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Investment and Audit Committee Meeting Minutes

Meeting Date and Time: September 12, 2023, 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, as amended, this meeting was conducted through remote audio and video participation by the Members of MassHousing's Investment and Audit Committee.

Committee Members Present: Jeanne Pinado
Carolina Avellaneda

MassHousing Staff Present:

- Mark Teden
- Rachel Madden
- Stephen Vickery
- Sandra Bakaysa
- Paul Scola
- Minalyn Ebanculla
- Robert Wong
- Belmira Fallon
- Nancy Slaney
- Laurie Bennett
- Colin McNiece
- Cynthia Fernandes
- Hayden Smith
- Simone Ward

PricewaterhouseCoopers (PwC)
Staff Present:

- Nipa Patel
- Johnathan Carbone
- Michael Stankus

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 13, 2023, meeting.

Following such approval, Ms. Fernandes reviewed the Investment and Audit Committee Report for the fourth quarter (Q4) of Fiscal Year 2023 (FY23). She noted the year finished strong by issuing four “effective” opinions and that there were no significant findings to report for the quarter. Ms. Fernandes noted that there was a significant risk relative to the project schedule for the Rental Systems Lifecycle Replacement Project. She further noted that all 11 engagements in the FY23 Audit Plan were completed on time. No instances or allegations of fraud were reported in the quarter. Ms. Fernandes concluded by highlighting that the Division of Banks (DOB) exit meeting occurred on June 22, 2023 and subsequently, a letter was issued; the Agency responded to the letter in August 2023. Mr. McNiece elaborated on the Agency’s response to the letter noting that: there was a dispute on a point of law in March; the DOB Commissioner and the Executive Director of MassHousing had a call after the response was provided; and the General Counsel of the DOB was tasked to meet with Mr. McNiece to resolve the matter. Mr. McNiece expects the matter to be resolved soon in the favor of MassHousing. Mr. McNiece commented that he expected that the relationship going forward will be clarified and stated that a document will be implemented to define MassHousing’s future engagement with the DOB.

Ms. Pinado congratulated the audit team for completing the scheduled audits on time. There were no further questions.

Ms. Patel along with her PwC team, Mr. Carbone and Mr. Stankus, presented the status of the 2023 Financial Statements, Mortgage Insurance Fund, and HUD Compliance audits. Ms. Patel noted that PwC was working toward the plan deadline of management reports by September 22, 2023, which is in line with the typical pace of prior year audits. Mr. Stankus referred to slide five (5) on the Presentation of the FY23 Audit Results. He highlighted that there were no significant changes to the audit plan and that the plan was executed in line with the original plan. Mr. Stankus stated the team is in the process of wrapping up audit documentation. He noted that management override of controls was identified as a significant risk, however at this point PwC has not identified any items that raise to the level of communicating to the Audit Committee. The PwC team is still in process of doing some testing, but Mr. Stankus stated they plan on wrapping up the audit in line with the original timelines.

Ms. Patel made special note with regard to the test procedures around the HUD Compliance Audit. She stated that there was one item PwC is awaiting a response, and depending on the response received it could impact the audit. She reiterated that no conclusion was made at time.

Mr. Stankus referred to slide eight (8) to highlight the required communications related to the audit engagement and noted that there were no matters to report. He noted that at the end of the audit, this information will be resubmitted with conclusionary remarks.

There were no questions. Ms. Pinado thanked both the PwC and MassHousing teams for their hard work.

Ms. Patel reiterated that management was very cooperative, and the teams worked very well together. She highlighted that appendices will be included for more information about generative Artificial Intelligence (AI) and other information that may interest the Agency.

Ms. Pinado asked the PwC team about how AI impacts the industry or the audits conducted by PwC. Ms. Patel stated that PwC has invested heavily in learning about AI and are looking to implement a tool internally, while continuously engaging in conversation with clients about risks of generative AI. She stated that at this time, industry wide, there is more of a focus on internal use rather than customer focused use cases.

Ms. Pinado asked about who looks at cybersecurity. Ms. Patel said PwC looks at cybersecurity risk in the context of the risk of material misstatement to the financial misstatements. Ms. Patel said in the framework of the audit PwC understands managements control environment, but they do not look broader, however, the MassHousing IT Director, Mr.Hagerty would. She stated that some of the materials included in the appendices would have more information about partnerships to drive and institute a stronger framework related to cybersecurity.

Mr. Vickery stated that Mr. Hagerty leverages the PwC IT Team through regular meetings to discuss best practices.

Ms. Avellaneda asked how frequently penetration tests are conducted. Ms. Madden replied that they are conducted twice a year. Ms. Madden also noted that MassHousing recently met with an outside firm to confirm best practices to mitigate cyber risk. She stated that although there is always cyber risk present, she believes MassHousing has a strong security posture. The Executive Leadership Team regularly keeps cybersecurity in the forefront of their discussions. She concluded by stating that there is a big effort at MassHousing on continuous training and highlighting employees as human firewalls against security events.

Ms. Fernandes mentioned that Internal Audit conducted an Information Technology Audit in Q4 of FY23, which included a test of key controls such as penetration testing, network access, and patching. She stated that Internal Audit validated that appropriate controls were in place and operating as intended.

Mr. Stankus mentioned that there is a new Security and Exchange Commission ruling on disclosures and timing on reporting of cyber related incidents.

Ms. Avellaneda asked if there have been policies around the use of generative AI for content creation or grant responses. Mr. McNiece stated that there are internal discussions with the legal team about the creation of a policy.

There were no further questions.

Mr. Vickery gave a summary of the FY23 Financial Statements. He noted that the accounting for business transactions is becoming more complex, especially with the influx of grant funding, which caused an impact on the audit work performed and changes in the year over year income. He noted that interest on loans increased in comparison to prior years, and interest expense also increased. He also noted that administrative costs increased.

Mr. Vickery then noted that the provision for loan loss was significant this year. He stated a combination of the opportunity fund and the establishment of the American Rescue Plan Act (ARPA) Fund have impacted the provision. Mr. Vickery further stated that some of the grant income that came in was expensed. He stated that any Commonwealth Builder (CwB) loan was reserved for Loan Loss and, since the criteria is met for housing placement, the loan and the reserve are written off. Mr. Vickery stated another key driver of complexity was the activity in the Opportunity Fund. When real estate value was analyzed, there is also a reserve for loan loss.

Ms. Pinado asked if we reserve on a dollar-for-dollar basis.

Mr. Vickery replied no, we don't on the Opportunity Fund loans. He elaborated that MassHousing looked at the underlying real estate operating results, apply a cap rate, and layer on a selling cost assumption to create a theoretical value for the real estate today. He stated that most of the loans that create the loan loss provision are subordinate debt, and as long as CwB and Workforce Housing (WFH) loans exist, there will be additional reserves added to the provision related to these loans. Mr. Vickery stated that Mr. Attia was brought on to the Agency to assist with raising new capital.

Mr. Vickery concluded by stating that under Generally Accepted Accounting Principles (GAAP), MassHousing is required to mark to market all investments. He noted that most of the investments are bought and held to term and due to interest rates rising. He also highlighted that all Mortgage-Backed Security (MSB) investments in the two homeownership resolutions have been hit by fair market adjustments.

Ms. Avellaneda asked if there are any impacts now on income to the loss on investments due to fair market prices and if there any credit or rating impacts.

Mr. Vickery replied, no, and stated that there is a disclosure in the financial statements that states our intent is to hold those investments to term and there is not expectation of realizing the amounts. He stated it has not yet impacted MassHousing's covenants on credit lines and to date the fair market value adjustments have not been a problem.

Ms. Patel noted that this practice is not uncommon for the industry, and many institutions are seeing fair value losses. She stated that the fair market value is evaluated for reasonableness within the scope of the audit and to date there have been no observations or issues.

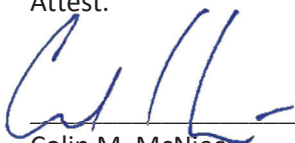
Mr. Vickery concluded by stating he hopes to wrap up within the next week and finalize by the 20th.

There were no further questions or comments.

At approximately 1:34 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 13, 2023 Minutes
- Internal Audit Update
- PwC – Presentation of the FY23 Audit Status
- MassHousing Financial Statement Update