

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

AUDIT COMMITTEE MEETING

John H. Reagan Building  
Room JHR 140  
105 W. 15th Street  
Austin, Texas

January 28, 2016  
9:03 a.m.

MEMBERS:

LESLIE BINGHAM ESCAREÑO, Chair  
T. TOLBERT CHISUM  
TOM H. GANN

I N D E X

<u>AGENDA ITEM</u>	<u>PAGE</u>
CALL TO ORDER, ROLL CALL CERTIFICATION OF QUORUM	3
Item 1: Presentation, Discussion and Possible Action to Approve the Audit Committee Minutes Summary for November 12, 2015	3
Item 2: Presentation, Discussion and Possible Action regarding the Texas State Auditor's Office audit report #16-011 "A Report of the Audit of the Texas Department of Housing and Community Affairs Fiscal Year 2015 Financial Statements"	3
a) FY 2015 Basic Financial Statements (SAO Report #16-307)	
b) FY 2015 Revenue Bond Program Audit (SAO Report # 16-308)	
c) FY 2015 Computation of unencumbered Fund Balances (SAO Report #16-309)	
d) FY 2015 Report on Internal Control Over Financial Reporting and on Compliance and Other Matters (SAO Report #16-310)	
e) FY 2015 Report on Compliance with the Public Funds Investment Act (SAO Report #16-311)	
REPORT ITEMS	
1. Presentation and Discussion of the Internal Audit Activity	6
2. Discussion of Recent External Audit Activity	9
3. Discussion of Internal Audits and Consulting Activity	10
4. Update on the Fraud, Waste and Abuse Statistics	12
PUBLIC COMMENT ON MATTERS OTHER THAN ITEMS FOR WHICH THERE WERE POSTED AGENDA ITEMS.	
EXECUTIVE SESSION	none
ADJOURN	14

P R O C E E D I N G S

1  
2 MS. BINGHAM ESCAREÑO: Good morning. Nice to  
3 see you guys. Welcome to the Audit Committee of the Texas  
4 Department of Housing and Community Affairs.

5 I did roll call just a little while ago, but  
6 just to have it on the record, I'm the chair, Leslie  
7 Bingham, I'm here.

8 Mr. Tolbert Chisum?

9 MR. CHISUM: Present.

10 MS. BINGHAM ESCAREÑO: And Mr. Tom Gann wasn't  
11 able to make it with us today, but we do represent quorum  
12 for the committee meeting, so we'll move forward with  
13 business.

14 We'll go ahead and start with item 1, which is  
15 the review and approval of the committee minutes. The  
16 committee had a chance to review the minutes. Any  
17 changes? Are you good with it?

18 MR. CHISUM: I approve.

19 MS. BINGHAM ESCAREÑO: Very good. So the  
20 committee approves the minutes as presented.

21 We'll move on to item 2. Item 2 is the  
22 presentation, discussion and possible action regarding our  
23 State Auditor's Office audit, number 15-014, a report of  
24 the audit of the Texas Department of Housing and Community  
25 Affairs for fiscal year 2015 financial statements.

1 Mark, would you like to introduce the item?

2 MR. SCOTT: Yes, ma'am.

3 This item is the annual audit that the State  
4 Auditor does of our financial statements, and they also  
5 audit compliance with the Public Funds Investment Act, and  
6 the State Auditor's staff are here to say a few words  
7 about it.

8 MS. BINGHAM ESCAREÑO: Welcome.

9 MR. SALDIVAR: Good morning. For the record,  
10 my name is Cesar Saldivar. I'm an audit manager with the  
11 State Auditor's Office.

12 With me this morning is Philip Stringer, the  
13 project manager, Sarah Puerto, the assistant project  
14 manager. I'm going to hand it over to them to talk about  
15 the deliverables. This audit has many different  
16 deliverables, so I'm going to hand it over to Philip to  
17 talk a little bit about that, and we'll all three be  
18 available for questions if you have any questions after  
19 that.

20 MS. BINGHAM ESCAREÑO: Thank you, Cesar.

21 MR. STRINGER: Good morning.

22 MS. BINGHAM ESCAREÑO: Good morning.

23 MR. STRINGER: The State Auditor's Office  
24 issued several reports as part of this audit. On December  
25 18, 2015 we expressed unmodified opinions on the

1 Department's fiscal year 2015 basic financial statements,  
2 the Revenue Bond Program Enterprise Fund financial  
3 statements, and the computation of unencumbered fund  
4 balances of the Housing Finance Division. And like Mark  
5 said, we also issued a report on compliance with the  
6 Public Funds Investment Act.

7 Also, with this audit we issued two reports  
8 previously. On August 3, 2015 we issued a report that  
9 concluded that the financial data schedule prepared by the  
10 Department was fairly stated in all material respects in  
11 relation to the fiscal year '14 basic financial statements  
12 taken as a whole. And on September 24, 2015 we issued a  
13 report that concluded that the Department's electronically  
14 submitted financial data schedule to the U.S. Department  
15 of Housing and Urban Development Real Estate Assessment  
16 Center agreed with certain hard copy documents.

17 Do you have any other questions on those?

18 MS. BINGHAM ESCAREÑO: Mr. Chisum?

19 MR. CHISUM: Nothing.

20 MS. BINGHAM ESCAREÑO: Thanks, Philip.

21 MR. SCOTT: Thank you very much.

22 The State Auditors do the financial statement  
23 audits, as we've discussed before, and KPMG does the  
24 audits of the federal compliance, and we get an extra  
25 audit because of the bonds that are kept outside of the

1 state treasury.

2 MS. BINGHAM ESCAREÑO: Let's see. So if there  
3 aren't any other questions, I think we'll look for action  
4 from the committee to recommend the State Auditor's Office  
5 report?

6 MR. SCOTT: Yes, that's correct. This  
7 committee will recommend to the full Board that they  
8 approve the State Auditor's Report. And Cesar will  
9 probably have to do another presentation to the full  
10 Board.

11 MS. BINGHAM ESCAREÑO: But it was perfect.

12 MR. SCOTT: Yes. Same way you did it.

13 MS. BINGHAM ESCAREÑO: So just for the record  
14 then, Mr. Chisum, are you comfortable?

15 MR. CHISUM: Yes.

16 MS. BINGHAM ESCAREÑO: So the committee will  
17 recommend the report as presented to the Board.

18 MR. SCOTT: Thank you very much.

19 MS. BINGHAM ESCAREÑO: Very good.

20 Shall we move on to the Internal Audit Program?

21 MR. SCOTT: Yes. The next item I was going to  
22 talk about is the program income audit that was an  
23 internal audit. It was carried over from the 2015 audit  
24 plan, and based on a project risk assessment; we focused  
25 on the Tax Credit Assistance Program, TCAP, and the

1 Neighborhood Stabilization Program, NSP. Program income  
2 is recorded in several agency systems. We tested the  
3 identification recording of the amounts. For TCAP, the  
4 amounts in the various systems reconciled except for some  
5 immaterial differences.

6 The main issue we found was that for the NSP  
7 program reconciliations, the Disaster Recovery Grant  
8 Reporting System, DRGR, were not being done in a timely  
9 manner. DRGR is what our agency uses to report to HUD.  
10 The amounts in DRGR were not being reconciled to People  
11 Soft which is used for financial accounting.

12 Management did agree with the audit  
13 recommendation and has set up a plan to perform complete  
14 reconciliations at a minimum every three months, which I  
15 think will coincide with the external reporting to HUD.  
16 And the management staff that were involved with the audit  
17 are here, and they were very helpful. This is an audit  
18 that we had to interface with accounting staff and program  
19 staff, so it was good to have cooperation from everybody  
20 to get everything, if not solved, at least get it on the  
21 road to being solved.

22 MS. BINGHAM ESCAREÑO: Great. Thank you, Mark.

23 So this is on the agenda as a report only item.

24 No action is necessary at this time?

25 MR. SCOTT: Yes, ma'am, that is correct.

1 MS. BINGHAM ESCAREÑO: The report was thorough,  
2 the committee is in receipt of the report. Are there any  
3 comments that management would care to make on the record  
4 regarding the program income audit? Mr. Irvine.

5 MR. IRVINE: Thank you very much. Tim Irvine,  
6 executive director.

7 You know, any time you go into an audit, you  
8 get a little nervous, you get your fingers crossed and all  
9 that, but I've got to say that we really enjoy working  
10 with the Internal Audit folks. They are straightforward,  
11 they are objective, they are practical and useful, and I  
12 value the recommendations that they make.

13 It's noted in the actual materials, but I do  
14 want to point out just on this record that TCAP loan  
15 repayments are not, strictly speaking, program income,  
16 they're just loan repayments.

17 MS. BINGHAM ESCAREÑO: Very good. So they were  
18 in the scope of the audit but they are not necessarily  
19 officially considered program income.

20 MR. IRVINE: They're not technically program  
21 income, which has a very specific legal meaning, but they  
22 were absolutely within the scope of the engagement and we  
23 appreciate the guidance on keeping track of what we've  
24 got.

25 MS. BINGHAM ESCAREÑO: Very good. Thanks, Tim.



1 MR. CHISUM: Thank you.

2 MS. BINGHAM ESCAREÑO: Anyone else from  
3 management care to make any comments?

4 (No response.)

5 MS. BINGHAM ESCAREÑO: Great. Thank you very  
6 much.

7 So we'll move on then to report item number 2,  
8 discussion of any recent external audit activity.

9 MR. SCOTT: Yes. As I mentioned before, KPMG  
10 and the State Auditor's office, they do the audit for the  
11 entire state so they're pretty much with us year round,  
12 and they've been doing their annual statewide audit. They  
13 also do some IT audit work, which is very useful. And by  
14 the way, the Department of Information Resources provides  
15 services and guidance to the agency, as it does to all  
16 state agencies.

17 At the last Audit Committee meeting, we  
18 discussed the KPMG audit and they were planning to use the  
19 new OMB circular rules as criteria for their 2015 audit  
20 which would have resulted in findings of non-compliance.  
21 We had further discussions with them and they have agreed  
22 to not write any findings related to implementation of the  
23 new circular. They do have a few minor findings related  
24 to internal review of information related to the HOME  
25 program, which is the program they're auditing. And as

1 far as external audits, SAO just did their presentation.

2 And then the federal health and human services  
3 agency, their Division of Energy Assistance did a review  
4 of our LIHEAP program, which is the energy program, and  
5 they were very complimentary of TDHCA's practices related  
6 to outreach, ease of enrollment, service delivery plans  
7 and training.

8 So those are the external audits.

9 MS. BINGHAM ESCAREÑO: External ones. Great.  
10 Thanks. Very good.

11 Any questions under external audit? Everything  
12 sounds good.

13 Report item number 3 is the discussion of  
14 internal audits and consulting activity. Just want to go  
15 over kind of what's coming up?

16 MR. SCOTT: Yes. In November we did the audit  
17 plan and so I was going to give an update on where we are  
18 on that.

19 We just did the program income audit which was  
20 on that plan. We're going to start the sources and uses  
21 audit and also the real estate analysis audit. And both  
22 of these involve a lot of what auditors would call  
23 analytical procedures, and so it won't take up as much  
24 staff time as an in-depth operational audit.

25 And as far as consultations, Internal Audit is

1 doing ongoing consultation related to subrecipient  
2 monitoring, specifically the reviews of the A-133 audits.

3 And I've been working with the monitoring staff and also  
4 with the Texas State Board of Public Accountancy on getting  
5 better A-133 audits from the subrecipients. And by the  
6 way, they're going to have a hearing in February on one of  
7 the audits that I referred to them.

8 So that's the status of the audit plan and the  
9 consulting activity.

10 MS. BINGHAM ESCAREÑO: Very good. So Mark,  
11 regarding those -- what are they?

12 MR. SCOTT: They're called A-133 audits.

13 MS. BINGHAM ESCAREÑO: A-133s, so you have kind  
14 of two things going on with that: you're actually doing  
15 some consulting actively on our current subrecipient A-  
16 133s, but you're also seeking some guidance from the state  
17 regarding our practices moving forward and what will be  
18 expected of subrecipients?

19 MR. SCOTT: Well, the State Board of Public  
20 Accountancy regulates the CPAs that do these audits for  
21 the subrecipients and they're auditing our funds, and they  
22 have the ability to review and sanction, as appropriate,  
23 CPA firms. They have been trying to get agencies like us  
24 to work with them to identify where things need to  
25 improved as far as their audits go.

1 MS. BINGHAM ESCAREÑO: Okay. Understood. So  
2 it's accountability. In other words, the State Board of  
3 Public Accountancy has criteria or expectation for CPAs  
4 that do those A-133s to meet, and they'd like to work with  
5 us to make sure that the subrecipients are using  
6 accountants that are abiding by that criteria?

7 MR. SCOTT: That's perfectly stated. Yes.

8 MS. BINGHAM ESCAREÑO: Not really, but that's  
9 how I understood it. Very good.

10 Any questions then on our upcoming consulting  
11 and audit activities?

12 (No response.)

13 MS. BINGHAM ESCAREÑO: Very good. Then we'll  
14 move to our update on fraud, waste and abuse activities,  
15 report item number 4.

16 MR. SCOTT: And as we've discussed before, we  
17 have a fraud hotline. The State Auditor also has a fraud  
18 hotline. We work with them regularly. There's a lot of  
19 these calls that aren't really related to our programs,  
20 but they are generated out in our properties, the tax  
21 credit properties or some other way. It's work to sift  
22 through them, as I've said before, but it's better to know  
23 it than not to know it, so we continue to utilize that  
24 service and keep track of that.

25 MS. BINGHAM ESCAREÑO: Any specific questions

1 relative to fraud, waste and abuse? The documentation of  
2 the allegations that came in is in our committee packet.  
3 Very good.

4 Mark, any other items for consideration for the  
5 committee today?

6 MR. SCOTT: No, ma'am, that's everything.

7 MS. BINGHAM ESCAREÑO: Very good. Thank you.

8 Any additional considerations recommended from  
9 management or staff?

10 MR. IRVINE: Nothing specific to recommend, but  
11 just another comment on the subject of fraud, waste and  
12 abuse. Under state law we also have very specific  
13 reporting requirements. When we suspect certain types of  
14 wrongdoing or loss or impropriety, we're required to  
15 report that to the State Auditor's Office, and we file  
16 those reports promptly and carefully and work with them as  
17 their fraud investigation unit follows up on them.

18 MS. BINGHAM ESCAREÑO: Very good. Mr. Irvine,  
19 should the committee and the board assume that any  
20 material recommendations, findings that come out of fraud,  
21 waste and abuse would end up in this report?

22 MR. IRVINE: We are very careful to protect  
23 things like ongoing criminal investigations or legal  
24 proceedings and so forth, but through appropriate vehicles  
25 we make sure that the board knows everything serious

1 that's going on.

2 MS. BINGHAM ESCAREÑO: Thank you. Very good.

3 Any other comments?

4 (No response.)

5 MS. BINGHAM ESCAREÑO: Very good. I think that

6 concludes the committee meeting of the Audit Committee of

7 the Texas Department of Housing and Community Affairs.

8 Thank you all for coming.

9 (Whereupon, at 9:15 a.m., the meeting was  
10 adjourned.)

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23

C E R T I F I C A T E

MEETING OF: TDHCA Audit Committee

LOCATION: Austin, Texas

DATE: January 28, 2016

I do hereby certify that the foregoing pages, numbers 1 through 15, inclusive, are the true, accurate, and complete transcript prepared from the verbal recording made by electronic recording by Nancy H. King before the Texas Department of Housing and Community Affairs.

Nancy H. King                      02/01/2015  
(Transcriber)                                      (Date)

On the Record Reporting  
3636 Executive Cntr Dr., G22  
Austin, Texas 78731