

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 28, 2018
7:32 a.m.

MEMBERS:

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

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REPORT ITEMS:	
1. Presentation and discussion, of Internal Audit review of the implementation status of prior audit findings and recommendations	10
2. Discussion of Recent Internal and External Audit Activities	11
PUBLIC COMMENT ON MATTERS OTHER THAN ITEMS FOR WHICH THERE WERE POSTED AGENDA ITEMS	none
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P R O C E E D I N G S

1
2 MS. THOMASON: I call to order the June 28
3 meeting of the TDHCA Audit and Finance Committee meeting.

4 I'm going to take roll.

5 Paul Braden?

6 MR. BRADEN: Here.

7 MS. THOMASON: Asusena Reséndiz?

8 MS. RESÉNDIZ: Present.

9 MS. THOMASON: Leo Vasquez?

10 MR. VASQUEZ: Present.

11 MS. THOMASON: We have some action items today.

12 The first one will be the approval of the minutes from
13 our May 24, 2018 Audit and Finance Committee. At that
14 meeting the director of External Affairs, Michael Lyttle,
15 presented action items for the TDHCA Strategic Plan for
16 2019-2023 and the Legislative Appropriations Request for
17 the biennium of 2020-2021. The committee recommended both
18 items for approval by the full Board. The director of
19 Internal Audit, Mr. Mark Scott, went over the internal
20 audit of the Emergency Solutions Grant.

21 The minutes are included in your notebooks for
22 the Audit and Finance Committee. My I have a motion to
23 approve the minutes from the meeting?

24 MS. RESÉNDIZ: So moved.

25 MR. BRADEN: Second.

1 MS. THOMASON: Thank you. All in favor?

2 (A chorus of ayes.)

3 MS. THOMASON: Any opposed?

4 (No response.)

5 MS. THOMASON: Our second action item is the
6 presentation of the updated charter for the Audit and
7 Finance Committee. That will be presented by Mr. Mark
8 Scott.

9 MR. SCOTT: Thank you, Madam Chair.

10 The Internal Audit Charter requirement is in
11 Internal Audit Standards Attribute Standard 1000, and it's
12 actually the very first standard. The new charter
13 includes updates based on the recent peer review and also
14 inclusion of finance items as part of the committee. So I
15 would ask the committee to recommend for approval to the
16 full Board the updated Audit and Finance Committee
17 charter.

18 MS. THOMASON: Okay. Do I have a motion to
19 accept the Internal Audit Charter update?

20 MR. VASQUEZ: So moved.

21 MS. THOMASON: A second?

22 MR. BRADEN: Second.

23 MS. THOMASON: All in favor?

24 (A chorus of ayes.)

25 MS. THOMASON: Any opposed?

1 (No response.)

2 MS. THOMASON: The item is approved.

3 Our third item will be the presentation of the
4 2019 TDHCA operating budget, and Mr. Ernie Palacios will
5 present that to us.

6 MR. PALACIOS: Good morning, Madam Chair,
7 members of the committee. For the record, I'm Ernie
8 Palacios, director of Financial Administration for the
9 Department.

10 Over the last four months we've been meeting
11 with division directors and managers to develop an
12 internal operating budget for fiscal year 2019. Behind
13 item 3 is the internal operating budget which includes a
14 comparison report with the 2018 operating budget. I would
15 like to provide you information related to the amount of
16 the budget, the expenditure categories of where this money
17 will be used, and lastly, the financing associated with
18 recommending this budget for the upcoming fiscal year.

19 The proposed budget is \$27.9 million. This
20 represents a \$200,000, or 0.7 percent increase from the
21 current budget. The increase is primarily attributed to
22 increases in several cost categories such as: salaries and
23 wages of \$62,874 which includes a 1 percent allowance for
24 potential salary increases for employees such as merits,
25 reclasses and items that the Department may want to

1 consider throughout the fiscal year, payroll related costs
2 of about \$15,000 proportional to the salary increase; and
3 state travel of \$45,000 in the areas of Compliance,
4 Community Affairs and Section 8; repairs and maintenance
5 of \$87,728, primarily related to computer-related annual
6 maintenance costs; advertising increased \$81,200,
7 primarily due to a marketing initiative by the Texas
8 Homeownership Division estimated to cost an additional
9 \$80,000; temporary help increased by \$58,720, primarily
10 due to increased cost of meeting transcription services
11 and a web redesign of the Texas Homeownership Program.

12 Capital outlay projects were scheduled to go
13 down in the second year of the biennium, however, \$600,000
14 for the Community Affairs project and \$80,000 for the
15 cybersecurity activities were carried forward to fiscal
16 year '19 for continued expenditures. Had these amounts be
17 fully spent in fiscal year '18, the overall agency budget
18 would have decreased \$480,000.

19 The Department's cap FTEs is 313. The budget
20 has 309 FTEs, 245 are TDHCA personnel and 64 are
21 Manufactured Housing Division staff, four less than
22 appropriated.

23 The method of finance was affected as follows:
24 general revenue related to earned federal funds increased
25 \$117,000, or 5.6 percent, primarily related to the

1 addition of the National Housing Trust Fund; federal funds
2 increased \$239,000, or 3.5 percent, included int that
3 amount is the \$600,000 capital budget project for
4 Community Affairs that was carried forward; and finally,
5 appropriated receipts had a decrease of \$147,000, or a 0.9
6 percent decrease, this is primarily due to the capital
7 budget items and salary savings.

8 This budget will be used for developing the 20-
9 21 biennium Legislative Appropriations Request, or LAR.
10 The policy letter and LAR instructions were released last
11 week by the Governor's Office and the LBB. TDHCA's LAR
12 must be submitted by August 3. We plan on bringing a
13 couple of policy items, such as the administrative
14 statement and a 10 percent reduction schedule to the
15 committee and the committee's approval to the Board on
16 July 12. Also, I would like to note for the record, in
17 accordance with Internal Auditing Standards and the
18 Board's internal audit charter, the budget includes the
19 Internal Audit Division's annual operating budget.

20 This concludes my remarks on this item. I'm
21 available for any questions that you may have.

22 MS. THOMASON: Thank you.

23 Does anyone have any questions related to the
24 budget?

25 MR. VASQUEZ: So, Ernie, you characterized the

1 budget at \$27.9 million?

2 MR. PALACIOS: Close to \$28-, but yes.

3 MR. VASQUEZ: That's right at \$28 million.

4 (General laughter.)

5 MS. THOMASON: If there are no other questions,
6 do I have a motion to approve?

7 MR. BRADEN: So moved.

8 MS. THOMASON: A second?

9 MR. VASQUEZ: Second.

10 MS. THOMASON: All in favor?

11 (A chorus of ayes.)

12 MS. THOMASON: Thank you.

13 Our fourth item will be the presentation of the
14 fiscal year 2019 Housing Finance Division budget, and Mr.
15 Palacios will present that as well.

16 MR. PALACIOS: Now we'll turn your attention to
17 item 4 for the Housing Finance budget. This particular
18 item is a subset of the larger budget, it is in relation
19 to the Housing Finance budget that we are required to
20 submit under Texas Government Code Section 2306.113, and
21 in compliance with the General Appropriations Act. This
22 subset of the budget is specific to the fees that we
23 generate typically referred to as the Housing Finance
24 budget of the Department. At this time we are prepared to
25 certify this budget as well, and I'm available for any

1 questions on this item.

2 MS. THOMASON: Any questions?

3 (No response.)

4 MS. THOMASON: If not, do I have a motion to
5 approve the fiscal year 2019 Housing Finance Division
6 budget?

7 MS. RESÉNDIZ: So moved.

8 MS. THOMASON: A second?

9 MR. BRADEN: Second.

10 MS. THOMASON: All in favor?

11 (A chorus of ayes.)

12 MS. THOMASON: None opposed.

13 Thank you very much.

14 MR. PALACIOS: One last thing. At this time
15 I'd like to acknowledge Krissy Vavra and Paul Ford.
16 Krissy is the manager of financial services over budget,
17 payroll and travel, and Paul is our senior budget analyst.
18 They both have done an incredible job in the development
19 of this budget and keeping the progress of this budget in
20 line.

21 MS. THOMASON: Thank you very much.

22 MR. PALACIOS: Thank you.

23 MS. THOMASON: That concludes our action items.
24 We do have a report item that includes the Internal Audit
25 report on the status of prior recommendations and then the

1 discussion of current internal and external audit
2 activities.

3 Mark, would you please share that with us?

4 MR. SCOTT: Thank you again, Madam Chair.

5 Monitoring progress on internal audit
6 recommendations is in Internal Audit Standard 2500.
7 Internal Audit is required to monitor the progress on
8 audit recommendations for internal audits and external
9 audits. We conducted followup work and issued report
10 number 18002. Our followup work covered TDHCA Office of
11 Internal Audit open findings and related recommendations
12 made in audit reports dated through the end of 2017. An
13 open finding is defined as a finding that was not
14 completely addressed or for which further action is still
15 required at the time of the review.

16 Now, based on our reviews, we were able to
17 close most of the previously open recommendations. The
18 ones that were not closed will be reviewed again during
19 the next followup audit in fiscal year '19.

20 The external audits performed on TDHCA's
21 programs include a KPMG reviews of LIHEAP and the HOME
22 Program, and the Department has implemented an interim
23 measure with the LIHEAP program for household level data.

24 The new system is expected to go live in September of
25 2019. The KPMG recommendation for the HOME Program is

1 fully implemented and the finding is closed.

2 The U.S. Department of Health and Human
3 Services also performed two audits, a compliance review of
4 the State of Texas fiscal year '13 LIHEAP, that was an old
5 report that they just issued, and then the Community
6 Services Block Grant report was issued on June 7, 2018.
7 And the status update and review of the recommendations
8 for these two audits will be included in the fiscal year
9 '19 followup audit.

10 Are there any questions on the followup items?

11 (No response.)

12 MR. SCOTT: On the status of the audit plan, so
13 far in fiscal year 2018 we have completed from the audit
14 plan the peer review, the Bond Program audit and the
15 Emergency Solutions Grant audit, and also the followup
16 audit. We also had KPMG and HHS doing the external audits
17 and Internal Audit was coordinating. We should be
18 finished next month with the audit of the Neighborhood
19 Stabilization Program, NSP; then we have remaining from
20 the audit plan the HOME, the fund tracking, and the loan
21 servicing for single family. So the audit plan is
22 basically on track.

23 That concludes my presentation, and I'll be
24 happy to answer any questions there may be on the audit
25 plan.

1 MS. THOMASON: Thank you.

2 Any questions for Mark?

3 (No response.)

4 MS. THOMASON: Okay. Then that will conclude
5 our meeting. It is 7:43. Thank you.

6 (Whereupon, at 7:43 a.m., the meeting was
7 adjourned.)

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MEETING OF: TDHCA Board Audit & Finance Committee

LOCATION: Austin, Texas

DATE: June 28, 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 Donna Boardman before the Texas Department of Housing and Community Affairs.

DATE: July 3, 2018

(Transcriber)

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