

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

AUDIT COMMITTEE MEETING

John H. Reagan Building
Room JHR 140
105 W. 15th Street
Austin, Texas

April 28, 2016
9:00 a.m.

MEMBERS:

LESLIE BINGHAM ESCAREÑO, Chair
T. TOLBERT CHISUM, Member
TOM H. GANN, Member

ON THE RECORD REPORTING
(512) 450-0342

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P R O C E E D I N G S

MS. BINGHAM ESCAREÑO: Good morning. Welcome to the Texas Department of Housing and Community Affairs Audit meeting.

I'll call roll very quickly. Leslie Bingham, I'm here.

Mr. Gann?

MR. GANN: Here.

MS. BINGHAM ESCAREÑO: And Mr. Chisum is absent today. We have a quorum, we can move forward with business.

So the agenda is pretty light. What we're going to do is go ahead and start with the approval of the minutes, and then after that, Mark can move through the rest of the agenda.

Mr. Gann, did you have a chance to look at the minutes?

MR. GANN: I have, I've read them, and I move that we accept the minutes.

MS. BINGHAM ESCAREÑO: Very good. I'll second that motion, and that would constitute the unanimous vote to approve the minutes.

We'll start with report items. Item number 1, Presentation and discussion of the Internal Audit activities.

1 MR. SCOTT: Good morning.

2 MS. BINGHAM ESCAREÑO: Good morning.

3 MR. SCOTT: I'm going to present and talk about
4 two internal audit reports and then I'll go over the
5 status of the 2016 Internal Audit plan, and then there's a
6 couple of external audits or external reviews I wanted to
7 talk about where the external reviewers had no findings.

8 The first audit report was the internal audit
9 of the Real Estate Analysis Division, or REA, and when we
10 did the risk assessment for the audit plan this year, we
11 noted that REA had never been audited as far as we could
12 tell, so that was the main reason we audited this year.

13 We reviewed their processes and we kind of
14 focused on two reports that are generated in the process:
15 one is the underwriting reports that are done by the REA
16 Division, and the other one was the reports that are done
17 by external analysts. Now, we reviewed samples of the
18 reports for attributes such as accuracy and timeliness.
19 Underwriting in REA is the process of analyzing the
20 feasibility of proposed multifamily housing activities,
21 and we found that the underwriting reports are accurate
22 and have good information.

23 We did note that of our sample, 57 percent of
24 them were not completed before the related tax allocation
25 credits were awarded. As a note, the awards are made

1 subject to underwriting and underwriting reports were
2 completed subsequent to the awards. REA should complete
3 the underwriting reports and ensure the reports are
4 available to stakeholders, including the TDHCA Governing
5 Board, before the allocation and funding decisions are
6 made.

7 Are there any questions about the findings?

8 MS. BINGHAM ESCAREÑO: Mr. Gann?

9 MR. GANN: No.

10 MS. BINGHAM ESCAREÑO: No. Thank you.

11 MR. SCOTT: In all of our audits we also note
12 noteworthy accomplishments of the program we're auditing,
13 and before we started auditing they had already started
14 working on this summary. As you know, the information
15 that's presented is quite voluminous in the process, and
16 the REA staff came up with a very handy two-page summary
17 that Brent has made available to people. It's very user-
18 friendly, a picture tells a thousand words, you can see
19 all the information in a quick grab, so kudos for the new
20 report.

21 And if there are any questions about the REA
22 audit, I'll answer them, and if not, I'll move on.

23 MR. GANN: No questions.

24 MS. BINGHAM ESCAREÑO: Great. No questions
25 from me either, just a comment. Thank you for making the

1 copies available to the committee and the attendees at the
2 meeting this morning. You know, not having looked at it
3 in great detail, what I would just say is it looks like
4 it's going to be an extremely helpful tool, particularly
5 to the Board, so obviously by the time applicants come to
6 us, staff very thoroughly understand each applicant and
7 are probably intimately familiar with the full packet.
8 It's a little more difficult for the Board to wade through
9 all of that, and so just at first pass, having something
10 that's kind of -- a picture is worth a thousand words, I
11 agree, and having something at a glance that in color
12 codes or gradations or scoring kind of draws your eyes
13 right away to the key aspects of each application and the
14 key components of the underwriting report, I think will be
15 really helpful.

16 So what we were thinking of just in the
17 interest of time, when Mark makes the summary report to
18 the Board, we'll leave it at the Board chair's discretion
19 whether or not he'd like either Brent and Betsy or Mark to
20 review this with the Board, and so we'll have copies
21 available. If the chair would like to just accept the
22 brief report from Mark, then that's fine, but I think we
23 want to commend the audit team for asking for this to be
24 addressed and then really want to commend management and
25 the REA department for being so responsive and putting

1 together a great tool.

2 Brent, did you want to say anything?

3 MR. STEWART: Brent Stewart, Real Estate
4 Analysis.

5 First, I'd like to thank Betsy and Mark. They
6 are great and this is a great process for us, and I
7 appreciate them at a time when we're not in the throes of
8 cycle. They accommodated us with that greatly and I
9 appreciate that.

10 Second thing is I did pull up an underwriting
11 report for the Garden City transaction which the Board
12 will be considering today, and that summary for that
13 transaction did make it to the web, so it's there.

14 MS. BINGHAM ESCAREÑO: Awesome. So there's a
15 real life example that's out there and accessible.

16 MR. STEWART: It's live, yes. Thank you.

17 MS. BINGHAM ESCAREÑO: Great. Very good.
18 Thanks, Brent.

19 MR. IRVINE: Tim Irvine, executive director.

20 I'd also just like to state, because this is
21 obviously a public forum and everybody gets to hear and
22 read what we're doing, and the statement has been made
23 about the significant number of underwritings that were
24 not complete before tax credit awards, but I want to make
25 a couple of assurances, and look to Brent to back me up or

1 set me straight if I'm wrong.

2 First of all, underwriting multifamily
3 development is a phenomenally complex activity because
4 we're not the sole funding source. These are typically
5 dealing with investors, syndication rates, other lenders,
6 pricing variations, often the developments themselves are
7 undergoing adjustments and changes, sometimes with their
8 site plan, unit mix, economic conditions change, and so
9 forth. And I think it's very important to understand that
10 when these deals come to the Board for conditioned awards,
11 underwriting has already done the work that I believe that
12 they are confident that the deal is financially feasible.

13 Quite honestly, what they're really doing is
14 fine tuning the appropriateness of the recommended amount
15 of credit. Obviously pricing changes, financing
16 structures, all those kinds of things impact that, and the
17 Internal Revenue Code requires that we determine the
18 correctness of the amount of credit at three specific
19 times.

20 So that's a lot of what's going on in that
21 process, and I don't want this committee or the Board or
22 the general public to be under any misimpression that
23 we're doing things not knowing if they're good things to
24 be doing.

25 MS. BINGHAM ESCAREÑO: Great. Thank you very

1 much. And Mark had made that clarification and actually
2 made the statement about that when they come to us it's
3 conditioned upon the report, but I think it is important
4 to have on the record the discipline behind that, and I
5 know the committee is extremely aware of all the moving
6 pieces and how complex the process is. And so if Mark
7 wants to make sure that that's addressed in that brief
8 update report to the Board, then we can definitely do that
9 too.

10 MR. IRVINE: Right. And of course, all awards
11 come through the Executive Award Review Advisory
12 Committee, EARAC.

13 MS. BINGHAM ESCAREÑO: EARAC.

14 MR. IRVINE: Brent is represented on EARAC and
15 in EARAC we talk about a lot of things, we talk about
16 previous participation review, we talk about the nature of
17 the parties that are involved, and we talk about
18 underwriting issues.

19 MS. BINGHAM ESCAREÑO: Excellent. Great.
20 Thanks, Tim.

21 I think we're ready to move forward.

22 MR. SCOTT: Okay. The second audit report is
23 required by Internal Audit Standards, the chief audit
24 executive has to develop a process for following up on
25 prior audits and prior audit recommendations, and I like

1 to do it in a formal report that's put out just like the
2 other audit reports, and I number them and so forth.

3 The last report on this topic of followup was
4 done in October of 2014, so for this report we reviewed
5 the status of internal audit findings that were open as of
6 that report date and the status of recommendations from
7 internal audits that were issued subsequent to that date,
8 and we also reviewed the status of recommendations from
9 recent external audits and reviews. And for many of the
10 recommendations we either obtained documentation such as
11 updated SOPs to verify implementation or we conducted
12 tests such as recalculations to verify that the corrective
13 action had been taken.

14 And just as a note, this report was numbered
15 16-007 which follows the order of the project that was
16 listed on the audit plan. I'm also very cognizant of
17 getting the audit plan done, so I number the reports that
18 way.

19 That's all I had to say on that report. Like I
20 said, I like to do it to kind of clear out the old
21 findings at least once a year. So I'll answer any
22 questions on that.

23 MS. BINGHAM ESCAREÑO: I don't have any
24 questions.

25 Mr. Gann?

1 MR. GANN: No.

2 MS. BINGHAM ESCAREÑO: Thank you.

3 MR. SCOTT: And then the last thing I was going
4 to talk about, progress on the audit plan. In the audit
5 plan that was approved in November, there were nine
6 reports scheduled, including the report on the audit
7 followup, and in January I presented the program income
8 audit, and that report was number 15007, and the reason it
9 was a 15 was because it was a carryover project. And so
10 the remaining projects on this year's audit plan include
11 sources and uses which is almost complete.

12 And then the Fair Housing, we've scheduled an
13 entrance conference for the Fair Housing audit. And by
14 the way, what we use is kind of a cheat sheet that
15 auditors use for developing audit scopes, which is the
16 COSO cube, which anyone can Google, and across the top of
17 that cube it's operations, reporting and compliance. So
18 when we start reviewing the Fair Housing Program, our
19 analysis will follow along those lines, we'll stick to the
20 kind of nuts and bolts of the program reporting and so
21 forth.

22 Then the next audit, the Compliance monitoring.
23 Obviously this is a really big division. The
24 Subrecipients component of the monitoring division, that's
25 reviewed on a regular basis by the external auditors,

1 they're constantly reviewing that. I do consulting in
2 that area, so I pretty much know what they do, so our
3 audit of Compliance Monitoring will cover the other
4 aspects, the ones that aren't the subrecipient monitoring.

5 The Subrecipients monitoring follows the OMB Circular, so
6 that's pretty straightforward. So we're going to audit
7 the other components of compliance such as the period of
8 affordability for the tax credit properties and the other
9 things that that larger division does.

10 And the other two audits on the plan were
11 Multifamily Finance Division and the Housing Tax Credit
12 Program. And when we did the audit plan we have to kind
13 of divide up the auditable topics by divisions and
14 activities or programs, and so we had split out the
15 Multifamily Finance Division as a division to audit, and
16 the Tax Credit Program, but actually the Tax Credit
17 Program is one of them main activities of the Multifamily
18 Finance Division. And the reason I'm saying all that is
19 that I may ask at the next Audit Committee for permission
20 to combine those two audits together as one audit, and
21 that would still be in keeping with the approved audit
22 plan.

23 Also, on the Multifamily Finance and the Tax
24 Credit, when we did the audit plan in November, management
25 had requested that we be cognizant of the fact that

1 they're very busy, and for one, there were some changes to
2 the division and they're obviously very busy in June and
3 July because they have the tax credit season. So we won't
4 start the field work until the end of July, but there's a
5 lot of research we can do preparatory to that. So I think
6 we'll be able to finish the audit plan.

7 A couple of things on external audits where the
8 agency got clean reports without findings. HUD came out
9 and did a monitoring review of the HOME Program and they
10 looked at the program match, they looked at monitoring
11 oversight, various other aspects of the program, lead-
12 based paint, and they didn't have any findings which was
13 very good to hear. And also, DPS just did a review of how
14 the Section 8 Program uses background checks and they had
15 no findings either, so they gave us a good report.

16 And I just like to bring up all these different
17 external reviews, monitoring and so forth just so that we
18 keep track of what's going on. And that concludes my
19 report, and I'll be happy to answer any questions there
20 may be at this point.

21 MS. BINGHAM ESCAREÑO: Great. So going back to
22 what you have left on the plan for this year, so sources
23 and uses you're already in the middle of and you should
24 wrap that up pretty soon.

25 MR. SCOTT: Yes, ma'am.

1 MS. BINGHAM ESCAREÑO: Fair Housing, we're
2 doing kind of the nuts and bolts, and that one you'll
3 start fairly soon, or is that one for later in the year?

4 MR. SCOTT: That one is fairly soon.

5 MS. BINGHAM ESCAREÑO: Okay. And then
6 Compliance Monitoring, you won't do the subrecipients
7 because you get external audit pretty frequently on that.

8 MR. SCOTT: Right.

9 MS. BINGHAM ESCAREÑO: But you'll do like
10 period of affordability or other components.

11 MR. SCOTT: Correct.

12 MS. BINGHAM ESCAREÑO: And that one you'll
13 start fairly soon?

14 MR. SCOTT: We'll probably to do concurrently
15 the Fair Housing and the Compliance Monitoring.

16 MS. BINGHAM ESCAREÑO: Okay. Very good. And
17 then you're thinking you'll still have time because you
18 wouldn't do Multifamily Finance and Tax Credit until after
19 we finish our cycle, but you're thinking maybe in a future
20 meeting you may come back and ask the committee, since the
21 Tax Credit is such a big part of Multifamily, to combine
22 those, but since you're looking at doing that late summer
23 or early fall, you have a little bit of time to look at
24 that and you can start collecting your own background
25 research without being overly disruptive to the

1 competitive cycle this summer.

2 MR. SCOTT: Yes, ma'am, that's right. And I
3 don't want to plug the industry, but they actually have
4 really good publications on tax credits.

5 MS. BINGHAM ESCAREÑO: They do, I bet they do.

6 I don't have any other questions. Any
7 questions from management about the plan to move through
8 the rest of the audit plan this year? I mean, it still
9 sounds like you'll be busy so it still sounds pretty
10 aggressive, but I think it's great that you're working to
11 try to take care of our internal audit responsibilities
12 without being overly disruptive to getting business done,
13 so I'm sure management appreciates that.

14 Any other questions, comments, anything else to
15 add?

16 MR. SCOTT: No, ma'am, that's it.

17 MS. BINGHAM ESCAREÑO: Mr. Gann? Anything from
18 management, staff?

19 (No response.)

20 MS. BINGHAM ESCAREÑO: Great work. Short
21 meeting but good progress. Thank you very much for your
22 support, and let the committee know what else we can do to
23 support you. We'll look forward to a brief report to the
24 full Board at the meeting this morning.

25 MR. SCOTT: Okay. Thank you very much.

1 MS. BINGHAM ESCAREÑO: Meeting adjourned.

2 Thank you.

3 (Whereupon, at 9:17 a.m., the meeting was

4 adjourned.

C E R T I F I C A T E

MEETING OF: TDHCA Audit Committee

LOCATION: Austin, Texas

DATE: April 28, 2016

I do hereby certify that the foregoing pages,
numbers 1 through 17, 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.

05/04/2016

(Transcriber) (Date)

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