



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

www.tdhca.state.tx.us

Rick Perry
GOVERNOR

BOARD MEMBERS
J. Paul Oxer, *Chair*
Juan S. Muñoz, PhD, *Vice Chair*
Leslie Bingham-Escareño
Tom H. Gann
J. Mark McWatters
Robert D. Thomas

September 23, 2014

Writer's direct phone #512.936.7580
Email: betsy.schwing@tdhca.state.tx.us

RE: AN INTERNAL AUDIT OF THE FINANCIAL ADMINISTRATION DIVISION (REPORT #14-1063)

To: The Audit Committee and the Governing Board of the Texas Department of Housing and Community Affairs

The Internal Audit Division has completed its audit of the Texas Department of Housing and Community Affairs' (Department's) Financial Administration Division (Division). The objectives of this audit were to determine if the operating budgets developed are aligned with anticipated funding and estimated expenditures, and if housing finance revenue received is recorded, posted and deposited accurately and timely. We found that the operating budgets developed by the Financial Administration Division are in alignment with anticipated funding and estimated expenditures. We found that, with very few exceptions, the Department records, posts, and deposits housing finance revenue payments accurately and timely.

Operating Budget

The Financial Administration Division's Financial Services Section (Financial Services) develops the Department's operating budget. In preparing the Department's annual operating budget, Financial Services reviews the prior year's budget and monthly expenditure reports, performs a fixed cost analysis, and obtains each division's budget requests. The draft budget may undergo multiple revisions based on division feedback and available funding. The final draft budget is reviewed by the Department's executive team, the Department's board chair and executive director before it is presented to the Department's governing board for approval. The Division presents the budget for approval at a public board meeting.

We interviewed and observed Financial Services staff members charged with developing the operating budget, and reviewed documentation and data they rely upon to develop the budget. We also analyzed responses received from 19 of 26 (73.1%) division managers and directors we surveyed to solicit their feedback on the budget process. Eighteen of those respondents indicated that they have some responsibility or involvement in their division's budgeting process.



Explicit criteria for the creation of the Department's operating budget are not defined by state or federal regulations. Best practices were identified for evaluating Financial Services' budget development process. These best practices were discussed with and agreed upon by management. The agreed-upon best practices include employing sound methodology, using reasonable assumptions, using the best data available, and obtaining feedback from stakeholders. We determined the following:

- *Financial Services employs sound methodologies when developing the budget.* Allocations of fixed costs are based on each division's number of full time equivalent (FTE) positions, financing is based on the available funding, and the requested costs submitted by the division's are considered when developing the operating budget.
- *Financial Services makes reasonable assumptions during the budget development process.* The previous year's activity is assumed to be a reasonable baseline for developing the next year's budgets. If feedback is not received from a respective division, it is assumed that the division has no objections or further input for the budget. Requested costs are submitted by the divisions on the assumption that each division is best suited to determine their own funding needs for operation.
- *Financial Services uses the best available data to develop the budget.* Financial Services uses the prior year's budgets, historical expenditures, and estimated expected revenue information available to develop budgets. Survey respondents indicated that they most frequently use the prior year's operating budget and historical and estimated expenditure information when compiling information in the operating budget's preparation.
- *Financial Services obtains feedback from budget stakeholders.* Financial Services receives requested costs prepared and submitted by the divisions in preparing the budget. Every division is provided access to the draft budgets with opportunity to provide feedback. The Department's board chair and executive management review the draft budget before it is presented to the governing board for approval.
- *Budgets are periodically compared to actual activity.* Financial Services reviews and posts monthly management reports of budgeted funds compared to actual year-to-date expenditures for each division. All divisions have access to these reports. Fifteen (83.3%) of the 18 survey respondents indicated that they compare budgets to actual activity. Twelve of those 15 indicated that they make the budget-to-actual comparisons quarterly and/or monthly.

Based on our understanding of the budget development process and the feedback from survey respondents, we concluded that Financial Services employs best practices when developing the budget.

Housing Finance Revenue

The Department had \$14,288,608 in appropriated housing finance revenue receipts in FY 2013 and \$14,871,552 in appropriated housing finance revenue receipts in FY 2014. Housing finance revenue includes annual compliance fees for the Department's multifamily property monitoring, housing tax credit program administration fees, asset management fees and bond administration fees. Texas Government Code §2306.118 requires that the Department deposit housing finance revenue with the Texas Treasury Safekeeping Trust Company (TTSTC).

The Department receives housing finance revenue by check payments through the mailroom or by direct wire transfer to TTSTC. The Division is responsible for processing housing finance revenue payments received by the Department. The Division enters the payment information into the Department's accounting system and prepares the checks for deposit to the Department's designated TTSTC bank accounts.

The Division has multiple controls in place to establish custody of the checks by each staff member as the checks are processed and to verify that all checks delivered to the Division are deposited. Each Division staff member signs for receipt of checks on the physical cash receipts log that accompanies the checks. The Division compares the electronic Cash Receipts System to the signed cash receipts log on a monthly basis to verify all checks delivered to the Division were deposited. All check and wire transfer payments received are reconciled monthly by an accountant who is not responsible for receiving, posting, or depositing housing finance revenue payments. The accountant performs the reconciliation between the monthly TTSTC bank statements, the Department's accounting system, and the deposits' backup documentation maintained by the Division.

We tested a judgmental sample of 34 housing finance revenue payments received by the Department from September 1st of state fiscal year 2013 through May 31st of fiscal year 2014. We found that all 34 (100%) transactions were posted to the Department's accounting system, recorded in the cash flow statements, and deposited in the Department's TTSTC accounts accurately. We identified two (5.9%) transactions that were not deposited by the third working day after the date of receipt as required by the Texas Comptroller of Public Account's Office. One deposit was posted after the TTSTC daily cutoff time for deposits and was deposited the next business day, causing it to be one day late. The other deposit was three days late due to training of new staff on payment posting process.

The Division has controls to maintain and monitor the timeliness of deposits. Financial Services has designated backup staff members to perform payment processing functions in the absence of a primary staff member. The Financial Services Team Leader reviews all payments recorded in the Cash Receipts System monthly to identify late deposits and their causes and reports the causes to the Financial Services Manager.

The Division has not fully documented the housing finance revenue payment processing procedures. Individual staff members have developed steps for performing their assigned responsibilities. However, the complete procedures for payment posting and deposit preparation are not formally documented by management. Without formally documented procedures there is a risk that staff may not carry out duties in the manner intended by Division management.

RECOMMENDATIONS:

- The Financial Administration Division should continue their efforts to minimize the occurrence of late deposits and meet the three day deposit timeline required by the Comptroller.
- The Financial Administration Division should fully document the procedures for processing housing finance revenue payments. The documented procedures should be reviewed and approved by Division management.

MANAGEMENT'S RESPONSE:

The Financial Administration Division will continue their efforts to minimize the occurrence of late deposits and meet the three day deposit timeline required by the Comptroller. Any instances in which the three day timeline cannot be met will continue to be properly documented.

Person Responsible: Jose Guevara

Target Date for Implementation: October 1, 2014

Management agrees with the recommendation that a comprehensive and documented standard operating procedure (SOP) related to the processing of checks will strengthen its internal controls. At this point, the procedure is segmented and documented by various accountants primarily in the form of a procedural manual. Management and staff will actively evaluate its procedural manuals and create a new comprehensive SOP. The new SOP will be reviewed and approved by senior management within Financial Administration. Management expects to have it compiled and approved by no later than 2/1/15.

Person Responsible: Jose Guevara

Target Date for Implementation: February 1, 2015

Audit Scope and Methodology

The audit scope for operating budget evaluation was fiscal years 2013, 2014 and 2015. The audit scope for testing housing finance revenue processing was fiscal years 2013 and 2014. Our methodology consisted of interviewing individuals involved in developing operating budgets and processing payments, reviewing documentation, observing budgeting and payment processing activities, evaluating budget activities and budgeting data, comparing the Department's budgeting processes to best practices, surveying Department employees involved in the operating budget development, evaluating payment processing, testing housing finance revenue received and deposited.

This audit was conducted as part of our fiscal year 2014 internal audit plan. We conducted our fieldwork from June through August 2014. We conducted this performance audit in accordance with *Generally Accepted Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This audit was also conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

We would like to extend our sincere thanks to the management and staff of the Financial Administration Division for their cooperation and assistance during the course of this audit.

Sincerely,

M. Betsy Schwing, CPA, CFE, CGMA
Acting Director of Internal Audit

An Internal Audit of the Financial Administration Division (Report #14-1063)

September 23, 2014

Page 5

cc: Tim Irvine, Executive Director
David Cervantes, Chief Financial Officer