

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

AUDIT AND FINANCE COMMITTEE MEETING

VIA TELEPHONE AND WEB LINK

June 25, 2020
8:05 a.m.

MEMBERS:

SUSAN THOMASON, Chair
PAUL A. BRADEN, 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: Good morning. Welcome to the
3 June 25 meeting of the TDHCA Audit and Finance Committee
4 meeting.

5 I'll take roll. Mr. Braden?

6 MR. BRADEN: Here.

7 MS. THOMASON: Mr. Vasquez?

8 MR. VASQUEZ: Here.

9 MS. THOMASON: All right. We have a couple of
10 action items today. The first one is the approval of the
11 minutes of the March 26, 2020 meeting of the Audit and
12 Finance Committee. At that meeting, Mr. Robert Pagenkopf
13 from the State Auditor's Office presented the State
14 Auditor's Office annual audit of the TDHCA financial
15 statements. All of the reports resulted in an unqualified,
16 or clean, opinions. And then the Internal Audit staff
17 member, Neda Sanjar, discussed the internal audit of the
18 Multifamily Bond Program, as well as external audit
19 activities.

20 Those minutes are included in your notebook.
21 May I have a motion to approve the minutes from the March
22 26th Audit and Finance Committee meeting?

23 MR. BRADEN: Move to approve.

24 MR. VASQUEZ: I second.

25 MS. THOMASON: Second. Okay. Thank you. That

1 will approve those minutes.

2 And our second action item is the presentation,
3 discussion and possible action to approve the fiscal year
4 2021 operating budget, and Mr. Joe Guevara will present
5 that item, if he's on the call.

6 MS. NORRED: We are trying to find Joe right
7 now.

8 MR. DARUS: Joe, we have you available to speak
9 whenever you're ready. If you're having some technical
10 difficulties, just let us know.

11 (No response.)

12 MS. NORRED: Ms. Thomason, we're having an issue
13 getting Joe connected. Would you like to move on to the
14 next item?

15 MS. THOMASON: Yes. The next action item will
16 also be presented by Joe, so can we go ahead and move on to
17 report items and go back to the action items?

18 MR. WILKINSON: Yes.

19 MS. THOMASON: Okay. So those would be our two
20 action items we'll come back to when Joe can join us.

21 We have a couple of report items. The internal
22 audit of the Section 811 Program will be presented by Mr.
23 Mark Scott, the Director of Internal Audit

24 MR. SCOTT: Good morning, Madam Chair. Can
25 everyone hear me, first of all?

1 MS. THOMASON: Yes.

2 MR. SCOTT: Perfect. The Section 811 Project
3 rental assistance program is relatively new to TDHCA and
4 started up in 2015 when the agency was granted funding from
5 HUD from fiscal year 2012 federal appropriations. As part
6 of the grant request, TDHCA entered into an interagency
7 agreement with the Health and Human Services Commission,
8 HHSC, to identify and refer applicants to the program. The
9 ultimate goal of the program is to provide opportunity for
10 persons with disabilities to live as independently as
11 possible through the coordination of voluntary services,
12 and providing a choice of subsidized integrated rental
13 housing options.

14 The partnership with HHSC facilitates both the
15 identification of applicants and the delivery of voluntary
16 services. The internal audit report outlines the roles and
17 responsibilities of TDHCA and other parties for the Section
18 811 program. Since this is a relatively new program, we
19 presented the noteworthy accomplishments of the program to
20 date in the beginning of the report.

21 We evaluated and tested various controls of the
22 program. We found that the program is generally well run
23 and meeting its objectives and is in compliance with the
24 rules under which it operates. The risk of potential fraud
25 in the program is mitigated by the detailed review of

1 tenant information and qualifications by many parties,
2 which are independent of one another, including HHSC, TDHCA
3 program staff, project managers, HUD, and TDHCA Compliance
4 Division staff.

5 We had several recommendations relative to
6 information security, technology infrastructure
7 enhancements, and operational efficiency improvements.
8 Management agreed with these recommendations and provided
9 responses that are included in the internal audit report.
10 And I'll be happy to answer any questions.

11 MS. THOMASON: Are there any questions on the
12 Section 811 Program?

13 (No response.)

14 MS. THOMASON: All right. Our next report item
15 to be presented by Mr. Scott is related to the internal
16 audit of the Purchasing function at the agency. If you're
17 ready, Mark.

18 MR. SCOTT: Okay. Thank you.

19 The Purchasing function was identified during
20 the 2020 fiscal year risk assessment. It rated high on the
21 risk assessment due to lack of recent audits, as well as
22 recent changes in management of the division. The
23 Purchasing division does undergo biennial post payment
24 audits by the Comptroller's Office. The Purchasing section
25 of the TDHCA Financial Administration Division is

1 responsible for coordinating and managing all aspects of
2 the procurement process for goods and services obtained by
3 the Department.

4 (Voice in background.)

5 MR. VASQUEZ: Would whoever is talking please
6 mute their audio? There's someone in the background
7 interfering.

8 MR. SCOTT: Okay. I'll start again at the
9 beginning of that paragraph.

10 We reviewed the purchasing processes including
11 purchase requisitions and approvals. We selected a
12 scientific sample and tested attributes such as credit card
13 limits, correct approvals and complete documentation for
14 requests for proposals and requests for qualifications.
15 Based on our reviews and testing, we concluded that the
16 Purchasing function operates in compliance with applicable
17 rules.

18 We identified some areas of improvement such as
19 record keeping and documentation, to enhance consistency
20 and efficiency of the operations. Management has agreed to
21 our recommendations and will be implementing procedures to
22 meet them.

23 And I will be happy to answer any questions
24 about the audit of the purchasing function.

25 MS. THOMASON: Thank you, Mark.

1 Are there any questions for Mark?

2 (No response.)

3 MS. THOMASON: Okay. I see our final report
4 item is the status on various internal and external audit
5 activities, and Mr. Scott will present that to us as well.

6 MR. SCOTT: We're on track as far as the
7 internal audit plan. We are currently working on the audit
8 of Section 8 program and the audit of the Physical
9 Inspections activities within the Compliance Division.
10 We've put off for now the audit of emergency management
11 because of the ongoing situation.

12 There are no external audits underway at this
13 time. We did have a meeting with the State Auditor's staff
14 members to discuss the upcoming annual financial statement
15 audits. Otherwise, there's no external audits going on, so
16 that's the first time in a long time.

17 So that concludes my presentation, and I will be
18 happy to answer any questions there may be.

19 MS. THOMASON: Thank you, Mark.

20 Are there any questions related to any internal
21 or external audit activities?

22 MR. VASQUEZ: I just have sort of a general
23 question and you started touching upon it. What sorts of
24 delays do you foresee in keeping up with the audit plan,
25 the internal audit plan due to all this COVID shutdown?

1 MR. SCOTT: Well, we had on the plan an audit of
2 the disaster recovery plan and that kind of thing, it's
3 called Continuity of Operations Plan (COOP), and we were
4 just getting ready to start it when the Governor's Office
5 announced that they would be doing this big task force so
6 we decided that it wouldn't be a good time to do an audit
7 of disaster recovery right in the middle of a disaster,
8 basically. So other than that, we're pretty much on track.

9 MR. VASQUEZ: Okay. So we should expect we're
10 going to keep up with the plan for the rest of the year?

11 MR. SCOTT: Yes, sir.

12 MR. VASQUEZ: That's good. In a couple of
13 months let's see if that's the same answer.

14 MS. THOMASON: All right. Thank you, Mark.

15 Are there any other questions?

16 (No response.)

17 MS. THOMASON: All right. Are we able to get
18 Mr. Guevara?

19 MR. DARUS: Yes, we do, we have Mr. Guevara.

20 MS. THOMASON: Perfect. Okay. Then the first
21 action item for Mr. Guevara will be the presentation,
22 discussion and then possible action to approve the fiscal
23 year 2021 operating budget. Mr. Guevara is available to
24 present that for us.

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

1 of the committee. For the record, I am Joe Guevara,
2 director of Financial Administration. I apologize for the
3 technical difficulties earlier but we're ready to go now.

4 Over the past several months we have been in
5 collaboration with division directors and managers to
6 develop an internal operating budget for fiscal year 2021.

7 As we constructed the budget, our goal was to remain
8 consistent, not knowing the extent of the pandemic impact
9 on fiscal year 2021. It also had an impact on our media
10 and communications collaboration and required us to be
11 flexible as the budget continuously evolved as notices of
12 additional CARES funding were received.

13 I would like to take this opportunity to provide
14 you with some information related to this budget inclusive
15 of variance analysis in some expenditure categories and
16 financing associated with this budget. Behind item number
17 2 is the operating budget which includes a comparison
18 report with fiscal year 2020. We implemented a new
19 approach to this report in order to provide you with a more
20 transparent comparison by adjusting the variance by the
21 CARES Act impact and the capital budget.

22 In summary, the 2021 proposed budget is \$28.8
23 million. This represents a \$1.1 million increase, or a 4
24 percent increase. The structure of this budget can be
25 divided into two primary components: CARES Act funding and

1 our ongoing activities. Budget expenditures related to
2 CARES Act funding accounts for approximately \$1 million of
3 the increase. As you may be aware, we have been awarded
4 over \$200 million in CARES Act funds with more possibly
5 pending, and this has created a need for additional
6 staffing and related general and administrative expenses.

7 CARES Act administrative funding will be used to
8 hire 10 Article IX, or temporary FTEs, five of which will
9 be used to assist in the administration of the CDBG grants,
10 three for the ESG grants, one for LIHEAP and one for CSBG.

11 Salaries and related payroll related costs account for
12 over 90 percent of this funding. We also have an
13 additional temporary FTE for the new Fair Housing Equal
14 Opportunity grant and its related administrative budget of
15 approximately \$86,000.

16 The net change in the remaining budget component
17 is related to our ongoing activities with an increase of
18 \$95,000, or .35 percent. Like I stated earlier, our
19 approach with this budget was to remain as consistent as
20 possible given this uncertain time. The adjusted column
21 variance in the comparison report list the changes in these
22 categories and the minimal impact on the budget.

23 Some more noteworthy variances in the comparison
24 report are as follows:

25 Salaries and wages decreased \$53,000, or .29

1 percent, primarily due to the elimination of a temporary
2 position related to an anticipated grant that didn't come
3 to fruition. Secondly our out-of-state travel will remain
4 unchanged.

5 Professional fees increased \$91,000, or 6.3
6 percent, related to an anticipated increase in audit costs
7 and the need of services for cost allocation training.
8 These increases were offset by the comparison of software
9 projects and the reduction in the contractor inspection
10 services.

11 Repairs and maintenance increased \$28,000, or
12 5.2 percent, primarily due to the establishment of a
13 mitigation fund by the Section 811 Program to support
14 landlords with excessive property damage from vacated
15 tenants.

16 Rentals and leases decreased \$31,000, primarily
17 due to the expiration of a lease agreement for space in
18 Austin for the IT Department.

19 Advertising costs decreased by \$83,000, or 96.2
20 percent. The decrease is primarily due to the completion
21 of the initial phase of a marketing contract by the Texas
22 Homeownership Division.

23 Temporary help increased \$110,000, primarily due
24 to the continuation of the same contract but with a new
25 scope of service. The advertising cost savings shifted to

1 temporary help and accounts for \$92,000 of the increase.
2 In addition, the Section 811 Program will seek a new
3 contract to enhance the administration and documentation of
4 the program.

5 Communication and utilities increased \$60,000,
6 primarily due to an increase in agency-wide need of
7 additional technological resources.

8 The capital budget decreased \$86,000 in
9 totality. Furniture and equipment is the non-capital
10 component of the capital budget and it decreased \$206,000,
11 reflective of less scheduled purchases of equipment such as
12 computers and printers. The majority of this occurred in
13 the first year of the biennium.

14 Capital outlay is the capital component of the
15 capital budget and it increased \$119,000 reflective of
16 planned purchases of equipment such as servers and other
17 major IT hardware.

18 This budget is reflective of 320 FTEs, 11 being
19 Article IX or temporary FTEs, and 309 cap FTEs. Of the cap
20 budgeted FTEs, 245 are TDHCA personnel and 54 are
21 Manufactured Housing Division staff. The Department's
22 current FTE cap is 313, so we are budgeted for less FTEs
23 than appropriated.

24 And lastly, the method of finance for
25 expenditures was affected as follows:

1 General revenue related to internal funds
2 increased \$32,000, or 1.4 percent, primarily related to
3 cost-saving measures in central administration.

4 Federal funds increased \$215,000, or 3.2
5 percent, primarily related to increases in professional
6 fees funded with federal funds.

7 Next, appropriated receipts had a decrease of
8 \$144,000, or .8 percent. This is primarily due to
9 decreases in professional services and capital budget
10 project financing.

11 And finally, the interagency contracts had an
12 increase of \$71,000, primarily related to the reinstatement
13 of the Money Follows the Person Program for the year 2021.

14 Also, I would like to note for the record in
15 accordance with the Internal Auditing Standards and the
16 Board's Internal Audit Charter, the budget also includes
17 the Internal Audit Division's annual operating budget.

18 At this point this concludes my remarks on this
19 item and I'm available for any questions that you may have.

20 MS. THOMASON: Thank you, Joe.

21 Are there any questions for Mr. Guevara?

22 MR. VASQUEZ: I just have sort of a question,
23 just to more reiterate. So we've increased the budget 4
24 percent over the prior year budget, however, it's almost
25 entirely due to the CARES Act. Is that correct?

1 MR. GUEVARA: That's correct, sir, yes. Almost
2 a million dollars of the \$1.1 million increase was related
3 to CARES Act funding.

4 MR. VASQUEZ: Okay. So outside of the CARES
5 Act, we've only increased, if I'm reading this right, .35
6 percent?

7 MR. GUEVARA: Yes, sir.

8 MR. VASQUEZ: Okay. And we've been doing
9 significantly more activity and volume and just output
10 overall. Is that right?

11 MR. GUEVARA: Yes, sir. We've been trying to
12 get through more with less, and so, like I said, our
13 primary objective was to remain as consistent as possible
14 given the current environment, so we were able to, you
15 know, reallocate our resources in some areas like travel
16 and staff development and move over to other needs within
17 the agency.

18 MR. VASQUEZ: Again, I think this just
19 indicates -- and it's a compliment to Bobby and the staff -
20 - that we are doing more with not necessarily less but the
21 same amount so we've definitely increased efficiency, and I
22 think this is a great report.

23 MR. GUEVARA: Thank you.

24 MS. THOMASON: Agree. Thank you.

25 Any other questions on this item?

1 MR. BRADEN: I have one question, and maybe it's
2 more for Bobby. Have we received any type of request for
3 reduction in our budget, the agency itself?

4 MR. WILKINSON: Yes, we have. We can show you
5 exactly what we sent in to the Governor and the Legislative
6 Budget Board. It was a 5 percent general revenue cut, and
7 so this is the operating budget, so this is just what we
8 work off of, so a piece came from administration and then,
9 frankly, a lot of it came from our general revenue funded
10 programs, so Amy Young Barrier Removal, Bootstrap, and the
11 HHSP, the homeless fund that goes to the nine largest
12 cities as pass-through, and we just kind of took some of
13 each, maybe a little more of Amy Young than Bootstrap.
14 Bootstrap is a loan program so, you know, you're cutting
15 off program income. It's going to be self-sustaining
16 eventually. But we took some from each.

17 I don't know that you can see on any of the
18 documents in the operating budget what was cut GR from the
19 operating budget here, but I think we can send that to you
20 separately. It would be nice to think, oh, we can just
21 take it all out of administration but apparently that's not
22 really possible. Our general revenue that's in
23 administration is earned federal funds so it's actually
24 federal funds that doesn't have strings attached, it kind
25 of becomes GR.

1 So yeah, 5 percent GR cut is what we sent in,
2 and that's all that the state as a whole really cares about
3 is state tax dollars, and we're primarily federal and then
4 appropriated receipts, you know, our fees from tax credit
5 development applications, compliance fees, et cetera. So
6 we mostly pay for ourselves out of federal money or
7 appropriated receipts and we have just a small part of GR.

8 We probably will have some additional cuts next
9 session, but you know, I've just listed the three GR funded
10 programs, they're pretty small, and you could argue that
11 the homeless pass-through might even be more in need, but
12 there's also a lot more federal funds for that, so if
13 they're going to be spent quickly, maybe we cut back HHSP a
14 little more, but there's only a few options for
15 appropriators.

16 MR. BRADEN: Thank you.

17 MR. GUEVARA: And I could add some more detail
18 to that. Our general revenue base of \$27 million, so of
19 that the 5 percent reduction equated to about \$1.3 million,
20 and like Bobby stated, about \$250,000 or so was related to
21 administrative savings and the rest will be impacting
22 direct program services.

23 MS. THOMASON: Thank you, Joe.

24 Are there any other questions related to this
25 item?

1 (No response.)

2 MS. THOMASON: Okay. If not, I will ask for a
3 motion to recommend to the full Board approval of the
4 fiscal year 2021 operating budget.

5 MR. VASQUEZ: I move to approve the operating
6 budget as presented.

7 MR. BRADEN: Second.

8 MS. THOMASON: Second. Okay. I have a motion
9 and a second. All in favor?

10 (A chorus of ayes.)

11 MS. THOMASON: All right. Then that one passes.

12 And our next action item will also be presented
13 by Mr. Guevara, and it is presentation, discussion and
14 possible action on the fiscal year 2021 Housing Finance
15 Division budget. If you're ready to present that, please.

16 MR. GUEVARA: Yes. Thank you.

17 Now I would like to turn your attention to item
18 number 3, the Housing Finance Division budget. This
19 particular item is a subset of the internal operating
20 budget and it is in relation to the Housing Finance budget
21 that we are required to submit under Texas Government Code
22 and in compliance with the General Appropriations Act.
23 This subset of the budget is specific to the fees that we
24 generate, typically referred to as Housing Finance of the
25 Department. At this time we are prepared to certify this

1 budget as well.

2 I'm available to answer any questions on this
3 item.

4 MS. THOMASON: Thank you, Mr. Guevara.

5 Are there any questions related to the Housing
6 Finance Division budget?

7 (No response.)

8 MS. THOMASON: Okay. Hearing none, may I have a
9 motion to recommend to the full Board for the fiscal year
10 2021 Housing Finance Division budget as presented?

11 MR. BRADEN: So moved.

12 MS. THOMASON: Second?

13 MR. VASQUEZ: Second.

14 MS. THOMASON: Thank you, Mr. Vasquez.

15 All in favor aye.

16 (A chorus of ayes.)

17 MS. THOMASON: All right. That concludes our
18 action items for today. We've already done our report
19 items. Are there any other items that anyone has to
20 present today?

21 (No response.)

22 MS. THOMASON: All right. Perfect. Then I will
23 adjourn this meeting at 8:30 a.m. Thank you.

24 (Whereupon, at 8:30 a.m., the meeting was
25 adjourned.)

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C E R T I F I C A T E

MEETING OF: TDHCA Board Audit & Finance Committee
LOCATION: via telephone and web link
DATE: June 25, 2020

I do hereby certify that the foregoing pages, numbers 1 through 20, 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: July 2, 2020

(Transcriber)

On the Record Reporting
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