

**MINUTES OF THE AUDIT AND FINANCE COMMITTEE MEETING
OF THE GOVERNING BOARD OF THE
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS**

On Thursday, June 12, 2025 at 9:30 a.m. the meeting of the Audit and Finance Committee (the "Committee") of the Governing Board (the "Board") of the Texas Department of Housing and Community Affairs ("TDHCA" or the "Department") was held in the Dewitt C. Greer State Highway Building, 125 E. 11th Street, Williamson Board Room, Austin Texas. Mr. Ajay Thomas, the Chair of the Audit and Finance Committee, presided over the meeting, and Mr. Mark Scott, Director of the Internal Audit Division, served as the secretary. Committee members, Ms. Anna Maria Farias, Ms. Cindy Conroy and Mr. Leo Vasquez were present and represented a quorum for the Committee meeting.

Mr. Thomas started the meeting by taking roll and welcoming everyone to the meeting. He then moved to the first action item on the agenda; approval of the minutes from March 6, 2025 meeting of the Audit and Finance Committee. The minutes were adopted as presented and were approved.

The next action item on the agenda was the "Presentation, discussion, and possible action on the FY2026 TDHCA Operating Budget", and Mr. Paul Ford, Financial Services Manager, presented it. Mr. Ford said that this item relates to the Department's operating budget for fiscal year 2026, and it was created with collaboration between the budget team and division directors and managers. This proposal aligns with the General Appropriations Act established by the 89th Texas legislature and represents 4.8% decrease as compared to fiscal year 2025. Mr. Ford explained the three components of the budget and the changes in each component. The budget also reflects 17 new full-time equivalent positions approved in the FY 26-27 legislative appropriations request. At the end of his presentation Mr. Ford offered to answer questions for the committee members.

Mr. Holland Harper asked if there is an organizational chart for the 376 employees that are currently employed at TDHCA and MH. Mr. Ford said that he will forward the chart to Mr. Harper at a later time. Mr. Harper then asked for sub-accounts of each budget line item. Mr. Vasquez thanked staff for the briefing they provided him individually and the opportunity to ask questions prior to the meeting.

Mr. Thomas asked Mr. Ford to give a brief, high level, comparison between FY 2025 and FY 2026 budgets. Mr. Ford said that the salaries did go up a bit, which was to invest in our central resources. We did chip away in a few areas such as travel and membership fees and dues to gain more efficiencies. One of the large increases is in the capital expenditure, for about \$1.3 million. With no further questions, Mr. Thomas entertained a motion to approve the Fiscal Year 2026 Operating Budget for the full board meeting later that day. The motion passed.

The next action item on the agenda was the “Presentation, discussion, and possible action on the Fiscal Year 2026 Housing Finance Division budget”, and it was also presented by Mr. Ford as well.

Mr. Ford said that the Housing Finance Division budget is a subset of the internal operating budget submitted in compliance with Texas Government Code 2306 and the General Appropriations Act. This budget totals \$25.6 million, which represents expenses funded specifically with fees generated by single family bonds, multifamily bonds, tax credit, and compliance activities. Mr. Ford offered to answer any questions the committee members may have at the end of his presentation. Mr. Vasquez clarified that the source of these funds is through program fees, and that none of it is General Revenue. Mr. Ford confirmed that. With no other questions Mr. Thomas entertained a motion to take approval of this committee to the full board. Motion passed.

The first report item on the agenda was the “presentation and discussion of the internal audit of Rent Approval functions of the Asset Management Division at TDHCA”, and was presented by Mr. Mark Scott. Mr. Scott said that the Rent Approval function of Asset Management division was identified during the fiscal year 2025 risk assessment and rated high on the risk assessment matrix due to lack of recent internal audit of the function and its overall importance to the Department’s mission. Our scope included a review of the applicable Texas Administrative Codes, applicable CFRs, Post Award Activity manual, and SOP related to Rent Approval activities. We also conducted interviews with several division staff and performed testing and analysis of the processes involved in receiving, reviewing, and approving developments’ annual rent requests. For this audit we randomly selected 30 properties that are subject to Rent Approval requirements to review and test for accuracy, completeness, and their compliance with applicable rules and regulations. The review included verification of response time to the development by the staff after receipt of Rent Approval packet, Rent limit established for each funding source, Utility allowance, and other necessary documentation included in the packet.

Based on our reviews and testing, we found that in eight cases the staff response time / approval notice to the developments was greater than 30 days, which is the timeline established in the guidelines. In the same sample we identified two developments that were missing Rent Approval packets and approval letters for 2022, four developments for 2023, and two developments for 2024. Based on our review and testing, the Rent Approval function seems to be operating effectively in reviewing and approving annual rent approval applications and requests. We identified some areas for improvement and made recommendations to the staff. Management agreed to all our recommendations, except for one recommendation, and provided a plan of action. Management decided that a secondary review was not feasible for this function. Details of our recommendations and management responses are included in the report. We considered this to be low-risk recommendation that management did not agree with.

Mr. Thomas asked committee members if they had any questions for Mr. Scott. With no questions, he moved to the next report item on the agenda; Presentation and discussion of the internal audit of the Travel activities at TDHCA, and was presented by Mr. Scott as well. Mr. Scott

said that the travel activities were identified during the fiscal year 2025 risk assessment and rated high on the risk assessment matrix due to lack of any recent internal audit of the function.

For this audit we reviewed applicable TX Gov Code (Section 660), related SOPs, and manual and training materials available on the TDHCA intranet. We also sent out a brief anonymous survey to all TDHCA staff to evaluate their understanding and knowledge of the travel and expense report requirements. We also requested the list of all travel related transactions, in-state and out of state, from the beginning of fiscal year 2025 until the start of our testing (September 1st 2024 – April 22nd 2025). We randomly selected 17 transactions from that list that were more than \$200. The selected sample consisted of 13 in-state and four out of state transactions. The sample was reviewed for accuracy, completeness of documentation, and compliance with applicable laws. OIA did not identify any areas of non-compliance in the selected sample. Based on our review and testing the travel activities at TDHCA appear to be managed properly and in compliance with applicable laws and requirements. We had observations related to training and training materials, and made recommendations to management. Management agreed to our recommendation, and the details are included in the report.

With no questions from Committee members Mr. Thomas moved to the next and last report item on the agenda; “report on the status of internal and external audit activities”. Mr. Scott presented the verbal report and said that on the internal audit of Davis Bacon Related Act, we have been getting assistance from Carmen Roldan, who is one of the premier experts on Davis Bacon. She was previously the TDHCA Labor Standards Specialist. We think we'll have a really good, informative audit, but it wasn't ready for this meeting. We still have a few more things to look at. Davis Bacon is audited for Single Audit purposes by Clifton Larson Allen (CLA) and underwent a comprehensive audit by HUD in 2017. That audit had a few findings and we're going to check to make sure those are still properly addressed.

On the Audit of Single-Family Revenue Bond program (SFMRB), we met with Mr. Thomas on Tuesday to discuss the SFMRB. This is part of our project risk assessment for individual audit projects. We discussed what additional assurance internal audit can provide to supplement the work that the SAO does. We also discussed the chance to make the bond transactions more understandable. The Internal Auditing Act says that I can consult with SAO, and I'll certainly avail myself of that opportunity on this audit on the IT portion. After these two audits are complete, we will just have one audit left in our FY2025 audit plan, which is Real Estate Analysis.

On the external audits side we did well on last year's federal compliance portion of the Statewide audit. For this year, at this point, TDHCA does not have any programs designated as “major programs” by Clifton-Larsen Allen. That might change depending on the final tallies for LIHEAP, which may make that a major program based on the size (type A program) We don't have any high risk, or type B programs. So for the statewide audit we will just have the financial statement audits that SAO does.

On the OIG audits; HUD OIG recently completed an audit of ESG CARES Program. They had a finding related to not using funds for R&D and to make sure all elements are incorporated into

subrecipient contracts, and that finding has been cleared. Treasury OIG is still working on their audit of the TRR program. HUD will also do a review of Section 8 Rent related rules. These are audits of the agency by external parties.

Mr. Scott said that there is also oversight of agency's activities via monitoring that is less in scope than a full-fledged audit. This includes desk reviews by the Compliance Division of the agency's subrecipients and the agency's tax credit properties. These monitoring functions can leverage outside audit work like Single Audits. We have a Single Audit Review Committee and also a Fraud, Waste, and Abuse Committee that internal audit participates on as an ex-officio member. We coordinate our audit and fraud prevention work with SAO. That concluded Mr. Scott's presentation.

Mr. Vasquez asked if there was a sunset date for TRR program. Mr. Bobby Wilkinson, Executive Director at TDHCA, said that it is supposed to end by end of the calendar year. In the meantime, TDHCA still has a staffed program until it is over. With no further comments or questions, Mr. Thomas thanked Mr. Wilkinson and Mr. Scott, and adjourned the meeting at 9:53am.