

FINAL - Draft Posted October 5, 2021

VHFA Audit Risk Committee Meeting

VHFA

164 St. Paul Street

Burlington

October 4, 2021 – 9:00 a.m.

VHFA Committee Members Present:

Tom Leavitt (Chair), Michael Clasen (designee for Beth Pearce), Lamont Barnett and Fred Baser (all attended by electronic means)

Staff Present:

Maura Collins, Seth Leonard, Chris Flannery, George Demas, Jacklyn Santerre, Tom Kimball, Alejandro Flores-Howland, Lisa Clark, Michelle Baird, Kim Roy (all attended by electronic means except that Mr. Flores-Howland was present at the meeting location)

Guests Present:

Melanie Johnson (Piper); Dan Kenney, Bri Shuma, Carmen Lobrutto, Bhavesh Vadhani (Cohn Reznick)

COMMITTEE MEETING

Mr. Leavitt, Chair, called the Audit Risk Committee Meeting to order at 9:02 a.m.

Staff confirmed that a Notice of this meeting was provided to the requesting parties and was posted on the Agency website and with State Department of Libraries, and that the Agenda for this meeting was provided to the requesting parties and posted on the Agency website, all within the statutory time requirements.

Staff confirmed that Minutes of prior meetings had been posted on the Agency website not less than 5 days after the meeting as required.

Mr. Leavitt confirmed that the Commissioners attending by electronic means could hear the conduct of the meeting and be heard throughout the meeting by the other attendees. Mr. Leavitt noted that Commissioners would have to vote by roll-call since there were Commissioners participating by electronic means.

Mr. Leavitt asked if anyone had any changes to the Agenda and there were none.

AUDIT RISK MINUTES

Mr. Barnett moved that the Audit Risk Committee approve the June 21, 2021, Minutes. Mr. Clasen seconded the motion, which was approved unanimously by roll call vote.

RISK MANAGEMENT REVIEW

Mr. Flannery reviewed his memorandum on Agency risks and the attached materials. He noted that risks were being looked at in four broad categories: business model risks to the single family and multifamily lending businesses, capital/financial risks relating to access to financial markets, cost of funds and investment returns, credit risks associated with borrowers and financial counterparties, and operating risks arising from various sources.

Mr. Flannery noted that the Agency has performed with remarkable stability both financially and operationally in the last year despite the pandemic and related economic issues. He noted that the Agency continues to face issues with low returns in capital markets, low single family origination volume due to interest rate competition from other lenders and lack of inventory of affordable homes in the state's largest market, and ongoing cybersecurity risks. Two items that had previously been considered high level risks – loss of HAP contract administration income and risks of credit losses due to the pandemic – are no longer listed because the HAP contract administration changes have occurred, and pandemic related credit losses did not materialize and don't appear to be looming given the various relief programs that have been rolled out by the federal government.

Two new high-risk items have been added – risks to operations and performance as a result of new programs such as MAP, HAP and weatherization and risks of cost overruns and timing delays to development projects resulting from supply chain disruptions and increased costs.

There was a general discussion of operational issues associated with new programs and whether they reflect a permanent change to the Agency's business model or are only temporary, development cost issues, housing market issues related to lack of originators and lack of appraisers and the role VHFA can play in helping to find solutions to broader market problems.

FINANCIAL STATEMENT AUDIT AND UNIFORM GUIDANCE AUDIT FOR FY2020

Mr. Flannery introduced CohnReznick representatives Mr. Kenney and Ms. Shuma, who presented the FY 2021 Financial Statement Audit report. Mr. Kenney reviewed the Independent Auditor's report and the audit standards. Ms. Shuma reviewed the Statement of Net Position and Statement of Revenues and the process for testing balances and values. Mr. Kenney reviewed the report on internal controls and the uniform guidance reports and noted that no deficiencies or

non-compliance with standards had been found. Ms. Shuma reviewed the management letter, which did not note any significant difficulties or disagreements with management.

Mr. Barnet moved that the Committee recommend the audit report and uniform audit to the full Board for review and acceptance. Mr. Clasen seconded the motion which was unanimously approved by roll call vote.

CYBERSECURITY PRESENTATION

Mr. Kinney then introduced Bhavesh Vadhani of Cohn Reznick who provided a presentation on current and emerging cybersecurity concerns. Mr. Vadhani noted that the increase of remote work during the pandemic had made companies even more reliant on technology and communications which has increased concerns about cyber risks. Mr. Vadhani further pointed to the need for companies to consider cyber security to be part of their main business and not just an IT issue. There was a general discussion of the Agency's increased awareness of cybersecurity concerns both in connection with remote work and with increased automation of interfaces with customers and business partners. Mr. Flannery noted that Dave Chien, the Agency's IT Director, would be providing an Agency-specific review of cybersecurity issues at the coming full Board meeting.

ADJOURNMENT

Mr. Leavitt confirmed with Staff that Minutes of the meeting had been kept and would be posted to the Agency's website within five days.

Upon motion by Mr. Barnett, seconded by Mr. Clasen and unanimously approved by roll call vote, the meeting was adjourned at 11:02 a.m.