



Massachusetts Housing Finance Agency
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Minutes of the Meeting of the MassHousing Investment & Audit Committee

Held on September 10, 2024

A meeting of the MassHousing Investment and Audit Committee (the Committee) was held on September 10, 2024. In accordance with Section 20 of An Act Extending Certain COVID-19 Measures Adopted During the State of Emergency, 2021 Mass. Acts 20, as amended, the meeting was conducted remotely through a publicly accessible Zoom meeting.

Participating remotely were the Members of the Investment & Audit Committee (by roll call):

Committee Member	Present	Absent
Jeanne Pinado, Chair*	X	
Carolina Avellaneda**	X	
Herby Duverné***	X	
Bran Shim****	X	

* Chair of MassHousing

**Vice Chair of MassHousing

*** Appointed by the Members of MassHousing

**** Ex Officio member as representative of the Executive Office for Administration & Finance

In attendance were also the following staff members:

MassHousing Staff	PricewaterhouseCoopers (PwC) Staff
Rachel Madden	Nipa Patel
Stephen Vickery	Michael Stankus
Sandra Bakaysa	
Paul Scola	
Minalyn Ebanculla	
Belmira Fallon	
Nancy Slaney	
Laurie Bennett	

Ms. Pinado called the meeting to order, and the meeting began at 1:03 p.m.

Upon a motion duly made and seconded, the members unanimously voted, by roll call, to approve the minutes of the June 11, 2024 meeting (Ms. Avellaneda had not yet joined the meeting).

VOTED: That the minutes of the Meeting held on June 11, 2024 are hereby approved and placed on record.

(Ms. Avellaneda joined the meeting)

Following such approval, Ms. Fernandes reviewed the Investment and Audit Committee Report for the fourth quarter (Q4) of Fiscal Year 2024 (FY24). She reviewed the audits completed in the quarter and discussed the generally effective opinion that was issued for the Diverse Business Engagement (DBE) business area, as well as details regarding the moderate risk level finding. Ms. Fernandes noted that since the issuance of the DBE audit report, a project was launched by the Executive Leadership Team to redesign the DBE function. Ms. Fernandes mentioned that the annual HomeOwnership QC was completed and that MassHousing worked with PwC to determine whether sufficient remediation was performed for the Ginnie Mae compliance issue that was identified relative to loan delinquencies. Ms. Fernandes then noted that no instances of fraud were reported into the hotline in the quarter. Ms. Fernandes reviewed the assurance activities performed by outside providers. She highlighted that a clean opinion was issued by CliftonLarsonAllen regarding the financial statement of the Other Post Employment Benefits (OPEB) Trust for the year ended December 31, 2023. She also noted that Multifamily Accelerated Program (MAP) Quality Control (QC) review was completed by Cohn Reznick and a clean opinion was also issued.

Mr. Duverné inquired regarding why the DBE audit's scope was for two months, a relatively short time frame. Ms. Fernandes responded that the initial intention was to complete an audit of the controls in the business area. However, during the planning phase of the audit, walkthroughs were conducted, which revealed that controls were not designed well, and therefore Internal Audit did not proceed with testing for operating effectiveness. Ms. Fernandes commented that this is a common practice in internal audit when we feel the control design requires redesign for improvement. Mr. Duverné asked if there would be an opportunity for a deeper audit of the area. Ms. Fernandes responded yes and noted that the process to close out an issue identified during an audit engagement involves substantive testing and sufficient evidence that control processes are functioning. Ms. Fernandes noted that Internal Audit will support the project to redesign the DBE function and that for moderate level issues Internal Audit performs, at a minimum, quarterly check-ins with the business area until Internal Audit can confirm the risks associated with the issue is resolved and the controls are designed well.

Ms. Fernandes continued by informing the Committee that Internal Audit was reorganized under the Chief Legal and Operating Officer (CLOO), which would aide in Internal Audit's independence with respect to areas being audited under the FY25 audit plan. Specifically, she noted that for the Legal and Rental Underwriting point in time audit, anticipated for the third quarter of FY25, the Internal Audit Team would modify the engagement reporting relationship and report to the Chief Executive Officer (CEO). She noted that the Internal Audit reporting structure is reviewed during the planning phase of every engagement and the reporting can be modified, as needed, to ensure independence and objectivity for the audits. Ms. Fernandes discussed the Institute of Internal Audit's (IIA's) independence and objectivity standards. She highlighted key activities that MassHousing performs to ensure independence and objectivity is maintained. Key activities included: documenting performance reviews, internal audit engagement processes, reporting structure modification, and participating in relevant trainings. Finally, Ms. Fernandes highlighted changes to the Internal Audit Department Charter noting that the biggest change was the reporting structure modification to the CLOO and that the mandate was updated to conform with the IIA's new standards.

Ms. Avellaneda asked for clarification on the modifications of reporting structures. Ms. Fernandes explained that if there would be an impairment of independence or objectivity, such that the CLOO performed oversight and execution of controls in the area under audit for the scope period under review, then the reporting structure would be modified.

Mr. Duverné questioned whether, given the current organizational structure and the ever-changing environment in the Agency, if there was any appetite for the Internal Audit Department to report directly to the Board and Ms. Avellaneda further asked if the Agency benchmarks what other Agencies are doing. Mr. McNiece and Ms. Fernandes provided additional clarity on the reporting structure by mentioning that most internal audit departments functionally report to the Audit Committee and administratively to the Chief Financial Officer (CFO) or CEO. Ms. Fernandes noted that in the Banking industry, close to 10% of internal audit departments report to the General Counsel, although many of the Housing Finance Agency (HFA) internal audit departments report to Legal. Ms. Fernandes highlighted that due to the structure within MassHousing, with the CLOO holding a senior level position, it would provide adequate exposure to the Executive Leadership in MassHousing and ability to communicate directly with the Investment & Audit Committee, if needed. Ms. Patel further mentioned from a broader perspective what she has seen in industry is a formal report to the General Counsel or CEO and there is a still a dotted line to the audit committee.

There were no further questions and Ms. Fernandes asked for approval of the charter. The Committee voted by roll call with a unanimous vote to approve the charter following a clarification to the organizational chart reflecting the dotted-line reporting to the Investment & Audit Committee in addition to the administrative reporting to the CLOO.

VOTED: That the Internal Audit Department Charter, including the Internal Audit Mandate and adjustment to the Organizational Chart is hereby approved and placed on record.

Mr. McNiece informed the Committee that the Affordable Homes Act was signed in August 2024, and that there were amendments made to MassHousing's statute. He mentioned that one of the amendments clarified the Division of Bank's (DOB's) jurisdiction noting that MassHousing is not subject to the DOB's oversight. Mr. McNiece then highlighted that the engagement was now closed and there were no more ongoing matters. Mr. McNiece also highlighted that, as part of the Act, there is additional funding that will likely be allocated to the Agency and that MassHousing is working with the Executive Office of Housing and Livable Communities (EOHLC) on how the funds can be implemented.

Ms. Patel along with Mr. Stankus then presented the status of the 2024 Financial Statements Audit. Ms. Patel referred to slide five (4) on the Presentation of the FY24 Audit Results and highlighted that there were no matters to note regarding independence and objectivity. She mentioned that the audit is substantially complete, and that PwC anticipates issuing their opinion in line with the original target date of September 20, 2024. Ms. Patel noted that the draft report for the Ginnie Mae Audit are under review, and that the single-family report (Issuer # 4396) continues to be a qualified report because the deficiency identified last year was remediated during the scope period in October 2023. Regarding the deficiency that was identified, Ms. Patel noted that the issue has been remediated by Management and that PwC agrees with the controls implemented to resolve the deficiency. Ms. Patel also noted that the deficiency identified was for a portion of the year, and that the timing was reflected in the report. Ms. Patel concluded by stating that there were no significant changes to the audit plan.

Mr. Stankus discussed the status of the engagement noting the positive relationship between MassHousing staff and PwC. He stated that there were final outstanding items and that the legal and management letters will be provided the week of September 16, 2024. Mr. Stankus reviewed the other required communications and stated there was nothing to note on independence, fraud, non-compliance, going concern, and disagreements with management. He concluded by acknowledging management and furtherance of their audit relationship.

Ms. Patel specifically highlighted the test procedures around the Ginnie Mae Audit. She stated that there was one item PwC is awaiting a response, and depending on the response received it could impact the results of the audit. She reiterated that no conclusion has been made at time this time.

The Committee members inquired regarding the matters that get escalated to the Board or Investment & Audit Committee. Particularly Ms. Pinado inquired whether PwC has ever reported items to the Chair. She expressed that was surprising that the Investment & Audit Committee or the MassHousing Members have never received communications on suspected fraud or material litigation matters.

Ms. Patel noted that if a matter needed to be reported or escalated, PwC is required to do so immediately and would not wait until the scheduled Investment & Audit Committee meeting.

Mr. Duverné mentioned that he is aware that MassHousing has a whistleblower hotline, but he was unsure of how the hotline is being communicated to MassHousing and whether it is being utilized.

Ms. Fernandes informed the Committee that the whistleblower hotline is tested yearly by Internal Audit and that last year, a new process was implemented where all staff attest to their awareness of MassHousing's fraud prevention policy and hotline. She mentioned that this year, Internal Audit plans on enhancing awareness activities, and will continue with the attestation on employee awareness of the hotline. Ms. Fernandes also noted that there have been no actual reports received during her tenure (June 2019 – today).

Mr. Stankus and Ms. Patel affirmed that they would work with MassHousing management to reassess the way information is communicated and escalated to the MassHousing members. The Committee agreed to have an open dialogue on expectations. Ms. Patel noted that, as the external auditor, PwC is focused financial statement fraud, and that occupational fraud or fraud occurring outside of the financial statement process is not part of PwC's scope.

Ms. Madden added additional context on the Ginnie Mae issue, noting that MassHousing did issue the notices required by Ginnie Mae, just that they were not issued within the timing requirement 45, 60, and 90 days upon entering delinquency. Mr. Vickery confirmed that MassHousing's servicing system was updated to automate the issuance of letters consistent with Ginnie Mae's guide. Ms. Pinado inquired whether the delinquency and respective qualified report has an impact on MassHousing's bond rating. Mr. Vickery confirmed that it does not.

Mr. Vickery reviewed highlights from MassHousing's statement of net position and mentioned cash and investments increased year over year. He noted that loans receivable also increased due to increase funding from bond offerings. Mr. Vickery mentioned that the Pension and OPEB liability were evaluated on January 1, 2023. He noted that both Pension and OPEB are in an asset position, with the expectation that both will be fully funded contingent upon investment market performance when the January 2025 valuation is completed. Mr. Vickery highlighted the increase in grant activity and that net income remains steady. He commented that net income is impacted by interest on loans and investments. He concluded by stating that the loan loss reserve has increased due to subordinate debt that was made through grant activity.

Ms. Pinado inquired regarding the calculation of the funds transferred to the Opportunity Fund. Mr. Vickery responded that the calculation is derived from the income in the Working Capital Fund.

There were no further questions or comments.

At approximately 1:45 p.m. there was a motion to adjourn the meeting, and the meeting concluded.

A true record.

Attest.



Colin M. McNiece

Secretary

Meeting Materials:

- Approval of June 11, 2024 Minutes
- Internal Audit Update
- PwC – Presentation of the FY24 Audit Status
- MassHousing Financial Statement Update