

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

AUDIT AND FINANCE COMMITTEE MEETING

VIA TELEPHONE AND WEB LINK

March 26, 2020
8:10 a.m.

MEMBERS:

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

ON THE RECORD REPORTING
(512) 450-0342

I N D E X

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ROLL CALL	
CERTIFICATION OF QUORUM	
ACTION ITEMS:	
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ITEM 2: Presentation, discussion, and possible recommendation of approval of the State Auditor's Office audit of the TDHCA Financial Statements	4
REPORT ITEMS:	
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EXECUTIVE SESSION	none
OPEN SESSION	--
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P R O C E E D I N G S

1
2 MS. THOMASON: Good morning. Welcome to the
3 March 26, 2020 meeting of the Texas Department of Housing
4 and Community Affairs Finance and Audit Committee. This
5 meeting is being conducted via telephone conference.

6 I am going to go ahead and take roll.

7 Mr. Braden?

8 MR. BRADEN: Here.

9 MS. THOMASON: Mr. Vasquez?

10 MR. VASQUEZ: Here.

11 MS. THOMASON: Okay. And I am here, so we do
12 have a quorum.

13 We'll move on to our first action item. It is
14 the approval of the minutes from the September and the
15 December 2019 meetings.

16 In the September meeting the director of
17 Internal Audit, Mark Scott, presented a report to us on
18 the following Internal Audit items: the internal audit of
19 the compliance resolution process, the Internal Audit
20 review of the implementation status for prior audit
21 findings and recommendations, as well as the Internal
22 Audit follow-up visits of the migrant labor housing
23 facilities. Mr. Scott also discussed recent internal and
24 external audit activities.

25 At the December meeting we did not have a

1 quorum so we did not vote on any items but proceeded to
2 report those items that included discussion of the 2020
3 Annual Internal Audit Plan and presentation of the
4 internal audit of the TDHCA performance measures.

5 The report from the Audit and Finance Committee
6 was accepted by the full Board in the December meeting.
7 Additionally, the Annual Audit Plan was approved by the
8 full TDHCA Board as well.

9 So with that, may I have a motion to approve
10 the minutes from both the September and December meetings?

11 MR. VASQUEZ: Move to approve both meetings.

12 MS. THOMASON: Thank you.

13 A second? Can I have a second, Paul?

14 MR. BRADEN: Second.

15 MS. THOMASON: That was a second for approving
16 the Committee meeting minutes from September and December,
17 so all in favor aye.

18 (A chorus of ayes.)

19 MS. THOMASON: So action item number 1 passes.
20 Thank you.

21 The next item is presentation by the State
22 Auditor's Office of the annual audits of the TDHCA
23 financial statements. I believe that we have Robert
24 Pagenkopf with us this morning online.

25 MR. PAGENKOPF: Good morning, Madam Chair,

1 members. My name is Robert Pagenkopf, and I'm a project
2 manager with the State Auditor's Office. This morning
3 we'll be discussing the results of our most recent
4 financial audits of the Department.

5 As this is my first year to manage this
6 project, I quickly learned that there were a number of
7 deliverables related to this specific project. As part of
8 that we issued two unmodified opinions as part of the
9 audit. One was for the Department's basic financial
10 statements for fiscal year 2019 and one was for the
11 Department's Revenue Bond Program financial statements for
12 fiscal year 2019.

13 In both cases we determined that these
14 financial statements were materially correct and reported
15 in accordance with Generally Accepted Accounting
16 Principles, or GAAP. In other words, we determined that
17 the statements as issued were not misleading to the reader
18 of those financial statements.

19 Additionally, we also concluded that the
20 Department's Housing Finance Division's computation of
21 unencumbered fund balances complies with Texas Government
22 Code Sections 2306.204 and 2306.205.

23 We also issued a report on the Department's
24 compliance with the Public Funds Investment Act for the
25 fiscal year ending August 31, 2019. The result of that

1 work disclosed no issues of noncompliance or other matters
2 that are required to be reported under Government Auditing
3 Standards.

4 I would also like to briefly mention a
5 communication that you all received at the end of our
6 audit on December 20, 2019. It was a document with a long
7 title that started with "Required communication with those
8 charged with governance." I wanted to quickly point out
9 that that document states that we did not identify any
10 misstatements that require correction and that we did not
11 encounter any disagreements with management during the
12 audit.

13 Prior to the fiscal year 2019 audit work, we
14 also issued an unmodified or clean opinion on the
15 Department's fiscal year 2018 financial data schedule as
16 it related to fiscal year 2018 basic financial statements.

17 Additionally, we performed agreed-upon
18 procedures and determined that the electronic submission
19 of certain information to the U.S. Department of Housing
20 and Urban Development's Real Estate Assessment Center
21 agreed with related hard copy documents.

22 Lastly, I would like to thank Mr. Cervantes and
23 his team, the entire Financial Administration Division,
24 Ernie, Joe in accounting, the Bond Finance and Information
25 Security divisions, as well as Mr. Scott in Internal Audit

1 for their assistance and cooperation throughout the audit.

2 They were a great help, and I know we took up a lot of
3 their time, so really do appreciate that.

4 Other than that, that includes my comments, and
5 I'd be happy to address any questions that you may have.

6 MS. THOMASON: Thank you, Robert.

7 Leo, Paul, do you have any questions about the
8 State Auditor's Office report?

9 MR. VASQUEZ: No questions. Sounds good.

10 MR. BRADEN: No questions.

11 MS. THOMASON: Okay. Thank you.

12 Seeing that we don't have any questions, may I
13 have a motion to recommend approval of the State Auditor's
14 Office report to the full Board?

15 MR. BRADEN: So moved.

16 MS. THOMASON: And a second?

17 MR. VASQUEZ: I second.

18 MS. THOMASON: Okay. All those in favor aye.

19 (A chorus of ayes.)

20 MS. THOMASON: Great.

21 Our next item is a report item, the internal
22 audit of the TDHCA Multifamily Bond Program, and I know
23 Mark was having some difficulties joining us this morning.

24 Is he on, or will Neda be reporting on that item?

25 MS. SANJAR: I'm on the phone right now but I

1 know he is still trying to connect so let me just double-
2 check with him for one second. Otherwise, I can present
3 his item.

4 MS. THOMASON: Okay. Thank you.

5 MS. CANTU: Neda, we're still working -- this
6 is Naomi Cantu over at TDHCA -- we're still working on
7 getting Mark connected, so if you want to go ahead.

8 MS. SANJAR: Okay. We'll do that then.

9 Well, good morning again, everybody, and I'm
10 sorry for the technical difficulty that Mark can't present
11 this item himself.

12 Internal audit of the Multifamily Bond Program.
13 The SAO's audit of the TDHCA's financial statements that
14 was just presented included an audit of the Revenue Bond
15 Program and the related financial statement. The audit is
16 required by the Public Fund Investment Act, Texas
17 Government Code 2256.

18 The Revenue Bond Program as a financial entity,
19 where TDHCA is the conduit issuer, is well described in
20 the SAO's audit report. TDHCA's Internal Audit Division
21 is required to audit the operational internal controls of
22 the agency's major programs.

23 Our audit report lays out the roles and
24 responsibilities of TDHCA and other parties for the
25 Multifamily Bond Program. The bondholders are paid

1 ultimately by the property developers from cash, mortgage
2 payments or income from mortgage-backed securities. The
3 program does not create a liability to TDHCA or the State
4 of Texas.

5 We evaluated and tested various controls of the
6 Multifamily Bond Program. We found overall that the
7 program is well run with good controls in place internally
8 and that the outside parties are appropriately monitored.

9 The report outlines the operational activities of the
10 program.

11 We found a few things that we wanted to put on
12 the radar that we put as recommendations such as cross-
13 training and procurement. One thing that may be effective
14 within the next three years is a change in the Government
15 Accounting Standards, or GASB standards, related to the
16 conduit bond issuers.

17 Under the new GASB standard 91, TDHCA will not
18 record certain assets and liabilities that are related to
19 the Revenue Bond Program. The financial reports will look
20 quite different when the new GASB is implemented. The
21 Revenue Bond Program showed \$1.7 billion as liability for
22 FY 2019, of which \$938 million is related to the
23 Multifamily Bond Program. Under the new GASB these
24 amounts should be shown as a footnote based on our
25 understanding.

1 That concludes the presentation of our audit of
2 the Multifamily Bond Program. Are there any questions?

3 MR. BRADEN: Actually, I have a question. This
4 is Paul Braden.

5 When is the effective date of that GASB change?

6 MS. SANJAR: My understanding is there is no
7 exact effective date, but I can double check on that for
8 you. What we were told, it's sometime within the next
9 three years, but I can check on that for you.

10 MR. BRADEN: So we don't know when it will show
11 up in our accounting statements yet. Right?

12 MS. THOMASON: Sometime in the next three
13 years.

14 MS. SANJAR: I'm sorry. I went offline for a
15 second because I was trying to reach out to Mark to
16 confirm that, and yes, it is within the next three years.

17 MR. VASQUEZ: I have a question.

18 MS. SANJAR: Our understanding is that by
19 latest FY 2022.

20 MS. CANTU: This is Naomi Cantu, moderator. I
21 believe Suzi Nelson has something to say. Again, if you
22 have a question or would like to chime in please raise
23 your hand in the Gotowebinar attendee and then we can see
24 that you want to speak.

25 Okay, Ms. Nelson, you can speak.

1 MS. NELSON: Hi. This is Suzi Nelson with
2 Internal Audit.

3 And, Paul, relative to your question, the
4 feedback I got from the Finance Division, the actual GASB
5 is effective December 31, 2020, that you can start
6 implementing it; however, because of implementation
7 timelines and waiting for guidance from the Comptroller's
8 Office, it looks like at the latest fiscal year '22. So
9 you'll have a couple of cycles before this comes in, and
10 I'm sure that they will alert us before it happens.

11 MR. BRADEN: Okay. Thank you.

12 MR. VASQUEZ: This is Leo. I have a question,
13 and I don't know who can answer it.

14 So is this effectively creating off balance
15 sheet debt that we're moving into a footnote?

16 MS. NELSON: Okay. Can I take that one? This
17 is Suzi.

18 MR. VASQUEZ: Sure.

19 MS. NELSON: So effectively, over time, due to
20 the conduit nature of the securities, meaning that the
21 ultimate liability through all the agreements goes through
22 to the owner-developer. So it's just clarifying the
23 reporting across all governmental entities because some
24 government entities, like TDHCA, have been reporting it
25 fully on their books even though the State of Texas nor

1 TDHCA has any liability related to the security. So the
2 GASB was simply trying to make it consistent across all
3 agencies how they would report it.

4 MR. VASQUEZ: Okay. So we were just the
5 conduit anyway, and we have no liability as a state or a
6 department.

7 MS. NELSON: That is correct.

8 MR. BRADEN: I actually think this is a real
9 positive change and more accurately reflects what those
10 bonds represent, so I was glad to hear this.

11 MR. VASQUEZ: Sounds good.

12 MS. NELSON: I agree.

13 MS. THOMASON: Thank you. If we have no
14 further questions, we will move on.

15 Our other report item will be a discussion of
16 the recent external audit activities, and if Mr. Scott has
17 been able to join us, he will present that, otherwise
18 Neda.

19 MS. SANJAR: Yes, ma'am. I think he hasn't
20 been able to join us yet, so the next item is external
21 audits. There were four audits of TDHCA issued since the
22 last Audit and Finance Committee meeting. These reports
23 are posted on the SAO website and sent out to state
24 leadership offices.

25 An audit of the HR classification of IT staff

1 was issued in January. It was report number 20-701. For
2 TDHCA there were a few minor reclassifications that were
3 recommended by SAO and implemented by TDHCA management.

4 The federal portion of the statewide single
5 audit was completed in February by Clifton Larson Allen,
6 CLA, audit number 20-555. At TDHCA they audited the Low
7 Income Housing Energy Assistance Program, or LIHEAP.

8 They also audited the Community Services Block
9 Grant, CSBG. There was an issue with LIHEAP related to
10 manual entry of some data that as not correct when first
11 audited. The corrections were made and program management
12 is moving to automate the process.

13 The financial statement portion of the
14 statewide audit, also report number 20-555, was issued in
15 February by the State Auditor's Office. This is an audit
16 of the state combined annual financial report (CAFR), and
17 it includes TDHCA's financial statement.

18 The stand-alone audit of the TDHCA financial
19 statements, report number 20-016, was issued in December.

20 This was discussed by the SAO staff earlier today. It
21 covered the Revenue Bond Program and had a different scope
22 than the statewide financial statement audit. Both audits
23 resulted in unmodified, or "clean," opinions on TDHCA's
24 financial statements.

25 And that concludes the external audit

1 presentation. If there are any questions, I will try to
2 answer or reach out for answer to Mark.

3 MS. THOMASON: Are there any questions on those
4 four audits?

5 MR. VASQUEZ: Sounds good.

6 MS. THOMASON: Okay. Thank you.

7 MS. SANJAR: Thank you.

8 MS. THOMASON: All right. If there are no more
9 questions or items, then this meeting is adjourned at
10 8:26 a.m.

11 (Whereupon, at 8:26 a.m., the meeting was
12 adjourned.)

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MEETING OF: TDHCA Board Audit & Finance Committee

LOCATION: Austin, Texas

DATE: March 26, 2020

I do hereby certify that the foregoing pages,
numbers 1 through 15, 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: March 31, 2020

(Transcriber)

On the Record Reporting
7703 N. Lamar Blvd., #515
Austin, Texas 78752