

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

AUDIT AND FINANCE COMMITTEE MEETING

VIA TELEPHONE AND WEB LINK

June 17, 2021
8:00 a.m.

MEMBERS:

SHARON THOMASON, Chair
PAUL A. BRADEN, Member
AJAY THOMAS, Member
LEO VASQUEZ, Member

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P R O C E E D I N G S

1
2 MS. THOMASON: Thank you, and welcome to the
3 June 17 meeting of the TDHCA Audit and Finance Committee.

4 I apologize for my camera not working this
5 morning, but I will begin by taking roll.

6 Mr. Braden?

7 MR. BRADEN: Here.

8 MS. THOMASON: Mr. Thomas?

9 MR. THOMAS: Present.

10 MS. THOMASON: Mr. Vasquez?

11 MR. VASQUEZ: Present.

12 MS. THOMASON: And I am here, so we have a
13 quorum.

14 Our first action item today on the agenda is the
15 approval of the minutes from the March 11, 2021 meeting of
16 the Audit and Finance Committee. At that meeting, Robert
17 Pagenkopf, from the State Auditor's Office, presented the
18 SAO's annual audit of the TDHCA financial statements. All
19 of those reports resulted in an unqualified or a clean
20 opinion.

21 Also, the director of Internal Audit, Mr. Mark
22 Scott, presented the internal audit of the continuity of
23 the operations, or the COOP. He also provided status
24 updates on the internal and external audit activities at
25 that time.

1 The minutes are included in your book, and I
2 just need to ask for a motion to approve the minutes from
3 the March 11, 2021 Audit and Finance Committee meeting.

4 MR. BRADEN: Move to approve.

5 MS. THOMASON: Move to approve by Mr. Braden.
6 May I have a second?

7 MR. THOMAS: Second.

8 MS. THOMASON: Seconded.

9 All in favor of approving those minutes?

10 (A chorus of ayes.)

11 MS. THOMASON: Thank you. The minutes are
12 approved.

13 Our second action item is the presentation,
14 discussion and possible action to approve the fiscal year
15 2022 operating budget, and we have Mr. Joe Guevara with us
16 today. He's the director of Financial Administration, and
17 he's going to present that item to us.

18 Good morning, Mr. Guevara.

19 MR. GUEVARA: Good morning. Can you hear me
20 clearly?

21 MS. THOMASON: Yes, sir.

22 MR. GUEVARA: Perfect. Good morning, Madam
23 Chair and members of the committee. For the record, I am
24 Joe Guevara, director of Financial Administration.

25 Over the past several months our budget team has

1 been in collaboration with division directors and managers
2 to develop an internal operating budget for fiscal year
3 2022. This budget is within the spending limits in Senate
4 Bill 1 of the 87th Texas Legislature Regular Session, which
5 will become the General Appropriations Act for the 2022-23
6 biennium.

7 We developed this budget to address various
8 needs that were included in our legislative appropriations
9 request, which allows for some planned growth in personnel
10 and technology. In addition, this budget outlines
11 temporary growth to support programs created in response to
12 the coronavirus pandemic funded through the CARES Act, the
13 Consolidated Appropriations Act, the recent American Rescue
14 Plan Act and has charged our agency to administer more than
15 \$3.9 billion over the next few years.

16 Behind item number 2 is the internal operating
17 budget, which includes a comparison report. We have
18 reformatted this report to provide you a comparison for
19 each year as a whole, along with an adjusted report
20 excluding temporary funding and the capital budget, which
21 we believe provides you a more transparent comparison for
22 our operations.

23 In summary, the 2022 proposed budget is \$106
24 million. This represents a \$77.2 million increase. The
25 structure of this budget can be divided into three

1 components: temporary funding, our ongoing permanent
2 activities, and the capital budget.

3 First, the budget expenditures related to
4 temporary programs account for approximately \$76.3 million
5 of this increase. This temporary administrative funding
6 will be utilized for expenditures related to personnel,
7 outsourced professional services, and general
8 administrative expenses.

9 Now, this budget proposes to fund 53 Article 9
10 temporary FTEs, 15 to assist in the administration of the
11 programs related to the CARES Act, 14 related to the Texas
12 Rent Relief Program, and 15 related to the American Rescue
13 Plan Act, and basically, we budgeted for nine temporary
14 FTEs in the areas of accounting, HR, IT and procurement.

15 In addition, outsourced professional services
16 for the administration of the Texas Rent Relief Program
17 primarily accounts for the variance in the professional
18 services line item of the budget. We also budgeted \$1.3
19 million for temporary help, primarily for personnel to
20 support short-term tasks and projects related to CDBG and
21 the Rent Relief Program as they evolve. This also includes
22 some funds budgeted for translation services for these two
23 programs.

24 Secondly, the change related to our ongoing
25 activities was an increase of \$310,000, or 1.1 percent.

1 The adjusted variance column and the comparison report list
2 the changes in these categories and the impact of the
3 budget compared to FY21.

4 Some areas to highlight related to our core
5 programs are as follows: Salaries increased \$273,000, or
6 1.5 percent, primarily due to the funding of FTEs to
7 support the increase in multifamily activities and external
8 affairs, with payroll related costs increasing
9 proportionately.

10 Professional fees increased \$258,000, primarily
11 related to the completion of a contract for cost
12 certification training and the reallocation of our external
13 audit services from our core grants to the Rent Relief
14 Program for this upcoming fiscal year.

15 Another item is repairs and maintenance
16 increased nearly \$19,000, or 3.2 percent, primarily due to
17 a planned upgrade of our Midas System, which supports our
18 loan servicing and bond accounting functions, allowing for
19 improved customer service to our borrowers.

20 Rental and leases increased \$42,000, primarily
21 due to a lease agreement for office space at the Twin
22 Towers location. Advertising costs increased \$50,000 in
23 anticipation of an advertising and outreach campaign for
24 the LIHEAP Program.

25 And lastly, communications and utilities

1 increased \$158,000, primarily due to an increase in agency-
2 wide need of additional technological resources, such as
3 DocuSign and e-notary, and a media contract for the Texas
4 Homeownership Program.

5 The last component of our budget is related to
6 our capital projects, which increased \$557,000.

7 Professional services related to the capital budget
8 increased \$445,000, mostly related to the upgrade of our
9 compliance monitoring and tracking system. This is to
10 modernize this system and allow for some efficiencies.

11 Furniture and equipment is the non-capital
12 component of the capital budget, and it increased \$149,000,
13 reflective of more scheduled purchases of equipment such as
14 computers and printers, the majority of which will occur in
15 this first year of the biennium.

16 The capital outlay is the capital component of
17 the capital budget, and it increased \$119,000 -- I'm
18 sorry -- it decreased \$119,000, reflective of planned
19 purchases such as servers and other major hardware which
20 are scheduled during the second year of the biennium.

21 This budget is reflective of 366 FTEs, 53 being
22 Article 9 temporary FTEs and 313 being cap FTEs. Of the
23 cap FTEs, 249 are related to TDHCA and 64 are Manufactured
24 Housing Division staff.

25 And finally, a brief overview of the impact of

1 our method of finance is as follows: General revenue as a
2 whole decreased \$224,000. This is primarily related to the
3 state-mandated 5 percent reduction for the 2021 biennium.
4 Appropriated receipts have an increase of \$422,000,
5 primarily related to additional FTEs funded with these fees
6 and a supplement to the general revenue reduction.

7 At this time, also, I would like to note for the
8 record, in accordance with the Internal Auditing Standards
9 and the Board's Internal Audit Charter, this budget
10 includes the Internal Audit Division's annual operating
11 budget as well.

12 This concludes my remarks on this item, and I'm
13 available for any questions that you may have.

14 MS. THOMASON: Thank you very much.

15 Are there any questions from any of the
16 committee members on this item?

17 MR. BRADEN: I have one question.

18 MS. THOMASON: Okay. Mr. Braden.

19 MR. BRADEN: I think you talked about when you
20 explained why the rentals and leases increased, you
21 referred to the Twin Towers. What is that?

22 MR. GUEVARA: It's a separate building. It's
23 along 290, and it primarily houses right now our IT staff,
24 and when the pandemic hit, the lease was expiring and we
25 were going to bring out IT staff back into headquarters,

1 but then we were bringing in a lot more temporary staff and
2 so we decided to keep our IT staff over there in the
3 meantime to allow for the growth in our personnel. So it's
4 a temporary extension of the lease, at least for the next
5 three years or so.

6 MR. BRADEN: Okay. Thank you.

7 MR. WILKINSON: Joe, does that amount include
8 the Manufactured Housing Division's lease, or is it just
9 for ours?

10 MR. GUEVARA: It's just our portion.

11 MR. WILKINSON: Eventually the Manufactured
12 Housing Division is going to get a spot in the new H.W.
13 Bush Building that they're building under Phase 1 of the
14 Capitol Complex expansion. We're going to be staying here
15 at least for another phase or two, and we'll be bringing
16 back those IT folks with us. I don't think they're going
17 to migrate to the H.W. Bush Building with Manufactured
18 Housing.

19 MS. THOMASON: Are there any other questions?

20 MR. VASQUEZ: I have a question. So, Joe, would
21 you characterize, in summary, that our core budget has
22 stayed basically flat? I mean, any increases are due to
23 additional programmatic needs. Correct?

24 MR. GUEVARA: Exactly. Our budget remains
25 fairly consistent, fairly flat, some planned growth in

1 personnel and technology, and the majority of our increase,
2 you know, 268 percent, that's primarily related to our
3 temporary programs, which will be phased out as these funds
4 are spent down in the next couple of years.

5 MR. VASQUEZ: Right. Okay, great. Thanks.

6 MS. THOMASON: Are there any other questions?

7 (No response.)

8 MS. THOMASON: Okay. Hearing none, may I ask
9 for a motion to recommend approval to the full Board of the
10 fiscal year 2022 operating budget, as presented? Anyone?

11 MR. BRADEN: Move to approve.

12 MR. THOMAS: Madam Chair, I move that approve
13 the budget, as presented by staff, to the full Board for
14 review and approval.

15 MS. THOMASON: Okay. Thank you, Mr. Thomas.

16 And Mr. Braden, was that a second?

17 MR. BRADEN: Second.

18 MS. THOMASON: Perfect. All in favor?

19 (A chorus of ayes.)

20 MS. THOMASON: Thank you very much.

21 We'll move on to action item number 3. That is
22 the presentation, discussion and possible action on the
23 fiscal year 2022 Housing Finance Division budget, and Mr.
24 Guevara will present that to us as well.

25 MR. GUEVARA: Thank you, Madam Chair.

1 Now I'd like to turn your attention to item
2 number 3, the Housing Finance budget. This particular item
3 is a subset of our internal operating budget. It is in
4 relation to the Housing Finance budget that we are required
5 to submit under our Texas Government Code and in compliance
6 with the General Appropriations Act.

7 This subset of the budget is specific to the
8 fees that we generate through single-family and multifamily
9 bond, tax credit, and compliance activities, so at this
10 time we are prepared to certify this budget as well.

11 So I'm available for any questions that you may
12 have related to this item.

13 MS. THOMASON: Thank you.

14 Are there any questions related to this budget?

15 (No response.)

16 MS. THOMASON: Okay. Hearing none --

17 MR. VASQUEZ: I'm sorry. I have another related
18 question. So are staying consistent based on the projects
19 that we have underway?

20 MR. GUEVARA: Yes. The majority of the growth
21 in appropriated receipts or the Housing Finance budget is
22 related to our capital projects for the upgrade of CMTS,
23 like I mentioned earlier, and some additional FTEs for some
24 multifamily activity needs, so this one it's pretty
25 consistent.

1 MR. VASQUEZ: All right. That's it. Thanks.

2 MR. GUEVARA: Thank you.

3 MS. THOMASON: Any other questions?

4 (No response.)

5 MS. THOMASON: Okay. If there are none, may I
6 have a motion to recommend approval to the full Board of
7 the fiscal year 2022 Housing Finance Division budget.

8 MR. BRADEN: So moved.

9 MS. THOMASON: Okay. Mr. Braden, and is there a
10 second?

11 MR. VASQUEZ: Second.

12 MS. THOMASON: Second by Mr. Vasquez. All in
13 favor?

14 (A chorus of ayes.)

15 MS. THOMASON: Okay. That concludes our action
16 items. Thank you very much, Mr. Guevara, for presenting
17 those items to us.

18 MR. GUEVARA: Thank you.

19 MS. THOMASON: Now we will have three report
20 items. The first will be the internal audit of the Tenant
21 Selection Criteria and Affirmative Marketing plans, and Mr.
22 Scott, the director of Internal Audit, is here to present
23 that item today.

24 MR. SCOTT: Thank you, Madam Chair.

25 These functions were recently transferred from

1 TDHCA Compliance Monitoring Division to the Fair Housing
2 Data Management and Reporting Division.

3 There had been concern that Compliance Division
4 would be flooded with a lot more IRS regulations to
5 monitor, and also, in the past most of the compliance
6 monitoring referrals to the Enforcement Committee were
7 resolved through more training.

8 Since May 2020, the transfer of these functions
9 to FHDMMR Division, the TDHCA staff have provided training
10 and technical assistance to property owners and their
11 representatives for meeting the requirements of the Fair
12 Housing Act.

13 The staff have also offered voluntary review of
14 the plans to properties funded through TDHCA. Internal
15 Audit reviewed 10 out of 50 voluntary reviews that were
16 performed by the staff as of the start of the audit. We
17 made some recommendations for improvements in recordkeeping
18 and consistency of reviews. We've also noted that we'll be
19 performing additional testing during our follow-up audit
20 next year.

21 The additional testing will be focused on the
22 areas that were still in transition phase and were not
23 tested during our current audit. Additionally, we reviewed
24 records of complaints related to Fair Housing that were
25 received either through TWC or directly submitted to TDHCA,

1 and overall we found that the division is providing clear
2 and adequate support and training to the property owners
3 and their representatives.

4 And so I'll be happy to answer any questions on
5 that audit.

6 MS. THOMASON: Thank you, Mr. Scott.

7 Are there any questions related to that report?

8 MS. THOMASON: Okay. The next report item then
9 will be the Internal Audit of the Management of Non-
10 performing loans at TDHCA. Mr. Scott will be presenting
11 that report as well.

12 MR. SCOTT: Thank you, Madam Chair.

13 We reviewed non-performing loans to determine
14 where delinquencies may exist and how they are managed, how
15 they are reported, and how TDHCA makes allowance for losses
16 related to loan defaults. We reviewed two types of loans:
17 bond-funded and direct loans.

18 Bond-funded loans financed from single-family
19 and multifamily revenue bonds are originated and managed by
20 external parties. These external parties, which may
21 include banks, services and trustees, are accountable
22 through legal agreements that are monitored by TDHCA.

23 With these structures, the Department has
24 innovatively used tools available from the Federal
25 Government and financial institutions to provide a market

1 for the creation and preservation of affordable housing,
2 while minimizing default.

3 The direct loans are made from both federal and
4 state general revenue funds allocated to the agency. The
5 performance of these loans is managed directly by TDHCA or
6 through partnerships with Habitat for Humanity.

7 Single-family loans held the most delinquent
8 accounts at 83 percent current, 17 percent were delinquent
9 as of 2/28/21. This was somewhat expected, given that
10 TDHCA is often viewed as a lender of last resort, so these
11 types of loans carry more delinquency risk than your
12 average conventional loans. Multifamily loans were 87
13 percent current, 13 percent delinquent as of 2/28/21. The
14 percentage of loans that were more than a year delinquent
15 was negligible.

16 Based on our reviews, OIA found that the
17 function of the Management of Non-performing loans is
18 performing effectively overall, with some suggestions for
19 consistency and efficiency.

20 We had a recommendation for a dashboard for the
21 agency as a tool for viewing status of loan delinquencies.

22 We also had recommendations for going forward as more
23 activities are automated with the MITAS software system.
24 This includes some of the manual work done for payment
25 receipts, which we did review.

1 Bond total versus direct loans, in general terms
2 as of the end of our report, we had \$1.9 billion in bonds
3 and \$753 million in direct loans, or \$1.9 billion in bond-
4 backed loans.

5 The loan loss allowance is \$10 million for the
6 \$753 million in loans, which is 1.33 percent, and this is a
7 very low allowance, but it's borne out by prior history, so
8 overall we're doing a very good job with the management of
9 the non-performing loans.

10 So I'll be happy to answer any questions on that
11 audit.

12 MS. THOMASON: Thank you, Mr. Scott.

13 Does anyone have any questions for Mr. Scott
14 related to this report item?

15 MR. VASQUEZ: Just a question on do we have any
16 statistics on how this portfolio performs relative to other
17 similar states or organizations?

18 MR. SCOTT: Suzi is on the line. I don't think
19 we compared it. They seem manifestly like they were doing
20 a good job.

21 Suzi, are you on the line?

22 (No response.)

23 MR. SCOTT: I don't know. Joe, do you know
24 anything about that as far as comparisons to other states?

25 MR. GUEVARA: Hi, Mark.

1 Mr. Vasquez, we don't have any consistent
2 comparing, not that I'm aware of, but our process just
3 evaluating our delinquencies with our own portfolio, and
4 every year it's also reviewed by our external auditors to
5 make sure it's reasonable.

6 And at this point, the experience in write-offs
7 does not exceed our allowance the following year, so it
8 seems right in line with our estimates. But at this point
9 we don't have any comparisons to other entities or other
10 areas.

11 MR. WILKINSON: I'm not aware either of how we
12 compare to other states.

13 Monica, anyone from Bond Finance know?

14 MS. NELSON: Hi. This is Suzi Nelson. Hello,
15 Madam Chair and Board members.

16 What we did compare it against is the
17 delinquencies that are in the loans underlying the single-
18 family mortgage bonds, and those delinquencies run at about
19 76 percent current, 24 percent delinquent, so compared to
20 those underlying loans, TDHCA is actually outperforming.

21 MR. SCOTT: So you're saying the loans that are
22 directly managed by us are better than the ones that are
23 managed by our partners?

24 MS. NELSON: Yes, because we work really hard.
25 They go through many, many phases to try to help these

1 individuals and families, and pretty much through to the
2 bitter end. So I don't think many financial institutions
3 are as understanding and helpful as TDHCA in this regard,
4 because of our mission.

5 MR. VASQUEZ: Okay. That answers my question.
6 Just trying to get some perspective on this. Is this good
7 or bad?

8 MS. NELSON: It's really good, actually. I was
9 quite surprised, and I feel that the agency has really
10 great processes in place surrounding this function.

11 MR. VASQUEZ: Okay, great. Thanks.

12 MS. THOMASON: Thank you, Ms. Nelson.

13 All right. Are there any other questions?

14 (No response.)

15 MS. THOMASON: Okay. Hearing none, we will move
16 on to our next report item. It will be the status of the
17 internal and external audit activities, and Mr. Scott will
18 present that for us. Thank you.

19 MR. SCOTT: Yes. The big item coming up next
20 year is on the statewide single audit, which they do every
21 year, but this year CliftonLarsonAllen, that does the
22 federal compliance component of the statewide audit,
23 they're going to be auditing the Coronavirus Relief Fund.

24 The amount of money that TDHCA received for
25 coronavirus relief caused it to be selected for review in

1 the federal audit of the state's 2021 financial statements.
2 They will test basic compliance supplement requirements
3 such as eligibility, allowable costs, reporting, et cetera,
4 along with any special provisions, and will also conduct
5 general information systems reviews. And we had our
6 entrance conference with CLA on May 24.

7 So that concludes my presentation, and I'll be
8 happy to answer any questions there may be.

9 MS. THOMASON: Thank you, Mr. Scott.

10 Are there any questions related to the report on
11 internal and external audit activities?

12 (No response.)

13 MS. THOMASON: Okay. Hearing none, we will
14 adjourn our meeting at 8:24 a.m. Thank you all very much.

15 (Whereupon, at 8:24 a.m., the meeting was
16 adjourned.)

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C E R T I F I C A T E

MEETING OF: TDHCA Board Audit & Finance Committee
LOCATION: Austin, Texas
DATE: June 17, 2021

I do hereby certify that the foregoing pages, numbers 1 through 21, 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 19, 2021

(Transcriber)

On the Record Reporting
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