



Massachusetts Housing Finance Agency
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Investment and Audit Committee Meeting Minutes

Meeting Date and Time: September 14, 2021 at 1:00 p.m.

Meeting Location: In accordance with Section 20 of An Act Extending Certain COVID-19 Measures Adopted During the State of Emergency, 2021 Mass. Acts 20, no Members were physically present, and the meeting was conducted remotely through a publicly accessible Zoom meeting.

Committee Members Present: Michael Dirrane
Mark Attia (designee)
Ping Yin Chai

Other Board Members Present: Carolina Avellaneda (joined at 1:08 P.M.)

MassHousing Staff Present: Rachel Madden
Stephen Vickery
Paul Scola
Rachel Madden
Belmira Fallon
Nancy Slaney
Cynthia Fernandes
Colin McNiece
Laurie Bennett
Lisa Levine
Hayden Smith

PricewaterhouseCoopers (PwC)
Staff Present: Paul Hanley
Erin Foley
Charles Cornish
Jonathan Carbone

The meeting began at 1:01 P.M.

Mr. Dirrane called the meeting to order and proceeded to ask for the approval of the minutes of the June 8, 2021 meeting. Upon a motion duly made and seconded, the members voted unanimously, via roll call, to approve the minutes of the June 8, 2021 meeting.

Following such approval, Ms. Fernandes reviewed the progress of the Fiscal Year 2021 (FY2021) Internal Audit Plan and discussed the fourth quarter (Q4) Investment and Audit Committee Report. The original FY2021 Internal Audit Plan consisted of 11 engagements, six of which were already reported to the Committee prior to the meeting. Ms. Fernandes reviewed the results of the audits that were completed in the fourth quarter of FY2021. She then discussed the changes to the Internal Audit Plan since the third quarter report. Ms. Fernandes explained that the planning for the IT Cybersecurity Audit was completed in the fourth quarter and that given the extensive nature of the engagement it will occur in two phases. Ms. Fernandes confirmed that the main takeaway for the FY2021 Internal Audit Plan was that no significant findings were identified, and that there were no instances of fraud that the Agency became aware of.

Ms. Fernandes went on to describe the work performed by outside assurance providers and regulators over FY2021. She updated the Committee on the State Audit engagements, noted that the State Auditors completed the fieldwork portion of their engagement at the end of August and that they were in the process of drafting their report. Mr. Attia asked when the State Auditor anticipates issuing the report and Ms. Fernandes responded that they are targeting November.

There were no further questions and Mr. Dirrane moved on to the Other Postemployment Benefits (OPEB) evaluation topic.

Mr. Vickery explained the role of Stone Consulting (Stone), noting that they perform actuarial work for the Agency. Mr. Vickery noted that Stone provides separate reports for the Agency's pension and OPEB. Mr. Vickery then noted that Stone failed to account for participant payments, which created an overstatement of liabilities of roughly \$9 million in 2019 and \$9.5 million in 2020. The error was identified this year and corrected, but Stone failed to bring it to the Agency's attention. Mr. Vickery explained that the Agency reviews the report, but does not have access to review the variables, assumptions, and underlying data compiled by Stone. Stone said that the reason the error occurred was because of a manual input that was isolated to 2019. Mr. Vickery said the Agency analyzed the effect the error would have on the Agency financial statements, as well as the OPEB financial statements. Mr. Vickery concluded by stating that the Agency is considering evaluating replacement actuaries for next year.

Mr. Dirrane commented that the Agency was lucky that the error was on the positive side of the ledger and asked what the Agency is doing to ensure repeat issues do not occur. Mr. Vickery answered that the Agency is working to create a script, which will ask very specific questions to 3rd parties to gain a better understanding regarding the variables and control environment that impacts the model.

Mr. Chai asked if the error was unique to the Agency, and Mr. Vickery responded that through his inquiry with Stone, only the Agency was affected. Mr. Chai asked if the error was a system or human error. Mr. Vickery responded that it was human error in imputing data into a new system. Stone moved to an automated data conversion system, and they are confident the error will not happen again.

Mr. Chai asked what PwC did to address the error in their assurance work. Mr. Hanley explained that they had their actuaries look at the evaluation. He further commented that the unique aspect of the error was the fact there was an offset, which made it a challenge to identify with analytical procedures. Mr. Hanley further noted that the Agency reported the error to PwC as soon as it was identified.

Mr. Chai asked if the effect was material. Mr. Vickery responded that the error was not material to the Agency Financial statement and further noted that the Agency is not required to restate any of its financials.

Mr. Chai asked how much the Agency pays Stone and Mr. Vickery responded that the Agency pays about \$30,000 in total for both the OPEB and pension work.

Mr. Attia explained that the State's OPEB evaluation had a similar error in 2019 and 2021, but that the error was an understatement of liabilities. Mr. Attia noted that performing regular reviews is the most important task, and the lack of communication from Stone was the most concerning part of the error. Mr. Vickery confirmed that it was upsetting that Stone didn't communicate with the Agency when the error was initially discovered.

Mr. Dirrane inquired regarding Stone's competitors in the market. Mr. Vickery responded that Segal is their main competitor, and Mr. Attia mentioned ACS as another actuary that works with state agencies.

Mr. Dirrane asked the other members whether they would recommend that the Agency obtain a different firm. Mr. Chai expressed his dissatisfaction with the lack of communication and suggested picking a different firm. Mr. Attia noted that he would defer to management's decision, since more research would be done but agreed that the lack of communication was unacceptable.

Mr. Attia commented that when the error was identified for the state, a disclosure was added to the financials and that the Agency could use similar language if needed. Mr. Vickery noted that the Agency disclosed the error in a recent diligence meeting and is discussing with the Agency auditors on necessary disclosure. Mr. Dirrane requested that the Committee be informed on steps taken over the course of the year.

With no further points of discussion, Mr. Dirrane moved on to the PwC Audit update.

Mr. Hanley described the progress of the Financial Statement Audit for FY2021. He noted that PwC was targeting fieldwork completion in the next two weeks and planning to issue their opinion by Friday, September 24, 2021. He noted that the team is wrapping up substantive audit tests and was working with the Agency to clear any comments. In addition, PwC was reviewing financial drafts and footnotes. Mr. Hankey confirmed that PwC will finalize their work and will discuss the results at the December meeting. In addition, Mr. Hanley updated the Committee on the progress of the Ginnie Mae and Mortgage Insurance Fund Audit, noting that those engagement were nearing completion.

Mr. Hanley discussed the areas of PwC's focus for the fiscal year. He noted that the OPEB error took a significant amount of time, and that other areas of focus included management override of controls, the evaluation of the investment portfolio, and reviewing interest income and long-term debt. Mr. Hanley confirmed that PwC did not identify any fraud or instances of illegal acts.

Mr. Hanley then explained that there was a new independence matter to disclose. Specifically, a PwC employee's spouse, through a broker, purchased an Agency bond. He confirmed that PwC has controls in place where all employees must enter their investments in a database, but the broker did not enter it correctly. The bond was purchased on May 7, 2021 and the error was identified on June 12, 2021. The spouse immediately sold the bond once it was identified. Mr. Hanley confirmed that the PwC employee

doesn't supply services to the Agency and has no contact with the Agency's team. Once the bond was sold, PwC's independence was restored.

Mr. Hanley confirmed that he was not aware of any significant deficiencies in controls at the Agency. Ms. Foley then noted that as part of the Ginnie Mae Audit, there is a compliance finding on the submission of mortgage documents to the custodian. Forms were not submitted timely for 14 of the 83 samples selected by PwC. HUD requires that the forms be submitted by the 4th business day of the month. The forms were submitted, just not on time. Mr. Vickery confirmed that he talked to the responsible group in the Agency, and they have come up with an additional review. Ms. Fernandes said that Internal Audit is working with individuals in the Agency to ensure similar issues do not happen again.

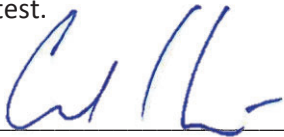
With no further questions, Mr. Dirrane moved on to review the draft of the FY2021 Financial Statements. Mr. Vickery said that the financial position in fiscal year 2021 was strong. He noted that while the net position increase was partially due to the decrease in pension and OPEB liability, it also grew due to the Agency's investment performance. He confirmed that the cash position is appropriate for lending to borrowers. He reviewed the profit and loss statement and highlighted the difference between FY2021 and FY2020. He noted that in FY2020, the Agency received a significant grant.

Mr. Dirrane asked if there were any other matters to discuss and hearing none, the members then voted to adjourn.

The meeting concluded at approximately 1:37 p.m.

A true record.

Attest.



Colin M. McNiece
Secretary

Meeting Materials:

- Minutes of the June 8, 2021 Meeting
- Internal Audit Update, September 14, 2021, including:
 - Investment and Audit Committee Quarterly Internal Audit Report (Q4 2021)
- OPEB Valuation Error Memo
- PwC Report to the Investment and Audit Committee
- MassHousing Financial Statements, Required Supplementary Information, Schedules and Supplemental Schedules as of June 30, 2021 and 2020 Draft