

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

AUDIT AND FINANCE COMMITTEE MEETING

VIA TELEPHONE AND WEB LINK

December 10, 2020
8:00 a.m.

MEMBERS:

SHARON THOMASON, Chair
PAUL A. BRADEN, Member
AJAY THOMAS, Member
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 MS. THOMASON: Welcome to the meeting of the
3 Audit and Finance Committee. We have a new member who has
4 joined our Committee, Mr. Ajay Thomas. Welcome. Mr.
5 Thomas has been provided with all the information he needs
6 about the audit activities for his orientation. So, we are
7 very happy to have you join the Committee.

8 We will have three action items today, and then
9 three report items. Our first item will be the -- oh, I am
10 sorry. I need to take roll.

11 I think Mark, you were trying to get my
12 attention. Yes. We will take roll.

13 MR. VASQUEZ: Do we need the techies to do a
14 preamble?

15 MS. THOMASON: I am not sure. Do we need to
16 have you guys do that?

17 MR. DARUS: We don't need to do that for this
18 one. We will do it for the full Board meeting. I don't
19 think we are expecting any comment on anything. If we need
20 to, we can do it, though.

21 MS. THOMASON: Not necessary for me, unless
22 somebody else needs it. Then I will just go ahead and
23 we'll take roll, even though we can all see each other.
24 Mr. Braden.

25 MR. BRADEN: Here.

1 MS. THOMASON: Mr. Thomas.

2 MR. THOMAS: Present.

3 MS. THOMASON: And Mr. Vasquez.

4 MR. VASQUEZ: Here.

5 MS. THOMASON: Okay. So, we have a quorum. So,
6 the three action items and the three report items that are
7 on our agenda today, the first action item being the
8 approval of our minutes from our September 3, 2020, meeting
9 of the Audit and Finance Committee.

10 At that meeting, the Director of Internal Audit,
11 Mr. Mark Scott, presented report items for the following
12 internal audits: the internal audit of the inspection
13 process, as well as the internal audit of the Section 8
14 program. He also discussed the recent internal and
15 external audit activities at that meeting.

16 The minutes were included in your Board book.
17 If there are no questions, may I have a motion to approve
18 the minutes from the September 3rd Audit and Finance
19 Committee meeting?

20 MR. BRADEN: Move to approve.

21 MS. THOMASON: Okay. Is there a second.

22 MR. VASQUEZ: Second.

23 MS. THOMASON: Okay. Mr. Braden moved to
24 approve, Mr. Vasquez seconded. All those in favor?

25 (A chorus of ayes.)

1 MS. THOMASON: Okay. Motion approved. The
2 second action item is the presentation, discussion, and
3 possible action to approve the fiscal year 2021 Internal
4 Audit work plan. And we have Mr. Scott with us, who will
5 present that item today.

6 MR. SCOTT: Thank you, Madam Chair. The fiscal
7 year 2021 Annual Audit Plan consists of six auditable areas
8 that were identified as high risk. For this selection, we
9 used a standard risk assessment matrix, in addition to
10 input from management and other stakeholders. As I go
11 through my presentation, I will point out some of the
12 factors that contributed to the selection of each audit.

13 In preparing the audit plan, we used a COSO-
14 based methodology. And for each audit, the items to test
15 will generally fall under the COSO areas of operations,
16 compliance, reporting, and/or strategic considerations.

17 The first audit on the plan is Housing Resource
18 Center, or HRC. This division plays an important role in
19 providing support and assistance to the public, community-
20 based housing development organizations, non-profit housing
21 developers, and other state and federal agencies.

22 This division has not been audited in the past,
23 except for the complaint resolution section of HRC, which
24 we audited last year. We will evaluate the interfaces with
25 the public, as well as required reports, gathering of

1 public input, and any information logjams there may be.

2 The next audit on the plan is tenant selection
3 and affirmative marketing plan. This program is pursuant
4 to the Fair Housing Act provision that requires development
5 owners to maintain an affirmative Fair Housing marketing
6 plan.

7 This process is intended to prevent biased and
8 adverse selection in renting practices, and therefore, is
9 subject to public scrutiny. This activity at TDHCA has
10 recently been transferred from the Compliance Division to
11 the Fair Housing Data Management Resources Division and is
12 under new management.

13 The third audit is the multifamily direct loan
14 document preparation and routing. These functions involve
15 multiple divisions from initial documents received, until
16 the loan is closed and funded.

17 Adequate coordination between these divisions is
18 an essential part of the process in ensuring accuracy and
19 compliance with applicable regulations. We will test
20 tracking and resolution of loan issues, as well as other
21 issues we may identify during the project risk assessment.

22 The next audit on the plan is the management of
23 non-performing loans. This refers to loans for which
24 payments are delinquent and loans that are in default. We
25 will identify where the loans are, and how they are

1 accounted for. And also, evaluate payment risks and how
2 they are handled, and conduct testing where appropriate.

3 The next audit includes the programs of Ending
4 Homelessness and Homeless Housing and Services Program.
5 These two are relatively small programs with similar focus
6 in providing housing-related assistance and services to
7 low-income individuals.

8 The Ending Homelessness program is funded by
9 vehicle registration fees. Due to the size of these
10 programs, we have decided to combine them into one audit,
11 and review them together. They both rated high on our
12 annual risk assessment, due to the legislative interest, as
13 well as the current economic effects of the pandemic on
14 low-income individuals.

15 And the last audit on our plan is the Physical
16 Inspections Division. This area was on the fiscal year '20
17 plan, and was audited this year, and a report was issued on
18 August 14th, 2020.

19 However, due to a scope limitation imposed by
20 COVID-19 pandemic, we are going to review this division
21 further in fiscal year '21. We had planned to visit some
22 of the facilities that are inspected by TDHCA and will
23 follow the State's safety guidelines.

24 From the fiscal year 2020 audit plan, we have
25 one unfinished audit, which is Continuity of Operations

1 Plan or COOP. This audit had started in February, but had
2 to be paused for a while, due to the changes that the
3 agency was implementing as a response to the pandemic.

4 We are currently finalizing this audit and will
5 present our report to the Committee during the March
6 meeting. The audit plan also includes time allocations for
7 external audit coordination and administrative activities.

8 So, that concludes my presentation of the
9 internal audit work plan for fiscal year 2021. I will be
10 happy to answer any questions you may have.

11 And then, I would like the Committee to
12 recommend approval to the full Board. And then, I will
13 present it. I will present the audit plan for the full
14 Board later this morning, because by statute, it has to be
15 approved by the full Board.

16 MS. THOMASON: All right. Thank you very
17 much. Are there any questions for Mr. Scott, related to
18 the internal audit plan?

19 MR. BRADEN: I have a question, Madam Chair.
20 So, Mark. On the management of non-performing loans, when
21 is the last time we audited that? Do you have a feel for
22 how many non-performing loans we have?

23 MR. SCOTT: The answer to your first question is
24 no, we haven't audited it. I don't know exactly what the
25 state auditors do when they audit, when they do their

1 massive audit of our financial statements, and the bond
2 programs and so forth. They might touch on that, some.

3 And as for your second question, I don't have
4 confidence in that I could immediately put my arms around
5 all of the non-performing loans, which is one of the
6 reasons I want to audit it. To find out where they are,
7 and you know -- there is -- I always think, when you have
8 big programs like that, that some of the things kind of
9 get, you know, buried, or they aren't kept track of well.

10 So, that is one of the things that I want to
11 audit. Does that make sense?

12 MR. BRADEN: Yeah, no, that is fair. It makes
13 sense you want to audit it. You don't have -- you can't
14 put your arms around it, right now. That makes sense.
15 That is all I had.

16 MR. SCOTT: Okay.

17 MS. THOMASON: All right. Thank you. Are there
18 any other questions from the Committee?

19 MR. VASQUEZ: Mark, just to reiterate, these
20 audits are selected via a scoring matrix that you have put
21 together.

22 MR. SCOTT: Yes.

23 MR. VASQUEZ: Weighted.

24 MR. SCOTT: Yes, sir.

25 MR. VASQUEZ: Okay. Kind of sort of glossed

1 over that real quickly.

2 MR. SCOTT: Okay. Yes. So, what we do is, we
3 have a -- some people consider it an ancient method, but to
4 me, it is the best one. It came out of the original COSO
5 studies. It is called the Virginia Commonwealth Model.

6 And basically, you brainstorm. You figure out
7 all the auditable units, however you want to define them,
8 by division or by activity and so forth. And then, you
9 come up with all the risk attributes that would cause it to
10 be something you want to audit.

11 And you go through, and you score on the -- on
12 the vertical axis, you list all of the auditable units --
13 on the vertical axis. On the horizontal axis, you lay out
14 all the risk factors, and then you go through and score
15 them.

16 And based on that, you determine -- the highest
17 ones, you determine to go into audit. And one thing I will
18 mention, internal auditing standards require that you audit
19 the riskiest items.

20 So, there is not -- as far as technically
21 academic standards for internal audit, there is no
22 provision for really rotating, you know, audits. You are
23 supposed to do the high risk ones.

24 But as a matter of practicality, if we just
25 audited something, even if it is risky, you know, we are

1 not going to audit it again. With that caveat, we follow
2 strictly to the risk assessment matrix.

3 MS. THOMASON: Any other questions?

4 (No response.)

5 MS. THOMASON: Okay. Then, may I have a motion
6 to recommend for approval for the full Board the 2021
7 Internal Audit Work Plan?

8 MR. BRADEN: So moved.

9 MS. THOMASON: Okay, Mr. Braden. May I have a
10 second?

11 MR. THOMAS: Second.

12 MS. THOMASON: Okay. All in favor?

13 (A chorus of ayes.)

14 MS. THOMASON: Okay. Thank you very much. We
15 will move on to Action item 3.

16 It is the presentation, discussion, and possible
17 action to recommend approval to the full Board the draft
18 computation of the Housing Finance Division total and
19 unencumbered fund balances, and transfer to the Housing
20 Trust Funds. And I believe we have Mr. Joe Guevara with us
21 this morning to present that item.

22 (Pause.)

23 MR. GUEVARA: Can you hear me clearly?

24 MS. THOMASON: Yes. We can. Thank you.

25 MR. GUEVARA: Okay. Good morning, Madam Chair,

1 members of the Committee. For the record, I am Joe
2 Guevara, Director of Financial Administration for the
3 Department.

4 Action item 3 is the draft computation of the
5 Housing Finance Division total and unencumbered fund
6 balances and transfers to the State Housing Trust Fund.
7 The Housing Finance Division's unencumbered balances are
8 funds associated with the Department's housing finance
9 activities that are not subject to any restrictions
10 precluding their immediate transfer to the State Housing
11 Trust Fund.

12 Such restrictions include being subject to a
13 state or federal law or other applicable legal
14 requirements, such as the General Appropriations Act, or
15 being held in trust, subject to terms of a bond indenture,
16 or having been designated by the Department's Governing
17 Board for a specific use or a contingency.

18 Pursuant to Texas Government Code 2306, Section
19 204 and 205, the Department is required to undergo an
20 independent annual audit of its unencumbered fund balances,
21 and to transfer excess funds to the State Housing Trust
22 Fund based on the calculations set forth in the statute.
23 If any unencumbered fund balances are identified, and they
24 exceed the threshold set forth in the statute, we are
25 required to make a transfer by January 10th of the

1 following year.

2 The draft computation report in Exhibit A
3 reflects all the funds held by the Department, and any
4 associated restrictions yielding an unencumbered amount of
5 \$146,000. The calculation of bonded indebtedness report in
6 Exhibit B illustrates the calculation of the threshold.

7 So, of the \$2 billion in debts outstanding, \$726
8 million is not rated in the highest rating category. So, 2
9 percent of that amount yields a threshold of \$14 million.
10 Since the unencumbered balance isn't 2 percent of the
11 threshold, it does not meet the criteria for a transfer.

12 This draft computation report, as of August 31,
13 2020, is currently under review by the State Auditor's
14 Office, as part of the year-end financial audit, and may be
15 subject to revision, based on such audit. The independent
16 auditor's report, along with the opinion, will be issued
17 December 18th, and will be presented to the Audit Committee
18 next meeting in March.

19 At this point, we respectfully request
20 acceptance of the draft computation of the Housing Finance
21 Division total in unencumbered fund balances and transfers
22 to the State Housing Trust Fund report. This concludes my
23 remark on this item.

24 So, I am available for any questions that you
25 may have.

1 MS. THOMASON: Thank you very much. Are there
2 any questions from the Committee for Mr. Guevara?

3 (No response.)

4 MS. THOMASON: Okay. Having none, then, may I
5 have a motion to recommend approval to the full Board?

6 MR. THOMAS: So moved.

7 MS. THOMASON: Okay. May I have a second?

8 MR. VASQUEZ: Second.

9 MS. THOMASON: All right. All in favor?

10 (A chorus of ayes.)

11 MS. THOMASON: All right. Thank you so much.
12 That concludes our action items for today.

13 We do have three additional report items. The
14 first will be the presentation and discussion of the
15 Internal Audit review of the implementation status of prior
16 audit findings and recommendations. And Mr. Scott will
17 present that to us.

18 MR. SCOTT: Thank you, Madam Chair. This report
19 is on the status of the prior internal and external audit
20 findings and recommendations. Internal Audit is required
21 to submit an annual report to comply with internal auditing
22 standards.

23 As you can see in the report which was provided
24 in the packet, most of the internal audit findings have
25 been closed. A few remain open, and we'll follow up on

1 them during the fiscal year '21 follow-up audit. We also
2 track and follow up on external audit findings and
3 recommendations.

4 Clifford Larson Allen, CLA, performed an audit
5 of the Low Income Home Energy Assistance Program, or
6 LIHEAP, for the year October 1, 2018, through September 30,
7 2019. The finding was regarding incorrect reporting due to
8 transcription and calculation errors, as data was manually
9 transcribed onto the LIHEAP performance data form. This
10 process has been revised, and based on management
11 assertion, the finding was closed.

12 CLA will also do follow up on the agency SEFA,
13 which is a schedule of expenditures of federal awards.
14 That concludes my presentation on the follow-up audit.

15 Okay. I lost somebody's sound.

16 MR. THOMAS: Ms. Thomason, I believe you are
17 muted.

18 MS. THOMASON: Sorry. Are there any questions
19 for Mark on that report item? Okay.

20 MR. VASQUEZ: I am sorry. I do have, real
21 quick. So, this transcription error, was this someone in
22 the Department that made the mistake, or was it someone at
23 Clifford Larson Allen?

24 MR. SCOTT: I would imagine. Probably somebody
25 at the Department. I can't imagine it being otherwise.

1 And also, you know, they tend to -- they will
2 tend to write findings that kind of encourage the Agency to
3 automate. So, it is kind of a win-win for them to have
4 that finding.

5 MR. VASQUEZ: Okay. Thanks.

6 MS. THOMASON: Any other questions?

7 (No response.)

8 MS. THOMASON: Okay. Thank you, Mark. We'll
9 move on to our second report item. It is the presentation,
10 discussion of the internal audit report. And Mark will be
11 discussing that as well.

12 MR. SCOTT: Okay. This report is a statutory
13 requirement that is sent to the oversight bodies
14 annually. In this report, we reconcile audits that have
15 been completed during the year to the audits that were on
16 the plan.

17 For this year, we did not have any carryover
18 audits. And as I mentioned earlier, our only picking off
19 it for the 2020 audit plan is the audit of COOP, which we
20 are finishing at this point. And it is in the reporting
21 phase. And I will answer any questions you have about the
22 annual report.

23 MS. THOMASON: Thank you. Any questions for
24 Mark about the annual report?

25 (No response.)

1 MS. THOMASON: Okay. Having none, we will move
2 on to our final report item for today -- will be the status
3 of any external audit activities. Mr. Scott.

4 MR. SCOTT: Okay. As Joe was mentioning, the
5 State Auditor's Office is finishing up their audit of the
6 TDHCA basic financial statements, and the bond financial
7 statements. And they will issue the report later this
8 month.

9 On the federal compliance side of the statewide
10 audit, CLA didn't pick any TDHCA programs to audit in 2020.

11 The Comptroller's audit conducted their standard post-
12 payment audit at TDHCA this year and will issue their
13 report in the next couple of months.

14 That is a standard audit of agency payables.
15 And I will be happy to answer any questions there may be
16 about the external audit.

17 MS. THOMASON: Thank you. Are there any
18 questions related to any of the external audit activity?

19 (No response.)

20 MS. THOMASON: Okay. Having none, if there is
21 not anything else that we need to discuss, the meeting will
22 adjourn at 8:22. Thank you. We will see you guys shortly.

23 (Whereupon, at 8:22 a.m., the meeting was
24 concluded.)

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MEETING OF: TDHCA Finance & Audit Committee

LOCATION: via GoToWebinar

DATE: December 10, 2020

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 Latrice Porter before the
Texas Department of Housing and Community Affairs.

DATE: December 15, 2020

(Transcriber)

On the Record Reporting
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