

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

AUDIT COMMITTEE MEETING

William B. Travis Building  
Room 1-111  
1701 Congress Avenue  
Austin, Texas

Thursday,  
January 26, 2017  
8:00 a.m.

MEMBERS:

LESLIE BINGHAM ESCAREÑO, Chair  
TOM H. GANN, Member  
J.B. GOODWIN, Member

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P R O C E E D I N G S

1  
2 MS. BINGHAM ESCAREÑO: Good morning. Welcome  
3 to the Audit Committee of the Texas Department of Housing  
4 and Community Affairs.

5 Before I call roll, let me just introduce to  
6 everybody J.B. Goodwin, who has agreed to serve on Audit  
7 Committee with us this morning. I need to introduce you  
8 because I'm getting ready to call roll and on there now.  
9 Glad you're here.

10 Mr. Gann?

11 MR. GANN: Here.

12 MS. BINGHAM ESCAREÑO: And Mr. Goodwin?

13 MR. GOODWIN: Yes.

14 MS. BINGHAM ESCAREÑO: Very good. So we have  
15 all members present.

16 Mark would you like to just before we get  
17 started, so we have three action items and then a few  
18 report items that will probably go pretty quickly this  
19 morning, but Mark has somebody he would like to introduce  
20 first.

21 MR. SCOTT: The State Auditors?

22 MS. BINGHAM ESCAREÑO: I thought the new  
23 member -- oh, you meant Mr. Goodwin. I thought you meant  
24 staff. Sorry.

25 Very good. Well, then let's start with our

1 action item 1 which is presentation, discussion and  
2 possible approval of the Audit Committee minutes from  
3 October 13. When you've had a chance to review or if  
4 you've had a chance to review, we'll entertain a motion.

5 MR. GANN: They were sent out early. I move we  
6 approve.

7 MR. GOODWIN: Second.

8 MS. BINGHAM ESCAREÑO: Very good. Mr. Gann  
9 moves and Mr. Goodwin seconds. All in favor aye.

10 (A chorus of ayes.)

11 MS. BINGHAM ESCAREÑO: Motion carries.

12 Very good. Item number 2 is presentation,  
13 discussion and possible action to approve the SAO audit  
14 reports on the TDHCA financial statements. Mark.

15 MR. SCOTT: Yes, ma'am.

16 This is the audit they do every year for  
17 financial statements. It's a very intensive audit, the  
18 audit looks at the agency's basic financial statements, as  
19 well as the financial statements for the Revenue Bond  
20 Program Enterprise Fund. The Public Investment Act  
21 requires the audit of the Bond Program and the agency's  
22 basic financial statements are audited annually as part of  
23 this statewide audit. The audit of the agency's basic  
24 financial statements is required by the Single Audit Act.  
25 The SAO audits the state's financial statements, and KPMG

1 audits compliance with federal program regulations.

2 The TDHCA financial statement audit is done as  
3 a standalone report because of the bonds and the  
4 compliance testing required by the Public Investment Act,  
5 and we have here to present the audit report the State  
6 Auditor's staff.

7 MS. BINGHAM ESCAREÑO: Good morning.

8 MS. ECKFORD: Good morning. I'm Hillary  
9 Eckford. I'm the audit manager with the State Auditor's  
10 Office for this particular engagement for the financial  
11 statements of the agency, and I have here with me Philip  
12 Stringer who is the project manager, and I'll let him go  
13 through our reports and our deliverables.

14 Thank you.

15 MR. STRINGER: Good morning. Philip Stringer  
16 with the State Auditor's Office and the project manager of  
17 these audits.

18 We issued several reports as part of this  
19 audit. December 20 we expressed unmodified opinions on  
20 the Department's fiscal year 2016 financial statements,  
21 the Revenue Bond Program Enterprise Fund financial  
22 statements, and the computation of unencumbered fund  
23 balances of the Housing Finance Division. We also issued  
24 on that date a report on compliance with the Public Funds  
25 Investment Act. Previously in the audit, we issued two

1 other reports. On September 6, 2016 we issued a report  
2 that concluded that the financial data schedule prepared  
3 by the Department was fairly stated in all material  
4 respects in relation to the 2015 basic financial  
5 statements taken as a whole. And on September 28, 2016,  
6 we issued a report that concluded that the Department's  
7 electronically submitted financial data schedule to the  
8 U.S. Department of HUD agreed to the related hard copy  
9 documents.

10 Do you have any questions on those reports at  
11 this time?

12 MR. SCOTT: No. Thank you. Thanks for all the  
13 work you did on this.

14 MR. STRINGER: Thank you.

15 MS. BINGHAM ESCAREÑO: Thank you very much,  
16 Philip, and thanks, Hillary.

17 Then I'll entertain a motion approve the audit  
18 reports as reported.

19 MR. GOODWIN: So moved.

20 MR. GANN: Second.

21 MS. BINGHAM ESCAREÑO: Mr. Goodwin moves, Mr.  
22 Gann seconds. All those in favor aye.

23 (A chorus of ayes.)

24 MS. BINGHAM ESCAREÑO: Opposed?

25 (No response.)

1 MS. BINGHAM ESCAREÑO: Very good. Great.

2 Item number 3, presentation, discussion and  
3 possible action to approve the update to the Internal  
4 Audit Charter.

5 MR. SCOTT: Yes. The Internal Audit Charter is  
6 a formal document that defines the Internal Audit  
7 activities, purposes, authority and responsibility. The  
8 chief audit executive must periodically review the  
9 Internal Audit Charter and present it to senior management  
10 and the Board for approval. The TDHCA charter was last  
11 updated in January of 2015 but we've updated it again  
12 based on the peer review checklist. We've added a  
13 reference to the IIA's code of ethics in addition to  
14 expanding the quality assurance section.

15 So I'm asking you to recommend to the full  
16 Board approval of the updated Audit Charter.

17 MS. BINGHAM ESCAREÑO: Great. Very good. The  
18 modified version was in our Audit Committee book. Did you  
19 have any questions about that? Anything in particular  
20 from staff? I appreciate the addition of the peer review  
21 section. Anything else that anybody would like to add  
22 relative to the charter revision? If not, I'll entertain  
23 a motion.

24 MR. GANN: I'll move that we present this to  
25 the Board for their approval.

1 MS. BINGHAM ESCAREÑO: Great. Mr. Gann  
2 motions.

3 MR. GOODWIN: Second.

4 MS. BINGHAM ESCAREÑO: Mr. Goodwin seconds.  
5 Thank you very much. All in favor aye.

6 (A chorus of ayes.)

7 MS. BINGHAM ESCAREÑO: Opposed?

8 (No response.)

9 MS. BINGHAM ESCAREÑO: Great. So we'll present  
10 that to the full Board during this month's Board meeting.

11 MR. SCOTT: Yes, ma'am.

12 MS. BINGHAM ESCAREÑO: Very good. Let's move  
13 on then to report items. Item number 1 under reports is  
14 presentation and discussion of the Internal Audit review  
15 of the compliance monitoring section of the Compliance  
16 Division Multifamily.

17 MR. SCOTT: Yes. This is one of the audits  
18 that's on the 2017 Internal Audit Plan. We audited the  
19 multifamily part of the Compliance Division. The  
20 subrecipient monitoring side of that division is audited  
21 annually by KPMG, and I also provide consultation on the  
22 single audits with respect to the subrecipient monitoring,  
23 so the audit scope did not include subrecipient  
24 monitoring.

25 The audit of the section that we did audit the

1 compliance section monitors the tax credit properties.  
2 They monitor for attributes such as rents charged, income  
3 eligibility, continued use of property and compliance with  
4 terms and Fair Housing issues. And we found that the  
5 division accomplishes the monitoring effectively. We had  
6 recommendations related to timeliness of reporting and  
7 recording of time worked. So that's the end of my  
8 presentation on that report.

9 MS. BINGHAM ESCAREÑO: Any questions on the  
10 report for compliance monitoring multifamily?

11 MR. GOODWIN: I've got a question, Mark. What  
12 do you mean by time worked? What are you monitoring in  
13 that?

14 MR. SCOTT: So for federal programs, all  
15 federal programs, you bill your time. The monitors, if  
16 they work on a certain project, they're supposed to keep  
17 track of how much time they worked on this project which  
18 is funded by this program. So we found that they need to  
19 tighten up how they keep track of their hours.

20 MS. BINGHAM ESCAREÑO: And management was  
21 responsive to that recommendation?

22 MR. SCOTT: Yes, ma'am, they agreed with it.

23 MS. BINGHAM ESCAREÑO: Very good.

24 Any other questions on the first report? If  
25 not, we'll move to the self-assessment for peer review,

1 the second report item.

2 MR. SCOTT: Okay. This self-assessment is a  
3 required part of the peer review process. For the self-  
4 assessment we used the checklist from the Internal Audit  
5 Standards, which is included in the report. The analysis  
6 included organizational structure of the internal audit  
7 function, internal processes, scope areas that are covered  
8 by internal audit and operations of the office.

9 As for organizational structure, we have this  
10 Audit Committee which is the gold standard for internal  
11 audit reporting. And by the way, for agencies without  
12 boards, they sometimes have a hard time showing  
13 independence.

14 The checklist that we used is the same one that  
15 was used in the 2013 peer review. We noted a couple of  
16 things related to the IT audit. There's not been a  
17 comprehensive IT audit conducted, although security  
18 testing is done by a contracted firm, so we're going to do  
19 a comprehensive IT audit this year. And we are also going  
20 to start using a standard program for testing the  
21 reliability of input processes for each audit. So for  
22 each audit, we're supposed to go through and before we  
23 even start looking at the information, do a checklist to  
24 see the process by which the input flows through the  
25 system.

1 MS. BINGHAM ESCAREÑO: And then you'll put the  
2 IT audit on next year's plan?

3 MR. SCOTT: Well, actually the IT audit is on  
4 this year's plan. And it seems foreboding when you look  
5 at it to audit the entire IT thing, but I've done it  
6 before so I have a good template to use.

7 MS. BINGHAM ESCAREÑO: So is it foreboding if  
8 you've done it before?

9 MR. SCOTT: It's less foreboding since I've  
10 done it before.

11 MS. BINGHAM ESCAREÑO: Great. Very good.

12 MR. SCOTT: The first time I did it was very  
13 foreboding.

14 (General laughter.)

15 MS. BINGHAM ESCAREÑO: So any other questions  
16 on the self-assessment for the peer review?

17 (No response.)

18 MS. BINGHAM ESCAREÑO: Great. We'll move on to  
19 report item 3, the contracting for peer review. Do you  
20 want to make a presentation?

21 MR. SCOTT: Yes. At our last meeting, the  
22 consensus seemed to be that we would procure an external  
23 peer review, and I've checked around and it looks like the  
24 cost is about \$20- to \$30,000 for an agency this size.  
25 The firms that do it, a lot of them used to be internal

1 auditors, so there's a group of firms out there that does  
2 this. So I need to put together the specs and then do a  
3 purchase order or request for qualifications, whatever the  
4 proper purchasing vehicle is, and put it out there.

5 MS. BINGHAM ESCAREÑO: But you don't need any  
6 action from us.

7 MR. SCOTT: No, ma'am.

8 MS. BINGHAM ESCAREÑO: In other words, we've  
9 already made consensus that we're supportive, so you're  
10 just keeping us interested.

11 MR. SCOTT: Yes. I'm just keeping you apprised  
12 that I'm moving forward with it.

13 MS. BINGHAM ESCAREÑO: Very good. Any  
14 questions from the committee members on that? We can  
15 catch you up on that. Mark has some good information for  
16 you.

17 If no other questions, then we'll move on to  
18 report item 4, status of the net claims contract.

19 MR. SCOTT: Yes. This is one I've talked about  
20 in the past. I think about it two ways: one it's  
21 expensive and it takes a lot of time to keep up with; on  
22 the other hand, it's a good thing to have a fraud hotline.

23 The base cost for having the contract is about \$5,000 per  
24 year and there's extra charges if the number of claims  
25 exceeds a monthly limit.

1           The advantage of the service is it provides an  
2 opportunity for the public and beneficiaries of the  
3 programs to file complaints against TDHCA staff and  
4 management if they have such, and the external auditors  
5 view it favorably that TDHCA has a fraud hotline. It's not  
6 required by the way. The disadvantages of this service is  
7 how it's been advertised in the past and maybe over-  
8 promoted and I get probably three or four of these a day,  
9 and most of them don't relate to either our properties or  
10 they don't relate to fraud, waste and abuse. Most of the  
11 complaints are outside of the jurisdiction of TDHCA, so  
12 there's nothing for us to do about them anyway.

13           Tim had suggested discussing with the Audit  
14 Committee before making a decision on whether to continue  
15 the contract or discontinue the contract. So I don't know  
16 if committee members have an opinion on it.

17           MS. BINGHAM ESCAREÑO: Probably.

18           MR. GANN: I've got a curious question, really.  
19 It's got an overage there where they start charging you.  
20 Where are we on that overage situation?

21           MR. SCOTT: We probably pay overages like every  
22 other month.

23           MR. GANN: And how much extra is it, generally  
24 speaking, let's just say?

25           MR. SCOTT: Maybe a couple or three thousand

1 dollars a year.

2 MR. GOODWIN: How long have we had this?

3 MR. SCOTT: We've had it six or seven years.

4 And I don't feel one way or the other about it. The only  
5 times when I feel like canceling it is when I get those  
6 overages bills.

7 (General laughter.)

8 MR. GOODWIN: How many legitimate claims that  
9 we've pursued have come as a matter of having this avenue?

10 MR. SCOTT: I would say zero.

11 MR. GOODWIN: That makes the decision a lot  
12 easier for me.

13 MR. SCOTT: Well, some of them are legitimate  
14 claims maybe for the entity whose jurisdiction it is. Most  
15 of the time people are complaining about somebody's  
16 boyfriend living with them which would affect somebody's  
17 eligibility, but the monitoring staff would get to that  
18 eventually anyway. And then a lot of them have to do with  
19 activities that need to be reported to local law  
20 enforcement, they don't have anything to do with the  
21 housing per se.

22 MR. GOODWIN: So if we wanted to terminate  
23 this, would it be the purview of the Audit Committee, or  
24 would we recommend to the Board to terminate it?

25 MR. SCOTT: I'm not sure. Tim had mentioned

1 that you would have some say in it. I'm not sure.

2 MS. BINGHAM ESCAREÑO: Good morning.

3 MR. IRVINE: Tim Irvine, executive director.

4 I think it's a decision that's really within  
5 staff's purview, but if having this system enables us to  
6 detect and address one serious issue, then you've got  
7 acknowledge that it's got some worth. I think that it's  
8 not really so much a concern from a cost perspective to me  
9 because I think \$3,000 overage within a year is something  
10 that we can easily absorb, but I am concerned about the  
11 way that it distracts from people's time.

12 I think that it would make some sense to  
13 explore other ways that we could provide something that  
14 welcomed public input to these kinds of issues and help  
15 people get into the system if they've got a legitimate  
16 complaint. The problem is, as Mark said, for 90 percent  
17 plus we're just traffic directors.

18 If it relates to housing, people think, gee,  
19 I'll call housing, and just because it relates to housing  
20 doesn't mean it relates to compliance with the affordable  
21 programs that we administer or those kinds of issues.

22 MR. GANN: Don't you feel like it's got some  
23 benefit, though, just for insurance reasons? I'm talking  
24 about insurance in trying to make sure we're available to  
25 the public.

1           MR. IRVINE: I think that it shows that we are  
2 transparent, the big watchword, and that we are receptive  
3 to public input and we are aggressive in dealing with  
4 issues of concern. I think that there are a lot of things  
5 that we need to consider, though, to tighten down and  
6 narrow the use of this fraud hotline as basically a way to  
7 use us as a referral service. The problem, though, is any  
8 time you've got something online, people just see the toll  
9 free number, they don't read the explanation under it that  
10 says don't call this number if your complaint relates to  
11 this, this, this or this.

12           MR. SCOTT: We have added some language on the  
13 hotline that says if you're calling about such-and-such,  
14 call local law enforcement to kind of redirect.

15           And one thing I'll point out is that even if we  
16 didn't have this fraud hotline, we would still have a  
17 hotline that would direct them to the State Auditor's  
18 Office. That is required. You have to have a way for  
19 them to communicate to the State Auditor's Office if they  
20 have concern about fraud about your agency. We would  
21 still have that, we just wouldn't have the internal one if  
22 the decision was made to discontinue it.

23           MR. IRVINE: And we do receive complaints  
24 through a number of other avenues. Our Housing Resource  
25 Center fields phone calls that relate to complaint issues,

1 I get them, other members of staff get them. And we  
2 uniformly, when we look at these complaints, if we believe  
3 that there's any potential jurisdiction, we convene all of  
4 the impacted areas within the Department and make sure  
5 that we handle it appropriately.

6 MS. BINGHAM ESCAREÑO: I appreciate that you've  
7 brought it to the committee, and having served with Mr.  
8 Gann for a while, when we used to get the very detailed,  
9 and I would say typically the breakdown for a period would  
10 be 80-something calls and almost zero ending up being  
11 actually pertinent or relevant to the business that we do.

12 But I do struggle also with I do think it is a great  
13 communication tool and a vehicle to demonstrate that the  
14 agency is available and open to folks that have fraud,  
15 waste and abuse concerns.

16 So I'm wondering if the committee would be okay  
17 with Mark and management continuing to research if there's  
18 other options to accomplish the same thing that's front-  
19 facing. Right? Because I liked what you said about there  
20 are several other mechanisms or vehicles for communicating  
21 complaints or concerns. I just know our abuse hotline is  
22 an easy thing to promote, and that's why people probably  
23 abuse it or misuse it because it's so forward-facing.

24 MR. IRVINE: And I also think that there was a  
25 conscientious decision to place it under the

1 responsibility of Internal Audit because of their  
2 neutrality and impartiality, but I think that there are,  
3 as I said, other avenues, and I'm completely confident  
4 that our staff is candid and willing to address anything  
5 that even has a whiff of impropriety.

6 MR. GANN: And I'm entirely open to that part,  
7 but I'd rather have it ready to go into place before we  
8 ever cut something off. It's a public insurance type  
9 thing with me.

10 MR. IRVINE: It ensures our brand name.

11 MR. SCOTT: Okay. Well, then I guess I'll  
12 continue to look into it and report back to you at a later  
13 time.

14 MR. PENDER: Jeff Pender, deputy general  
15 counsel.

16 I've been working with Julie Dumbeck on  
17 renewing this contract, and the vendor isn't going to give  
18 us the same terms next year. In fact, they're going to be  
19 much more onerous. They want to lump us into a category  
20 that we may or may not fit into according to their  
21 definitions. So I just want to let you know that's out  
22 there too, we're not going to get the same deal.

23 MS. BINGHAM ESCAREÑO: What's the termination?

24 MR. PENDER: September of this year.

25 MS. BINGHAM ESCAREÑO: Okay. Great. Thank

1 you. You can keep us posted then.

2 Let's see, report discussion of recent internal  
3 audit and consulting activity.

4 MR. SCOTT: So as a followup to the  
5 presentation of the audit plan, we've gotten started on  
6 the audit of the Tax Credit Program which was included in  
7 the 2017 Audit Plan, and we're getting ready to start on a  
8 comprehensive audit of IT, and depending on how long it  
9 takes to procure the peer review, we'll also be working on  
10 that.

11 MS. BINGHAM ESCAREÑO: If nobody has any  
12 questions, you can go on to external.

13 MR. SCOTT: Okay. The external audits, the SAO  
14 and KPMG, they're finishing up the 2016 statewide audit.  
15 The TDHCA financial statement piece was issued in  
16 December, as we talked about, and the federal compliance  
17 piece this year covered LIHEAP, the energy assistance  
18 program, and that will be issued in a couple of months.  
19 And then as far as what's coming up, HUD is going to do an  
20 audit of the HOME Program's compliance with the  
21 Davis-Bacon Act. And this act basically requires that  
22 federally funded construction projects pay the going wages  
23 to workers and there's various other things it covers, but  
24 that's basically it.

25 So that concludes my discussion.

1 MS. BINGHAM ESCAREÑO: Let me just ask you  
2 quickly. So we're still feeling good about this year's  
3 plan in terms of the amount of work and the time in which  
4 you need to do it?

5 MR. SCOTT: I think so. The wild card is the  
6 peer review, how long that takes. So other than that, the  
7 audits that I have I can do.

8 MS. BINGHAM ESCAREÑO: Great. Very good.  
9 Thank you.

10 All right. So that concludes the report items.  
11 We do have one additional item, discussion of Board  
12 report item. Do you want to introduce the item?

13 MR. SCOTT: Yes. This is an item came up and  
14 there was an anonymous email sent a while back, a few  
15 weeks ago, and we all looked at it and I met with Tim and  
16 others and he wanted to discuss it in the full Board and  
17 also here. We had a good venue for it here, so Tim or  
18 Patricia.

19 MR. IRVINE: Good morning again. Tim Irvine.  
20 I mean, sunshine is the best disinfectant, and  
21 when somebody sends something that basically says you're a  
22 bad guy, you're covering stuff up, you're violating the  
23 law, you're doing all these bad things, I think it's  
24 appropriate to respond in an equally public manner.

25 This anonymous email was sent, purportedly, by

1 an employee of this Department, and for that I'm  
2 remorseful and I just don't think it's appropriate for us  
3 to take our matters outside until we've exhausted our  
4 internal channels. If somebody thinks something that's  
5 going on is wrong, they can talk to me, they can talk to  
6 Beau, they can talk to our ethics advisor, they can talk  
7 to our director of Internal Audit, they can talk to HR,  
8 they can talk to lots of folks. If they still aren't  
9 getting satisfaction that their issues or concerns have  
10 been addressed, Madam Chair, I think you would be a  
11 logical next stop, and if they still are uncomfortable, I  
12 think that the Board chair would be a logical next stop.

13 Even if you get through all of those hoops, or  
14 whatever you want to call them, I think the State  
15 Auditor's office and appropriate law enforcement  
16 authorities should be looped in before you just blast it  
17 out to the public at large. In this case it was blasted  
18 out to the Community Affairs network at large.

19 As regards the particular events that were  
20 related here, I've got subject matter experts who can  
21 speak to this, but I just want to give you my view from  
22 50,000 feet. Down in Hidalgo County we had a provider of  
23 our energy assistance program, the utility payments, that  
24 was experiencing some significant stress and turmoil and  
25 they had literally several thousand files for people who

1 needed energy assistance right away and they were in  
2 upheaval. And we dispatched three of the very, very best.

3 We sent down Michael De Young, Cathy Collingsworth and  
4 Laura Saintey to help them.

5 We alerted their local government to this  
6 situation, and everybody was completely responsive and  
7 they brought in fantastic new leadership that jumped on  
8 all this, but new leadership hitting the ground day one in  
9 a situation like that does need help, and our staff sifted  
10 through the files, determined eligibility and got the  
11 money flowing.

12 Because of the large number of persons  
13 involved, the benefits that flowed were not the maximum  
14 benefits allowed by the program, but they were  
15 substantial. If we had stuck to the practice of providing  
16 the maximum amount of benefits, a lot more people would  
17 have gone completely unserved. We are 100 percent  
18 confident that what we did comported with applicable state  
19 and federal laws.

20 When the matters were monitored, the head of  
21 the program area and the head of the compliance area and I  
22 and legal and various people conferred about this, and we  
23 thought it was simply inappropriate to make monitoring  
24 findings on our internal staff's determinations about  
25 eligibility. There were other deficiencies observed in

1 some of the files, but we really felt that the agency was  
2 going through so much rapid transition that it just really  
3 was not productive to enter those matters into the  
4 monitoring report.

5 As always, the hoped for case, I think we've  
6 got an agency now that's doing a good job, serving low  
7 income Texans and keeping good files, and that will be  
8 borne out in future monitoring, and if there are problems,  
9 I guarantee you we will have Chief Murphy do as she always  
10 does, call them out and give them a timeline for specific  
11 corrective action and follow up on that corrective action.

12 Anyway, we've also had an internal meeting to  
13 let the people who monitor these files and the people who  
14 administer these programs know on a reinforced basis about  
15 the numerous channels that there are internally and  
16 externally before going to the public at large to address  
17 any concerns.

18 Glad to answer any questions.

19 MS. BINGHAM ESCAREÑO: Appreciate you bringing  
20 it to our attention.

21 MR. IRVINE: Sure.

22 While I have the mic, could I circle back to  
23 one other earlier item?

24 MS. BINGHAM ESCAREÑO: Sure.

25 MR. IRVINE: In the audited financial

1 statements, we did discover after the fact one small  
2 technical error in I believe it was on our swap positions  
3 that did not -- let's just say we are proposing that  
4 management will issue an unaudited correction to that  
5 effect so there will be one minor deviation from the  
6 actual audit that was issued. And I only make this  
7 statement publicly because this is a central disclosure  
8 document to us, we want the public to know exactly what  
9 we're doing.

10 MS. BINGHAM ESCAREÑO: Very good.

11 MR. CERVANTES: Good morning. David Cervantes,  
12 chief financial officer.

13 Just to follow up on Tim's comment, one of the  
14 things that we've been having preliminary discussions with  
15 the auditors is there's a disclosure in Note 5 of the  
16 audited financial statements and there's some  
17 supplementary information that's included in Schedule 1F  
18 at the back of the financial statements. And when we  
19 produced the disclosure, one of the things that since the  
20 publication we've gone back and looked at some  
21 codification in terms of some of the standards that are  
22 required for the disclosure, and at this point we believe  
23 that there probably was one more step in a calculation  
24 that we performed to produce the disclosure and the  
25 outcome.

1           And this has to do with there were some bonds  
2 that we issued, and as you know, the Department has been  
3 working for a period of time to try to eliminate its  
4 variable rate debt, and in the issuance of some of those  
5 bonds, there became the situation of this particular  
6 disclosure to disclose the outcome. And based on the steps  
7 that we took at the end of the fiscal period, there's one  
8 sentence in the disclosure that suggests that there's an  
9 economic loss through the transaction, and what we believe  
10 should have been included is obviously the hedge or the  
11 derivative instrument that we should have factored into  
12 the calculation to produce the final disclosure.

13           There's no impact on the financial statements,  
14 the opinions, anything of that nature, so what we're  
15 proposing is to come back to I'm not sure if it will be  
16 the Audit Committee or the full Board, but a report item  
17 that will produce a standalone document that will  
18 communicate to the public and anybody using the financial  
19 statements. Right now when you go on our website you find  
20 our financial statements published with opinions and so  
21 on. This would be a standalone document in the event that  
22 anybody would be relying on those audited financials  
23 statements, this information would explain by the  
24 supplementary information. So more than likely at this  
25 next Board meeting, we'll have a report item with that

1 information and the background and so on. And like I  
2 said, we've been having preliminary discussions with our  
3 auditors just to be clear on how to move forward with the  
4 communications.

5 So anyway, just to follow up on Tim's point.

6 MS. BINGHAM ESCAREÑO: Does anybody have any  
7 questions for David or Tim about that?

8 MR. GOODWIN: No questions.

9 MS. BINGHAM ESCAREÑO: And things change, but  
10 he anticipation would be the next time that the financial  
11 statements are audited that that disclosure would be done.

12 MR. CERVANTES: Right. You know, there was the  
13 provision associated with GASB 53 back when in terms of  
14 bringing in derivatives and disclosures and what-have-you,  
15 and there was one particular sentence in the codification  
16 that took place that says: Oh, and by the way, if you  
17 have a situation such as this, you have to factor in the  
18 derivative instrument into the calculation to disclose  
19 what the outcome was associated with this. And the  
20 amended disclosure will, of course, show. It will flip it  
21 slightly because we have to bring in a synthetic rate that  
22 we have to put into the calculation and it flips it and it  
23 shows a modest economic gain in this particular case. So  
24 we just want to make sure that anybody relying on these  
25 financial statements will know that.

1 MS. BINGHAM ESCAREÑO: Very good. The  
2 committee, we're good with whatever management decides in  
3 terms of update reports either to the Audit Committee or  
4 directly to the Board?

5 MR. GANN: Yes.

6 MS. BINGHAM ESCAREÑO: I am too. Great.

7 MR. SCOTT: I think Patricia wanted to speak.

8 MS. BINGHAM ESCAREÑO: Good morning.

9 MS. MURPHY: Patricia Murphy.

10 And I appreciate Tim's recap of the Hidalgo  
11 thing. I want to clarify one thing that Tim said. Tim  
12 said that we met and we discussed and there were some  
13 monitoring findings -- is the term that he used -- that we  
14 omitted from the report. There were no findings omitted  
15 from the report. There were some nonmaterial errors in  
16 the way the clients' income was annualized and stuff like  
17 that, but everybody was eligible for the program, there  
18 were no findings that were omitted from the report, it was  
19 just immaterial little things about the client files. I  
20 just wanted to bless this, let's put this to rest once and  
21 for all, so when somebody reads this transcript.

22 MS. BINGHAM ESCAREÑO: We're not going to let  
23 Tim speak on this item.

24 (General talking and laughter.)

25 MS. MURPHY: No, he did a wonderful job. I

1 just wanted to clarify that one thing.

2 MS. BINGHAM ESCAREÑO: Thank you for clarifying  
3 that.

4 I don't have any other business on the agenda.  
5 There's nothing that we need to do in executive session.  
6 If the members are interested in adjourning, I'll  
7 entertain a motion.

8 MR. GOODWIN: Move to adjourn.

9 MR. GANN: Second.

10 MS. BINGHAM ESCAREÑO: Thank you, Mr. Goodwin.  
11 Thank you, Mr. Gann. Thank you very much. The meeting  
12 is adjourned and we'll see you in a couple of months.

13 (Whereupon, at 8:33 a.m., the meeting was  
14 adjourned.)

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C E R T I F I C A T E

MEETING OF: TDHCA Audit Committee

LOCATION: Austin, Texas

DATE: January 26, 2017

I do hereby certify that the foregoing pages, numbers 1 through 29, 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.

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(Transcriber) 01/28/2017  
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3636 Executive Cntr Dr., G22  
Austin, Texas 78731