ: I just hope that we can find money  
13 in the budget to do more inspections more often.

14 MR. THOMAS: Excellent point.

15 Thank you, Mr. Scott, appreciate it.

16 The next report item on today's agenda is the  
17 presentation and discussion of internal audit of the Texas  
18 Homeownership Program, and this will also be presented by  
19 Mr. Scott.

20 MR. SCOTT: Thank you, Chairman.

21 This program serves as an advocate for low and  
22 moderate income would-be homeowners, primarily first time  
23 homebuyers. The program navigates the would-be homebuyers  
24 through the complex processes which incorporate numerous  
25 parties, including counselors, lenders and other financial

1 administrators.

2 We noted some of the program accomplishments  
3 including expansion of the lending institutions base,  
4 additional options for training, and an enhanced website  
5 for potential borrowers. The program is administered by  
6 various parties including the TDHCA staff and outsourced  
7 firms. We noted some basic segregation of duty concepts  
8 that pertain to the external parties who perform primary  
9 functions.

10 We had an observation on loan reservations  
11 related to more frequent monitoring to manage overages. We  
12 also had a recommendation for secondary review of mortgage  
13 credit certificates.

14 With regard to vendor oversight, we had  
15 suggestions which included Service Organizations Control,  
16 or SOC reports for service providers. These cover  
17 information security and privacy as well as financial  
18 reporting, and they can be leveraged to a great extent.

19 So those are my comments on that. It was a  
20 lengthy report with lots of detail.

21 MR. THOMAS: Thank you, Mr. Scott.

22 Any questions or comments from Member Vasquez?

23 MR. VASQUEZ: Again I just think it's so  
24 important that everyone remembers and recognizes that we  
25 don't just do tax credits in this organization. I mean,

1 this is a huge impactful program that we have, so staying  
2 on top of this one and monitoring, again, impacts a whole  
3 lot of Texans.

4 MR. THOMAS: I think the suggestions were very  
5 good suggestions in terms of the things to look out for and  
6 improve on.

7 MR. SCOTT: Thank you both.

8 MR. THOMAS: Great. So the last report item on  
9 today's agenda is the report on the status of the internal  
10 and external audit activities. Mr. Scott will be  
11 presenting this report to us as well.

12 MR. SCOTT: On the statewide audit being  
13 performed by CliftonLarsonAllen, that's the single audit  
14 they do every year. The federal programs selected included  
15 Emergency Rental Assistance Program, which is CFDA No. 21-  
16 023, and Low Income Home Energy Assistance Program, which  
17 is CFDA No. 93-568.

18 This means for these programs CLA will audit  
19 such requirements as eligibility, allowability of costs,  
20 financial reporting, and other basic single audit testing  
21 for the two programs.

22 I'll stop there. Are there any questions about  
23 the upcoming single audit?

24 MR. THOMAS: I have none.

25 Member Vasquez?

1 MR. VASQUEZ: Again, this is monitoring -- the  
2 outside auditors are really who are doing this.

3 MR. SCOTT: Yes, sir.

4 As for the internal audit plan, we have  
5 completed the previous participation review, the PPR audit,  
6 the IT general controls audit, the physical inspections  
7 audit, and the Texas Homeownership program, and we are  
8 starting now with the migrant labor housing inspections  
9 audit and the IT applications controls audit.

10 And that concludes my presentation. I'll be  
11 happy to answer any questions there may be.

12 MR. THOMAS: Thank you, Mr. Scott. No  
13 additional questions from me, but I will say that I think  
14 it's important that these audits now start ramping up and  
15 continuing, and we're obviously getting out of our danger  
16 period with COVID, it appears, and so it's nice to see that  
17 we are now starting to look at these programs and audit  
18 them, as we should be, to see where they are and how we can  
19 improve if any in certain aspects of it. Good report.

20 Member Vasquez?

21 MR. VASQUEZ: I guess just a question, I mean,  
22 do you feel confident we're going to keep up with the audit  
23 plan and be able to catch up? I assume we're a little bit  
24 behind because of the challenges.

25 MR. SCOTT: Yes, sir. I think we'll finish it.

1 I don't see any reason not to.

2 MR. VASQUEZ: Great. Let's push hard and let me  
3 know if the staff isn't being cooperative in making it  
4 happen.

5 MR. THOMAS: Well, on that note, with no other  
6 questions, good reporting today, lots of information and  
7 important information that I think not only the committee  
8 appreciates but the full board I'm sure will appreciate  
9 when we convene here shortly.

10 If there are no other additional comments or  
11 questions from committee members, then this concludes  
12 today's meeting, we've completed the agenda. My time here  
13 that I have is 9:50 a.m. Central, and the meeting is  
14 adjourned. Thank you, everybody.

15 (Whereupon, at 9:50 a.m., the meeting was  
16 adjourned.)

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MEETING OF: TDHCA Board Audit & Finance Committee

LOCATION: Austin, Texas

DATE: June 16, 2022

I do hereby certify that the foregoing pages, numbers 1 through 18, 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: June 22, 2022

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(Transcriber)

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