

# **AUDIT COMMITTEE MEETING**

## **JANUARY 23, 2014**



**Leslie Bingham-Escareño, Chair**  
**Tom H. Gann, Member**  
**J. Mark McWatters, Member**  
**Sandy Donoho, Secretary of the Committee**

**AUDIT COMMITTEE  
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS**

**AGENDA**

**8:30 a.m.  
January 23, 2014**

**John H. Reagan Building  
Room JHR 140, 105 W 15<sup>th</sup> Street,  
Austin, Texas**

**CALL TO ORDER, ROLL CALL**

**Leslie Bingham-Escareño, Chair**

**CERTIFICATION OF QUORUM**

**Leslie Bingham-Escareño, Chair**

The Audit Committee of the Governing Board of the Texas Department of Housing and Community Affairs will meet to consider and possibly act on the following:

**ACTION ITEMS**

- |        |  |  |
|--------|--|--|
| Item 1 | Presentation, Discussion, and Possible Action on the Audit Committee Meeting Minutes for September 12, 2013  | <b>Sandy Donoho,</b><br>Director of Internal<br>Audit  |
| Item 2 | Presentation, Discussion and Possible Action on Acceptance of the 2013 Audit Results from the State Auditor's Office<br>-Opinion Audit on FY 2013 Basic Financial Statements<br>-Opinion Audit on FY 2013 Computation of Unencumbered Fund Balances<br>-Opinion Audit on FY 2013 Revenue Bond Program Enterprise Fund<br>-Report on Internal Control Over Financial Reporting and on Compliance and Other Matters<br>- Report on Compliance with the Public Funds Investment Act<br>- Agreed Upon Procedures for the Section 8 Program | <b>Verma Elliott,</b><br>State Auditor's Office,<br>Audit Manager<br><br><b>Amadou N'gaide,</b><br>State Auditor's Office,<br>Managing Senior<br>Auditor |
| Item 3 | Presentation, Discussion, and Possible Action on the 2014 Internal Audit Charter and Board Resolution No. 14-012   | <b>Sandy Donoho,</b><br>Director of Internal<br>Audit  |
| Item 4 | Presentation and Discussion on the Status of the FY 2014 Internal Audit Work Plan  |  |
| Item 5 | Presentation and Discussion of Recent Internal Audit Reports:<br>a) An Internal Audit of Loan Processing<br>b) An Internal Audit of the Ethics Program<br>c) Quality Assurance Improvement Program (QAIP) Self-Assessment  |  |
| Item 6 | Presentation and Discussion of the Status of External Audits   |  |
| Item 7 | Presentation and Discussion of the Status of Prior Audit Issues  |  |
| Item 8 | Presentation and Discussion of the Status of the Fraud, Waste, and Abuse Hotline and Other Fraud Complaints  |  |

**EXECUTIVE SESSION**

**Leslie Bingham-  
Escareño, Chair**

The Committee may go into Executive Session (close its meeting to the public) on any agenda item if appropriate and authorized by the Open Meetings Act, Texas Government Code, Chapter 551 and under Texas Government Code, §2306.039.

1. Pursuant to Texas Government Code, §551.074 the Audit Committee may go into Executive Session for the purposes of discussing personnel matters including to deliberate the appointment, employment, evaluation, reassignment, duties, discipline, or dismissal of a public officer or employee.
2. Pursuant to Texas Government Code, §551.071(1) the Committee may go into executive session to seek the advice of its attorney about pending or contemplated litigation or a settlement offer.
3. Pursuant to Texas Government Code, §551.071(2) the Committee may go into executive session for the purpose of seeking the advice of its attorney about a matter in which the duty of the attorney to the governmental body under the Texas Disciplinary Rules of Professional Conduct of the State Bar of Texas clearly conflicts with Texas Government Code, Chapter 551.
4. Pursuant to Texas Government Code, §2306.039(c) the Committee may go into executive session to receive reports from the Department's internal auditor, fraud prevention coordinator, or ethics advisor regarding issues related to fraud, waste or abuse.

**PUBLIC COMMENT ON MATTERS OTHER THAN ITEMS FOR WHICH THERE WERE POSTED AGENDA ITEMS. PUBLIC COMMENT MAY INCLUDE REQUESTS THAT THE COMMITTEE PLACE SPECIFIC MATTERS ON FUTURE AGENDAS FOR CONSIDERATION.**

### **OPEN SESSION**

If there is an Executive Session, the Committee will reconvene in Open Session and may take action on any items taken up in Executive Session. Except as specifically authorized by applicable law, the Board may not take any actions in Executive Session.

### **ADJOURN**

*To access this agenda and details on each agenda item in the board book, please visit our website at [www.tdhca.state.tx.us](http://www.tdhca.state.tx.us) or contact Sandy Donoho, 512-475-3813, TDHCA, 221 East 11th Street Austin, Texas 78701-2410, and request the information.*

*Individuals who require the auxiliary aids, services or sign language interpreters for this meeting should contact Gina Esteves, ADA Responsible Employee, at 512-475-3943 or Relay Texas at 1-800-735-2989 at least three (3) days before the meeting so that appropriate arrangements can be made.*

*Non-English speaking individuals who require interpreters for this meeting should contact Jorge Reyes, 512-475-4577 at least three (3) days before the meeting so that appropriate arrangements can be made.*

*Personas que hablan español y requieren un intérprete, favor de llamar a Jorge Reyes al siguiente número 512- 475-4577 por lo menos tres días antes de la junta para hacer los preparativos apropiados.*

# **ACTION ITEMS**

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**AUDIT COMMITTEE ACTION REQUEST**

**BOARD SECRETARY**

**JANUARY 23, 2014**

Presentation, Discussion, and Possible Action on the Audit Committee Meeting Minutes Summary for September 12, 2013.

**RECOMMENDED ACTION**

**RESOLVED**, that the Audit Committee Meeting Minutes Summary for September 12, 2013, are hereby approved as presented.

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS  
AUDIT COMMITTEE**

9:00 a.m.  
September 12, 2013  
Capitol Extension Auditorium  
1500 North Congress, Austin, TX

**MINUTES SUMMARY**

**CALL TO ORDER, ROLL CALL, CERTIFICATION OF QUORUM**

The Audit Committee of the Governing Board of the Texas Department of Housing and Community Affairs was called to order by Chair, Leslie Bingham-Escareño at 9:03 a.m. on September 12, 2013. It was held at the Capitol Extension Auditorium, 1500 North Congress, Austin, TX. Roll call certified a quorum was present.

**Members Present:**

Leslie Bingham-Escareño, Chair  
J. Mark McWatters, Member  
Tom Gann, Member

The Audit Committee of the Governing Board of the Texas Department of Housing and Community Affairs met to consider and possibly act on the following:

**ACTION ITEMS**

- AGENDA ITEM 1 PRESENTATION, DISCUSSION, AND POSSIBLE ACTION ON THE AUDIT COMMITTEE MEETING MINUTES FOR JULY 25, 2013  
**Motion by Tom Gann to approve the Audit Committee Minutes for July 25, 2013; duly seconded by J. Mark McWatters; motion passed.**
- AGENDA ITEM 2 PRESENTATION, DISCUSSION, AND POSSIBLE ACTION ON THE DRAFT FY 2014 INTERNAL AUDIT WORK PLAN  
**Motion by J. Mark McWatters to approve the Draft FY 2014 Internal Audit Work Plan; duly seconded by Tom Gann; motion passed. At the end of planning, the IA Director will forward the objectives, scope and methodology for each audit, any board member can request the item be presented as a consent or report item at the next audit committee meeting.**
- AGENDA ITEM 3 PRESENTATION AND DISCUSSION ON THE STATUS OF THE FY 2013 INTERNAL AUDIT WORK PLAN  
**Report only. No action required.**
- AGENDA ITEM 4 PRESENTATION AND DISCUSSION OF RECENT INTERNAL AUDIT REPORTS:  
a) An Internal Audit of Compliance Monitoring  
**Report only. No action required.**
- AGENDA ITEM 5 PRESENTATION AND DISCUSSION OF THE STATUS OF EXTERNAL AUDITS  
**Report only. No action required.**
- AGENDA ITEM 6 PRESENTATION AND DISCUSSION OF RECENT EXTERNAL AUDIT REPORTS:  
a) Quarterly DOE Monitoring of the Weatherization Assistance Program  
b) Texas Workforce Commission Civil Rights Division Review of Personnel Policies and Procedural Systems  
**Report only. No action required.**

AGENDA ITEM 7 PRESENTATION AND DISCUSSION OF THE STATUS OF PRIOR AUDIT ISSUES  
**Report only. No action required.**

AGENDA ITEM 8 PRESENTATION AND DISCUSSION OF THE STATUS OF THE FRAUD, WASTE, AND ABUSE HOTLINE AND OTHER FRAUD COMPLAINTS  
**Report only. No action required.**

#### EXECUTIVE SESSION

At 9:32 a.m. Chairman Bingham-Escareño convened the Executive Session.

The Committee may go into Executive Session (close its meeting to the public) on any agenda item if appropriate and authorized by the Open Meetings Act, Texas Government Code, Chapter 551 and under Texas Government Code, §2306.039.

1. Pursuant to Texas Government Code, §551.074 the Audit Committee may go into Executive Session for the purposes of discussing personnel matters including to deliberate the appointment, employment, evaluation, reassignment, duties, discipline, or dismissal of a public officer or employee:  
*(a) the Director of Internal Audit*
2. Pursuant to Texas Government Code, §551.071(1) the Committee may go into executive session to seek the advice of its attorney about pending or contemplated litigation or a settlement offer.
3. Pursuant to Texas Government Code, §551.071(2) the Committee may go into executive session for the purpose of seeking the advice of its attorney about a matter in which the duty of the attorney to the governmental body under the Texas Disciplinary Rules of Professional Conduct of the State Bar of Texas clearly conflicts with Texas Government Code, Chapter 551.
4. Pursuant to Texas Government Code, §2306.039(c) the Committee may go into executive session to receive reports from the Department's internal auditor, fraud prevention coordinator, or ethics advisor regarding issues related to fraud, waste or abuse.

**PUBLIC COMMENT ON MATTERS OTHER THAN ITEMS FOR WHICH THERE WERE POSTED AGENDA ITEMS. PUBLIC COMMENT MAY INCLUDE REQUESTS THAT THE COMMITTEE PLACE SPECIFIC MATTERS ON FUTURE AGENDAS FOR CONSIDERATION.**

No public comment was received.

#### OPEN SESSION

At 9:41 a.m. Chairman Bingham-Escareño reconvened the Open Session, announced that No Action had been taken during the Executive Session, and certified that the posted agenda had been followed.

#### ADJOURN

Motion by J. Mark McWatters to adjourn; duly seconded by Tom Gann; motion passed unanimously. Since there was no other business to come before the Board, Chairman Bingham-Escareño adjourned at 9:44 a.m. on September 12, 2013.

  
Sandy Donoho, Board Secretary

For a full transcript of this meeting, please visit the TDHCA website at [www.tdhca.state.tx.us](http://www.tdhca.state.tx.us)



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**AUDIT COMMITTEE ACTION REQUEST**

**INTERNAL AUDIT**

**JANUARY 23, 2014**

Presentation, Discussion and Possible Action on Acceptance of Audit Results from the State Auditor's Office.

**RECOMMENDED ACTION**

**WHEREAS**, the Department is required to undergo an annual audit of its books and accounts, an annual audit of the Housing Trust Fund, and to obtain audited financial statements of the Housing Finance Division and the Supplemental Bond Schedules,

**NOW, therefore, it is hereby**

**RESOLVED**, the annual financial audit, audit of the Housing Trust Fund and audit of the Housing Finance Division and the Supplemental Bond Schedules are hereby accepted.

**BACKGROUND**

Audit requirements:

- 1) The Department's governing statute, Texas Govt. Code §2306.074, requires an annual audit of the Department's books and accounts.
- 2) Texas Govt. Code §2306.204 requires an annual audit of the Housing Trust Fund to determine the amount of unencumbered fund balances that is greater than the amount required for the reserve fund.
- 3) The Department's bond indentures require audited financial statements of the Housing Finance Division and the Supplemental Bond Schedules.

Results of the audits conducted by the State Auditor's Office:

- a) FY 2013 Basic Financial Statements (SAO Report # 14-316)  
Unqualified Opinion
- b) FY 2013 Computation of Unencumbered Fund Balances (SAO Report # 14-318)  
Audit results yielded no required transfer to the Housing Trust Fund.
- c) FY 2013 Revenue Bond Program Audit (SAO Report # 14-317)  
Unqualified Opinion
- d) FY 2013 Report on Internal Control Over Financial Reporting and on Compliance and Other Matters (SAO Report # 14-319)

One internal control issue was identified.

- e) FY2013 Report on Compliance with the Public Funds Investment Act (SAO Report # 14-320)

No instances of non-compliance were identified.

- f) FY2013 Agreed-Upon Procedures for the Section 8 Program (SAO Report # 14-301)

The Department's electronic submissions to the Real Estate Assessment Center (REAC) agreed to the related hard copy documentation.

The basic financial statements are available in their entirety at: [www.tdhca.state.tx.us/finan.htm](http://www.tdhca.state.tx.us/finan.htm)

## Independent Auditor's Report

Department of Housing and Community Affairs Board of Directors

Mr. J. Paul Oxer, P.E., Chair

Dr. Juan Sanchez Muñoz, Vice-Chair

Ms. Leslie Bingham Escareño

Mr. Tom H. Gann

Mr. J. Mark McWatters

Mr. Robert D. Thomas

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the governmental fund, the proprietary fund, and the aggregate remaining fund information of the Department of Housing and Community Affairs (Department), as of and for the year ended August 31, 2013, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the governmental fund, the proprietary fund, and the aggregate remaining fund information of the Department, as of August 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matters***

#### ***Agency Financial Statements***

As discussed in Note 1, the financial statements of the Department of Housing and Community Affairs of the State of Texas are intended to present the financial position of the governmental activities, the business-type activities, the governmental fund, the proprietary fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of Texas as of August 31, 2013, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

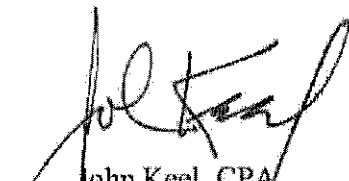
### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's financial statements. The supplementary bond schedules are presented for purposes of additional analysis and are not a required part of the financial statements.

The supplementary bond schedules are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary bond schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2013, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.



John Keel, CPA  
State Auditor

December 20, 2013

## Independent Auditor's Report

Department of Housing and Community Affairs Board of Directors

Mr. J. Paul Oxer, P.E., Chair  
Dr. Juan Sanchez Muñoz, Vice-Chair  
Ms. Leslie Bingham Escareño  
Mr. Tom H. Gann  
Mr. J. Mark McWatters  
Mr. Robert D. Thomas

### Report on the Computation of Unencumbered Fund Balances

We have audited the accompanying Computation of Unencumbered Fund Balances (Computation) of the Department of Housing and Community Affairs' (Department) Housing Finance Division, as of and for the year ended August 31, 2013, and the related notes to the Computation, which collectively comprise the Department's Computation as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of the Computation in accordance with the provision of Texas Government Code, Sections 2306.204 and 2306.205; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the computation that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on the Computation based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Computation is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the Computation referred to above present fairly, in all material respects, the unencumbered fund balances of the Department's Housing Finance Division, as of August 31, 2013, in conformity with the criteria specified by management of the Department for compliance with the computation described in the Texas Government Code, Sections 2306.204 and 2306.205, as set forth in Note 1 of Computation.

***Emphasis of Matters***

***Criteria for the Computation***

The Computation is presented on the basis of criteria described in Note 1 to the Computation for compliance with the provisions of Texas Government Code, Sections 2306.204 and 2306.205. The Computation is not intended to present unencumbered fund balances in accordance with accounting principles generally accepted in the United States of America. Unencumbered fund balances determined under the basis of presentation described in Note 1 may materially differ from those determined under accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

***Restriction on Use***

Our report is intended solely for the information and use of the Department and is not intended to be and should not be used by anyone other than this specified party.

***Other Reporting Required by Government Auditing Standards***

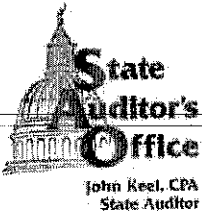
In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2013, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.



John Keel, CPA  
State Auditor

December 20, 2013





## Independent Auditor's Report

Department of Housing and Community Affairs Board of Directors  
Mr. J. Paul Oxer, P.E., Chair  
Dr. Juan Sanchez Muñoz, Vice-Chair  
Ms. Leslie Bingham Escareño  
Mr. Tom H. Gann  
Mr. J. Mark McWatters  
Mr. Robert D. Thomas

### Report on the Financial Statements

We have audited the accompanying financial statements of the Revenue Bond Program Enterprise Fund (Program) of the Department of Housing and Community Affairs (Department), as of and for the year ended August 31, 2013, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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SAO Report No. 14-317

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Program of the Department, as of August 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matters***

#### ***Fund Financial Statements***

As discussed in Note 1, the financial statements present only the Program, an enterprise fund of the Department and of the State of Texas, and do not purport to, and do not, present fairly the financial position of the State of Texas or the Department as of August 31, 2013, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

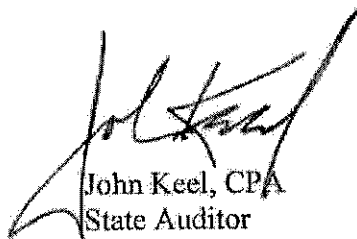
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Program's financial statements. The supplementary bond schedules and supplemental schedules are presented for purposes of additional analysis and are not a required part of the financial statements.

The supplementary bond schedules are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary bond schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

The supplemental schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2013, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.



John Keel, CPA  
State Auditor

December 20, 2013



**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards**

Independent Auditor's Report

Department of Housing and Community Affairs Board of Directors

Mr. J. Paul Oxer, P.E., Chair

Dr. Juan Sanchez Muñoz, Vice-Chair

Ms. Leslie Bingham Escareño

Mr. Tom H. Gann

Mr. J. Mark McWatters

Mr. Robert D. Thomas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the governmental fund, the proprietary fund, and the aggregate remaining fund information of the Department of Housing and Community Affairs (Department) as of and for the year ended August 31, 2013, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements and have issued our report thereon dated December 20, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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SAO Report No. 14-319

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control described in the accompanying schedule of findings and responses that we consider to be a significant deficiency.

Summary of Findings and Responses
Finding Number
2013-1

### **Compliance and Other Matters**

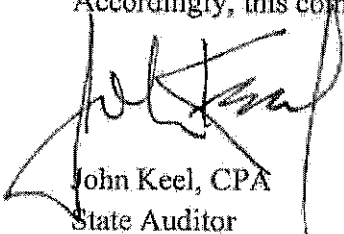
As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including the Public Funds Investment Act (Texas Government Code, Section 2256), noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **The Department's Response to Finding**

The Department's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Department's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.



John Keel, CPA  
State Auditor

December 20, 2013

# Schedule of Findings and Responses

## Section 1

### **The Department Should Strengthen Information Technology Controls Over Upgrades to Its Servers**

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Reference No. 2013-1

#### **Type of finding: Significant Deficiency**

The Department of Housing and Community Affairs (Department) has an application on a server that uses an operating system that the vendor no longer supports. As a result, the Department can no longer update the operating system with software patches necessary to fix known vulnerabilities. Servers using unsupported operating systems do not receive any official patches from the vendor. Vulnerabilities from the lack of patches may leave the Department's server susceptible to internal or external attacks, which could lead to unauthorized access and compromise the Department's sensitive data.

Auditors communicated this weakness in the security over the Department's server to Department management in writing in fiscal years 2011 and 2012. However, as of December 2013, the Department had not corrected or mitigated the weakness.

#### **Recommendation**

The Department should update its server's operating system and install software patches to help ensure that its data is secure.

#### **Management's Response**

*The Department agrees with the recommendation and is currently in the final testing phase of upgrading to new servers with a supported operating system version. Completion of the upgrade is anticipated no later than January 31, 2014.*

*Person Responsible:*

*Director of Information Systems*

## Report on Compliance with the Public Funds Investment Act

### Department of Housing and Community Affairs Board of Directors

Mr. J. Paul Oxer, P.E., Chair  
Dr. Juan Sanchez Muñoz, Vice-Chair  
Ms. Leslie Bingham Escareño  
Mr. Tom H. Gann  
Mr. J. Mark McWatters  
Mr. Robert D. Thomas

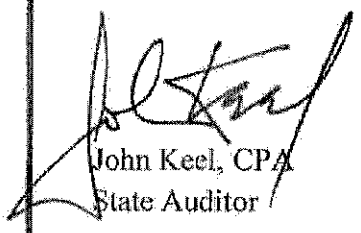
Mr. Timothy Irvine, Executive Director, Department of Housing and Community Affairs

Mr. David Cervantes, Chief Financial Officer, Department of Housing and Community Affairs

Mr. Tim Nelson, Director of Bond Finance, Department of Housing and Community Affairs

We have performed tests designed to verify whether the Department of Housing and Community Affairs (Department) complied with the requirements of the Public Funds Investment Act for the year ended August 31, 2013. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Audit Standards*.

This report is intended solely for the information and use of the Department's Board of Directors, the Department's management, and the Legislature. However, this report is a matter of public record, and its distribution is not limited.

  
John Keel, CPA  
State Auditor

December 20, 2013

## Independent Accountant's Report on Applying Agreed-upon Procedures

We have performed the procedures described in the second paragraph, which was agreed to by the Department of Housing and Community Affairs (the Housing Authority) and the U.S. Department of Housing and Urban Development's Real Estate Assessment Center (REAC), solely to assist them in determining whether the electronic submission of certain information agrees with related hard copy documents. The Housing Authority is responsible for the accuracy and completeness of the electronic submission. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedure is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

We compared the electronic submission of the items listed in the "Uniform Financial Reporting Standards Rule Information" column with the corresponding printed documents listed in the "Hard Copy Documents" column or with alternative supporting documentation (see Table 1 on the next page). The results of the performance of our agreed-upon procedures indicate agreement or non-agreement of the electronically submitted information and hard copy documents or alternative supporting documentation.

We were engaged to perform an audit of the Housing Authority's financial statements as of and for the year ended August 31, 2012, and have issued our reports thereon dated December 20, 2012. Further, our opinion on the fair presentation of the Housing Authority's Financial Data Schedule (FDS) dated June 26, 2013, was expressed in relation to the financial statements of the Housing Authority taken as a whole.

A copy of the financial statement package, which includes the auditor's reports, is available in its entirety from the Housing Authority. We have not performed any additional auditing procedures since the date of the aforementioned audit reports. Further, we take no responsibility for the security of the information transmitted electronically to REAC.

Table 1 on the next page summarizes the results of the agreed-upon procedure performed by the State Auditor's Office.

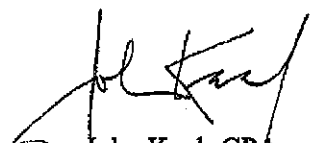


Table 1

Summary of the Results of the Agreed-upon Procedure Performed by the State Auditor's Office				
Procedure	Uniform Financial Reporting Standards Rule Information	Hard Copy Documents	Alternative Supporting Documentation	Do the Results Agree With Documentation?
1	Balance Sheet and Revenue and Expense (data line items 111 to 13901).	Financial Data Schedule, all Catalogs of Federal Domestic Assistance, if applicable.	None.	Yes
2	Footnotes (data element G5000-010).	Footnotes to audited basic financial statements.	None.	Yes
3	Type of opinion on the Housing Authority's Financial Data Schedule (data element G3100-040).	Auditor's supplemental report on FDS.	None.	Yes
4	Audit findings narrative (data element G5200-010).	Schedule of Findings and Questioned Costs.	None.	Yes
5	General information (data element series G2000, G2100, G2200, G9000, G9100).	U.S. Office of Management and Budget (OMB) Data Collection Form. <sup>a</sup>	Housing Authority's Fiscal Year 2012 Schedule of Findings and Questioned Costs, as well as public information available on the Housing Authority's Web site and the Texas State Auditor's Web site.	Yes
6	Financial statement report information (data element G3000-010 to G3000-050).	Schedule of Findings and Questioned costs, Part 1, and OMB Data Collection Form. <sup>b</sup>	None.	Yes
7	Federal program report information (data element G4000-020 to G4000-040).	Schedule of Findings and Questioned Costs, Part 1, and OMB Data Collection Form.	None.	Yes
8	Type of Compliance Requirement (G4200-020 and G4000-030).	OMB Data Collection Form.	Housing Authority's Fiscal Year 2012 Schedule of Findings and Questioned Costs.	Yes
9	Basic financial statements and auditor reports required to be submitted electronically.	Basic financial statements (inclusive of auditor reports).	None.	Yes

<sup>a</sup> Procedures 5 and 8 of the REAC online submission system require the auditor to confirm that the information submitted by the Housing Authority agreed to the fiscal year 2012 OMB Data Collection Form; however, for the State of Texas this form is completed at an overall statewide level instead of at a detailed agency level. As a result, certain data were not on the OMB Data Collection Form. Because of this, auditors confirmed that the information submitted by the Housing Authority agreed to alternative supporting documentation.

<sup>b</sup> Procedures 6 and 7 of the REAC online submission system require the auditor to confirm that the information submitted by the Housing Authority agreed to the fiscal year 2012 OMB Data Collection Form; however, for the State of Texas this form is completed at an overall statewide level instead of at a detailed agency level. As a result, certain data elements were not on the OMB Data Collection Form were compared to the Schedule of Findings and Questioned Costs.



John Keel, CPA  
State Auditor

September 17, 2013

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**AUDIT COMMITTEE ACTION REQUEST**  
**INTERNAL AUDIT**  
**JANUARY 23, 2014**

Presentation, Discussion, and Possible Action on the 2014 Internal Audit Charter and Board Resolution No. 14-012.

**RECOMMENDED ACTION**

**WHEREAS**, the Internal Audit Division is required by audit standards to develop a charter, and to periodically update the charter, and

**WHEREAS**, the Department maintains a board resolution regarding internal audit in order to clarify its expectations regarding the audit function;

**NOW, therefore it is hereby**

**RESOLVED**, the Internal Audit Charter and Board Resolution No. 14-012 are approved as presented.

**BACKGROUND**

Internal Audit Standards (the Institute of Internal Auditor's *International Standards for the Professional Practice of Internal Auditing*) require periodic approval of the Internal Audit Charter. The Board resolutions regarding internal audit are reviewed and approved as part of this process. The content of the charter and the resolutions have not changed since their last approval in January 2013.

**Texas Department of Housing and Community Affairs  
Internal Audit Division**

**INTERNAL AUDIT CHARTER**

(Effective October 17, 2001, Amended January 23, 2014  
as approved by the Department's Governing Board)

**DEFINITION**

Internal audit is an independent, objective assurance and consulting activity within the Texas Department of Housing and Community Affairs (Department) designed to add value and improve the Department's operations. Internal audit helps the Department accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

**PURPOSE**

The purpose of internal audit's work is to determine whether:

- risks are appropriately identified and managed,
- management information is reliable, accurate and timely,
- acceptable policies and procedures are followed,
- compliance with applicable laws and regulations is achieved,
- resources are safeguarded and used efficiently and economically,
- planned missions are accomplished effectively, and
- the Department's objectives are met.

The internal audit division supports management in its responsibilities by furnishing analyses, appraisals, observations and recommendations to assist the Department in evaluating and improving the effectiveness of its risk management, control and governance processes.

**AUTHORITY**

The Internal Auditing Act (Chapter 2102, Government Code) and the Department's enabling legislation (Chapter 2306, Government Code) authorize the establishment of an internal audit program. Internal auditors shall have full access to all of the Department's records, facilities, properties and personnel relevant to the performance of engagements or investigations, and are free to review and evaluate all policies, plans, procedures and records. However, internal auditors shall have no direct responsibility for, or authority over, any of the activities reviewed, and the auditing, review and evaluation of an area shall in no way relieve management of its assigned responsibilities.

Department management shall respond to all information requests by the internal auditor or internal audit staff pursuant to this authority within two business days of such requests, including

**Texas Department of Housing and Community Affairs  
Internal Audit Division**

requests of information considered confidential by its nature or due to pending or actual litigation. The internal audit staff shall use discretion in its review of records and assure the confidentiality of all matters that come to its attention.

The director of internal audit or a designated representative will be included in all entrance and exit conferences conducted by any external, federal or state auditors or monitors and shall receive copies of the audit or monitoring reports, as well as copies of management's written response. The internal audit division shall be available to assist management in providing additional information, preparing responses to reports and examinations, and subsequently reviewing the progress made to correct the deficiencies reported.

**I N D E P E N D E N C E**

Internal auditors shall not develop or install procedures, prepare records, perform internal control functions, or engage in any other activity which they would normally review and evaluate and which could reasonably be construed to compromise the independence of the internal audit division. However, the independence of the internal audit division shall not be adversely affected by determining and recommending standards of control to be applied to the development of the systems and procedures reviewed. The internal audit division shall be responsive to requests for assistance from management, provided that the subject of the request is related to auditing or internal controls. The internal audit division staff shall not assume operating responsibilities or direct the activities of any employee not employed by the internal audit division or assigned to assist the internal auditors.

The internal audit division shall be available to perform consulting and advisory services at the specific request of the board, or of management with the board's approval. The nature and scope of these services are subject to agreement with management and the board. Consulting and advisory services are intended to add value and improve the Department's governance, risk management and control processes. These consulting and advisory services will only be performed if the director of internal audit deems that the engagement can be performed while still maintaining the auditors' objectivity and independence, and if the assignment does not result in the internal audit division or any member of the internal audit staff assuming any management responsibility.

**A C C O U N T A B I L I T Y**

The director of internal audit shall report directly to the audit committee of the governing board of the Department and administratively to the executive director of the Department. The director of internal audit shall furnish copies of all audit reports to the audit committee and to the governing board in accordance with the criteria established by the audit committee. The director of internal audit shall periodically appear before the audit committee and/or the governing board at its meetings to report on audit findings and the operations of the internal audit division.

**Texas Department of Housing and Community Affairs  
Internal Audit Division**

The audit committee and the governing board shall periodically assess whether resources allocated to the internal audit division are adequate to implement an effective program of internal auditing. To facilitate this process, the director of internal audit will emphasize significant risks to the Department that are not addressed in the annual audit plan as proposed to the audit committee and/or the governing board for approval, and will periodically report to the audit committee and/or the governing board on internal audit staffing levels. The audit committee and/or the governing board shall approve the internal audit division's annual operating budget.

**R E S P O N S I B I L I T I E S**

The internal audit division shall:

- comply with the Texas Internal Auditing Act;
- execute a comprehensive audit program to insure all activities of the Department are reviewed at appropriate intervals as determined by the director of internal audit and as approved by the audit committee and/or the governing board;
- review and evaluate systems of control and the quality of ongoing operations, recommend actions to correct any deficiencies and follow-up on management's response to assure that corrective action is taken on a timely basis;
- perform an objective assessment of evidence to provide an independent opinion or conclusions regarding the Department, its operations, functions, processes and systems;
- evaluate the quality of management performance in terms of compliance with policies, plans, procedures, laws and regulations;
- evaluate the effectiveness and contribute to the improvement of risk management processes, including evaluating the potential for the occurrence of fraud and how the Department manages fraud risks;
- assess and make appropriate recommendations for improving the governance process for promoting ethics and values within the Department, ensuring effective organizational performance, achieving management's strategic objectives, communicating risk and control information to appropriate areas of the Department, and coordinating and communicating information among the governing board, external auditors and management;
- review the controls of significant new systems and subsequent revisions before they are implemented. In addition, the environmental, operational and security controls of the

**Texas Department of Housing and Community Affairs  
Internal Audit Division**

Department's automated processes shall be assessed and reviewed as needed;

- verify the existence of Department assets and assure that proper safeguards are maintained to protect them from losses of all kinds;
- audit the reliability and operation of the accounting and reporting systems as needed;
- consider the scope of work of external auditors and regulators, as appropriate, for the purpose of providing optimal audit coverage to the Department;
- conduct or participate in internal investigations of suspected fraud, theft or mismanagement, and provide advice relating to internal fraud and security;
- identify operational opportunities for performance improvement by evaluating the functional effectiveness against Department and industry standards;
- coordinate its audit efforts with those of the Department's external, state, and federal auditors; and
- evaluate the adequacy of management's corrective actions and perform necessary follow-up procedures to ensure that the corrective actions have been implemented.

The Director of Internal Audit shall:

- ensure that written reports are prepared for every internal audit and that such reports are furnished to the director responsible for the audited activity. Copies of each audit report and management's responses shall be provided to the audit committee and the governing board in accordance with the criteria established by the audit committee. Management is responsible for providing the internal audit division with a detailed written response to reported deficiencies. Such response, stating corrective action taken or planned, including a target date for completion and the individual responsible for implementation, should be received by the director of internal audit within ten (10) business days after management has received the report draft disclosing the deficiencies. Additional response time may be granted by the director of internal audit if circumstances warrant additional time;
- present a summary of audit activities to the audit committee or to the governing board at least three times annually. Each presentation will include comments about major audit findings and if necessary, an opinion of the adequacy of management's response to the audit reports. In addition, the director of internal audit will meet, as needed, with the executive director and/or the audit committee to discuss the purpose, authority, responsibility and performance of the internal audit division, the status of the audit plan, the status of management's resolution of audit recommendations, and other significant

**Texas Department of Housing and Community Affairs  
Internal Audit Division**

issues involving the internal audit function;

- prepare an annual summary report of audit activities in the content and manner prescribed by the State Auditor’s Office;
- confirm to the audit committee and/or the governing board on an annual basis the independence of the internal audit division and its audit staff;
- periodically review the internal audit charter and present it to management, the audit committee and/or the governing board for approval; and
- promote and encourage the advancement of audit and control knowledge through the dissemination of related information and the active participation in professional groups and organizations.

**STANDARDS OF AUDIT PRACTICE**

As a means of assuring the quality and performance of the internal audit division, the audit committee requires the internal audit division to meet or exceed the *International Standards for the Professional Practice of Internal Auditing* and to comply with the *Code of Ethics* prescribed by the Institute of Internal Auditors and with *Generally Accepted Government Auditing Standards*, as may be periodically amended. It is also expected that the internal audit division will obtain an external peer review of the internal audit division to evaluate the quality of its operations at least once every three years.

PASSED and APPROVED this 23rd day of January, 2014.

Chair of the Governing Board

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Executive Director

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Board Secretary

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**AUDIT COMMITTEE - BOARD RESOLUTIONS**

Resolution # 14-012

(As approved by the Governing Board on January 23, 2014)

WHEREAS the original audit committee (Committee) members were appointed by the chairman of the governing board (Board) in April, 1992, pursuant to the Texas Government Code, Chapter 2306, *Texas Department of Housing and Community Affairs* (Department), section 2306.056, *Committees*, and whereas the Committee’s authority and composition has not been specified, and whereas the Committee members’ duties and responsibilities have not been previously enumerated, the Board hereby resolves the following:

RESOLVED, that the Committee shall have the authority to investigate any organizational activity as it deems necessary and appropriate, and shall have unrestricted access to all information, including documents and personnel, and shall have adequate resources in order to fulfill the oversight responsibilities it conducts on behalf of the Board, including full cooperation of Department employees. The Committee has the authority to pre-approve the annual budget of the internal audit division and the annual audit plan, and to approve any non-audit services or requests for audits or investigations outside of the annual audit plan.

RESOLVED, that the Committee shall be composed of three board members appointed by the Board’s chairperson who shall serve for two year terms each or until their respective successor shall be duly appointed and qualified. Audit committee members shall be free of any relationships that would interfere with their ability to exercise independent judgment as a member of the Committee.

RESOLVED, that a chairperson of the Committee shall be appointed by the Board’s chairperson.

RESOLVED, that the Committee shall meet a minimum of three times each year, either in a separate meeting or as part of a larger Board meeting, or at such additional or special meetings as may be called as needed by the Board chairperson, the Committee chairperson, or the executive director; and that the Committee shall report on its proceedings and actions to the Board with such recommendations as the Committee deems appropriate.

RESOLVED, that the Committee’s primary function is to assist the Board in carrying out its oversight responsibilities as they relate to financial and other reporting practices, internal control, and compliance with Board and ethics policies, and to ensure the independence of the internal audit function.

RESOLVED, that in fulfilling its function, the Committee’s responsibility for (i) financial and other reporting practices is to provide assurance to the Board that financial and other reporting information reported by management reasonably portrays the circumstances or plans reported; (ii) internal control is to monitor the effectiveness of control systems and processes through the results of internal and external audits and reviews; (iii) compliance with Board and ethics policies is to periodically inquire of management, the internal audit director, and the independent accountant about significant risks or exposures and assess the steps management has taken to minimize such risk; (iv) the internal audit function is to support the internal audit division so that internal auditors can gain the cooperation of auditees and perform their work independently and free from interference and to provide reasonable assurance that the internal auditors perform their responsibilities.

PASSED and APPROVED this 23rd day of January, 2014.

Chair of the Governing Board \_\_\_\_\_

Executive Director \_\_\_\_\_

Board Secretary \_\_\_\_\_

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**AUDIT COMMITTEE REPORT ITEM**

**INTERNAL AUDIT**

**JANUARY 23, 2014**

Presentation and Discussion of the Status of the Fiscal Year 2014 Internal Audit Work Plan.

**REPORT ITEM**

The Internal Audit Work Plan for Fiscal Year 2014 was approved by the audit committee and by the Board on September 13, 2013. This presentation outlines the current status of the plan.

**BACKGROUND**

There are six audits on the plan this year as well as one contingency audit. We have completed one of these six audits, (which was the audit of the ethics program) and released the report. In addition, we completed our carryover project from fiscal year 2013, which was the audit of loan processing. We will discuss these internal audit reports under agenda item #5. We also completed two of the non-audit activities on the plan, including the quality assurance self-assessment review and the annual review of the internal audit charter and board resolutions for internal audit, which was agenda item #3.

We are currently finishing up our fieldwork on the Low Income Home Energy Assistance Program (LIHEAP) audit, and are in the planning phase of the audit of the Manufactured Housing Division's titling process. We plan to start the audit of the Amy Young Barrier Removal Program soon.

**Department of Housing and Community Affairs  
Internal Audit Division – Fiscal Year 2014 Internal Audit Plan  
as of January 23, 2014**

<b>Program Area/Division</b>	<b>Audit</b>	<b>Hours (4620)</b>	<b>Comments</b>
Single Family	HOME Program	800	Scope Will Be Developed During Planning
Mfg. Housing	Titling Process	900	Planning
Community Affairs	Low Income Home Energy Assistance Program (LIHEAP)	900	Fieldwork
Agency-wide	Ethics Program	180	Completed
Financial Administration	Financial Administration	800	Scope Will Be Developed During Planning
Housing Trust Fund	Amy Young Barrier Removal Program	500	Scope Will Be Developed During Planning
Agency-wide	Performance Measures <sup>1</sup>	540	Contingency – 10% Set-Aside for Board Requests
<b>Program Area/Division</b>	<b>Management Assistance/ Special Projects</b>	<b>Hours (750)</b>	<b>Comments</b>
Internal Audit	Quality Assurance Self-Assessment Review	120	Completed
Internal Audit	Conduct Annual Risk Assessment and Prepare Fiscal Year 2015 Audit Plan	160	Required by the Texas Internal Auditing Act and by Audit Standards
Internal Audit	Annual Review and Revision of Internal Audit Charter	20	Completed
Internal Audit	Preparation and Submission of the Fiscal Year 2014 Annual Internal Audit Report	40	Required by the Texas Internal Auditing Act, Due Each November
Internal Audit	Coordinate with External Auditors	60	Ongoing Requirement
All Divisions	Follow-up on the Status of Prior Audit Issues	100	Ongoing - Required by Audit Standards
All Divisions	Tracking the Status of Prior Audit Issues	50	Ongoing - Required by Audit Standards
All Divisions	Tracking, Follow-up and Disposal of Fraud Complaints	200	Ongoing - Internal Audit is Responsible for the Fraud Hotline and for Reviewing Fraud Complaints

<sup>1</sup> 10% of available hours are set aside for special requests from the board. If no such requests are received, this project will be performed using these hours.

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**AUDIT COMMITTEE REPORT ITEM**

**INTERNAL AUDIT**

**JANUARY 23, 2014**

Presentation and Discussion of Recent Internal Audit Reports.

**REPORT ITEM**

Internal Audit recently completed an audit of loan processing which was part of the fiscal year 2013 audit plan. In addition we recently completed an audit of the ethics program and a quality assurance and improvement program (QAIP) self-review required by auditing standards. These projects are part of the fiscal year 2014 audit plan.

**BACKGROUND**

**An Internal Audit of Loan Processing**

The Department should ensure that it receives the trailing documents required as evidence that a loan is valid and properly secured. The title companies do not always send these documents back to the Department, and the Department does not consistently run the reports needed to identify the missing documents. We tested 90 loan files and found that 10 (11.1%) did not contain evidence that the Department received a recorded deed of trust, five (5.6%) were missing evidence of a title policy, and two (2.2%) were missing evidence of a final HUD-1 settlement statement.

In addition, the Department should ensure that it has a current title commitment before closing a loan. The HOME program rules in the Texas Administrative Code require a current title commitment prior to the execution of the loan closing documents. Of the 90 files we tested, 13 (14.4%) were closed after the title commitment had expired.

Other documents for which evidence was missing were the Truth in Lending Disclosure required by the Truth in Lending Act and the loan servicing disclosure required by the Real Estate Settlement Procedures Act (RESPA). Six (6.7%) of the 90 files we tested were missing at least one of these disclosures. The Department should maintain copies of these disclosures to verify that they were provided to the borrower as required by federal rules.

Management has indicated that they agree with the recommendations in this report and are working to implement them.

**An Internal Audit of the Ethics Program**

Although the Department has an ethics policy and provides staff with periodic reminders regarding the policy, we believe that there are opportunities to enhance the Department's ethics program. Some of these opportunities include considering:

- conducting an ethics risk assessment,
- requiring periodic ethics training,

- requiring written acknowledgement that employees have received ethics training,
- increasing communication of the ethics policy,
- posting examples of ethical dilemmas and appropriate responses to the Department's intranet site,
- maintaining a complete log of gifts received and their disposal, and
- keeping a consistent record of any ethics opinions issued by the ethics officer.

Management has indicated that they agree with the recommendations in this report and are working to implement them.

#### Quality Assurance and Improvement Program (QAIP) Self-Assessment

The Institute of Internal Auditor's (IIA) *International Standards for the Professional Practice of Internal Auditing* (Standards) requires the internal audit function to develop and maintain a quality assurance and improvement program. The objective of the program is to evaluate the internal audit activity's compliance with the IIA's definition of internal audit, the Standards and the code of ethics. An external peer review of the internal audit function is required every three years.

We complete an annual self-assessment in the years in which we do not undergo an external peer review. To perform this self-assessment, we reviewed the working papers for all of the reports we released during fiscal year 2013 using the peer review process. This review was performed by internal audit staff who did not work on the audits they reviewed. The result of our most recent self-assessment is that we believe we are fully compliant with the Standards.

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## TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

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Rick Perry  
GOVERNOR

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

November 6, 2013

*Writer's direct phone #512.475.3813*  
*Email: [sandy.donoho@tdhca.state.tx.us](mailto:sandy.donoho@tdhca.state.tx.us)*

RE: AN INTERNAL AUDIT OF LOAN PROCESSING (REPORT #13-1056)

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

Attached is an internal audit report on the Texas Department of Housing and Community Affairs' (Department's) loan processing function. The Department's single-family loan processing function includes multiple divisions that process loan documents for several of the Department's single-family loan programs. We tested closed loans for three of the Department's single-family loan programs- the HOME Homebuyer Assistance Program (HOME HBA), the HOME Homeowner Rehabilitation Assistance Program (HOME HRA), and the Bootstrap Loan Program to determine whether the Department processes single-family loans according to federal regulations, state rules and Department policies.

The Department should ensure that it receives the trailing documents required as evidence that a loan is valid and properly secured. The title companies do not always send these documents back to the Department, and the Department does not consistently run the reports needed to identify the missing documents. We tested 90 loan files and found that 10 (11.1%) did not contain evidence that the Department received a recorded deed of trust, five (5.6%) were missing evidence of a title policy, and two (2.2%) were missing evidence of a final HUD-1 settlement statement.

In addition, the Department should ensure that it has a current title commitment before closing a loan. The HOME program rules in the Texas Administrative Code require a current title commitment prior to the execution of the loan closing documents. Of the 90 files we tested, 13 (14.4%) were closed after the title commitment had expired.

Other documents for which evidence was missing were the Truth in Lending disclosure required by the Truth in Lending Act and the loan servicing disclosure required by the Real Estate Settlement Procedures Act (RESPA). Six (6.7%) of the 90 files we tested were missing at least one of these disclosures. The Department should maintain copies of these disclosures to verify that they were provided to the borrower as required by federal rules.



The objectives of this audit were to determine whether single-family loans are processed according to federal regulations, state rules, and Department policies, and whether information in the Department's loan servicing system is accurate and complete. The audit scope was state fiscal years 2012 and 2013 through July 15, 2013. Fieldwork was conducted July 2013 through October 2013. We conducted this performance audit in accordance with *Generally Accepted Government Auditing Standards* and the *International Standards for the Professional Practice of Internal Auditing*.

We appreciate the assistance and cooperation we received from management and staff during the course of this audit. If you have any questions about this audit report, please contact me at (512) 475-3813.

Sincerely,

A handwritten signature in cursive script, appearing to read "Sandra Q. Donoho".

Sandra Q. Donoho, MPA, CIA, CISA, CFE, CICA  
Director of Internal Audit

SQD/ddm

cc: Tim Irvine, Executive Director

## Executive Summary

The Texas Department of Housing and Community Affairs' (Department's) single-family loan process includes multiple divisions that review the loan applications received by third-party administrators and determine program eligibility, as well as other divisions that provide quality assurance, prepare loan documents and set up loans for servicing. We reviewed the single-family loan processing function from program approval of the loan application through receipt of the trailing documents after loan closing. However, we did not review the process for determining applicant eligibility. We judgmentally selected 30 files each from the HOME Homeowner Rehabilitation Assistance (HOME HRA), HOME Homebuyer Assistance (HOME HBA), and the Bootstrap Loan programs to test whether the Department processes single-family loans according to federal regulations, state rules and Department policies, and whether information in the Department's loan origination and servicing system (MITAS) is accurate and complete.

The Department should consistently obtain the trailing documents required as evidence that a loan is valid and that the Department's lien position is properly recorded. Of the 90 loan files we tested, 10 (11.1%) were missing evidence of the recorded deed of trust, five (5.6%) were missing evidence of a title policy, and two (2.2%) were missing evidence of a final HUD-1 settlement statement. This does not mean that these documents do not exist elsewhere, but rather that the Department does not have copies of these documents in its files. This creates a risk if:

- the documents are later needed to support the Department's lien position,
- insurance coverage is needed due to problems with the title commitment, or
- the Department needs to prove that all parties were informed of the charges involved in the transaction.

In addition, the Department should ensure that all title commitments are current and that all federal disclosures are provided during the loan closing process as required. We tested 90

### Loan Processing

Single-family loans are processed in multiple divisions of the Department, which review the loan applications and determine eligibility for their individual programs. Also:

- The Program Services Division reviews loan documents for quality assurance. Program Services also follows up on and reviews the post-closing trailing documents.
- The Legal Division prepares closing documents and loan closing instructions for the title companies.
- The Loan Servicing section of the Financial Administration Division is responsible for setting up each loan in the Department's MITAS loan origination and servicing system.

The Department implemented a loan tracking database (called the Loan Window) in the fourth quarter of fiscal year 2012 to track and facilitate loan processing through each division.

## *An Internal Audit of Loan Processing*

closed loan files and found that 13 (14.4%) loans were closed without evidence of current title commitments and six (6.7%) loan files were missing evidence that the Department provided certain disclosures to the borrower as federally required. A title commitment contains information on the encumbrances affecting the property and provides assurance that the title is clear of other liens. The Texas Administrative Code (for the HOME rules) requires that a title commitment is current prior to the execution of closing documents.

For the 90 single-family loans we tested, we compared information in the hard copy loan files to information in the Department's MITAS loan origination and servicing system and found that the information in MITAS is generally complete and accurate.

The Department has made changes to its procedures that appear to have shortened the amount of time it takes to process some loans. We measured loan processing time as the number of business days from a program area's approval of the loan application to the loan closing date. Although not all of the loans we tested were entered into the tracking system (called the Loan Window) as required by standard operating procedure, for the 90 loans we tested, the average loan processing times have significantly decreased from fiscal year 2012 to fiscal year 2013 for the HOME HBA and HOME HRA programs. Because the Bootstrap Loan Program includes a self-help construction period that is beyond the Department's control, we were unable to determine the average loan processing times for the Bootstrap Loan Program.

### **Summary of Recommendations**

The Department should:

- obtain and review all of the required trailing documents from the title companies after closing, run the outstanding trailing document report monthly and follow up on any missing documents as required by the loan closing policy, and ensure consistency in the requirements for the return of trailing documents to the Department.
- ensure that an updated title commitment is received prior to closing.
- maintain evidence that disclosures required by the Real Estate Settlement Procedures Act (RESPA) and the Truth in Lending Act were provided to the borrower.
- ensure that the Legal Division periodically reviews the templates used by the HOME HBA loan closer to determine if they should be revised, and reviews the loan documents on a sample basis to ensure they are being completed accurately and used as intended.

- ensure that loans are entered into the Loan Window as required so that loan processing times can be tracked.

## **Summary of Management's Responses**

Management has indicated that they are in agreement with the recommendations in this report and they are working to implement them.

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## **Detailed Results**

### *Chapter 1*

#### **The Department Should Obtain All Trailing Documents**

The Department does not consistently obtain the trailing documents required to evidence that a loan is valid and that the Department's lien position is properly recorded. This does not mean that these documents do not exist, but rather that the Department does not have copies of these documents in its files. This creates a risk if the documents are later needed to support the Department's lien position or the terms of the loan. Trailing documents are documents that are received after a loan is closed and funded. They include: evidence of a recorded deed of trust, a title policy, and an approved settlement statement (called a HUD-1.)

We tested 90 closed loan files, 30 each for the HOME Program's Homeowner Rehabilitation Assistance (HOME HRA) Program, HOME Homebuyer Assistance (HOME HBA) Program and the Bootstrap Loan Program. We found that:

- 10 (11.1%) of the 90 closed loan files tested did not contain evidence that the deed of trust was recorded by the title company. If a deed of trust is not recorded, the Department's lien position, as stated by the deed of trust, could be superseded by other liens recorded prior to the recording of the Department's lien.
- 5 (5.6%) of the 90 closed loan files tested did not contain evidence of a title policy. Without evidence of a title policy, the Department does not have assurance that it is protected against damages resulting from problems with the title.
- 2 (2.2%) of the 90 closed loan files tested contained approved final HUD-1 settlement statements that were not the original document or a certified copy. In addition, one of those two was not signed by a representative of the title company. Without evidence of a certified, executed final HUD-1 settlement statement, the Department does not have assurance that all parties to the loan transaction have been informed of the charges involved in the transaction.

The Department's loan closing policy requires staff in the Program Services Division (Program Services) to follow up each month on any trailing documents that have not yet been received from the title companies. However, Program Services does not run the reports necessary to identify missing trailing documents on a monthly basis.

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In addition, closing instructions from the Department to the title companies direct the title companies to return certain trailing documents to Program Services. However, the deadlines for returning the trailing documents vary by program and are sometimes not consistent within the same program. For example, the HOME HRA program guidance sometimes requires trailing documents to be returned to the Department within 20 days and sometimes within 60 days. This can create confusion for both the title companies and the Department's staff in tracking the due dates of trailing documents.

### **Recommendation**

The Department should:

- obtain and review all of the required trailing documents from the title companies after closing,
- run the outstanding trailing document report monthly and follow up on any missing documents as required by the loan closing policy, and
- ensure consistency in the requirements for the return of trailing documents to the Department.

### **Management's Response**

*Management concurs with the recommendations. The Program Services Division, working with the Loan Servicing Section and the program areas, as appropriate, will ensure that deadlines for submission of trailing documents are made consistent and that there is systematic follow-up for the trailing documents to ensure they are received and reviewed for all closed loans. In addition, the Program Services Division will ensure that policies and procedures, including checklists, and monthly reporting, are updated and implemented by December 31, 2013, and that except as programmatic requirements may dictate otherwise, these are consistent from program to program.*

*Responsible person: Brenda Hull*

*Corrective action date: December 31, 2013*



*Chapter 2*

## **The Department Should Ensure that All Loan Documents are Processed According to Rules and Policies**

The Department should ensure that all title commitments are current and that all federal disclosures are provided during the loan closing process as required. We tested 90 closed loan files and found that 13 (14.4%) loans were closed without evidence of current title commitments and six (6.7%) loan files were missing evidence that the Department provided certain disclosures to the borrower as federally required. In addition, we found that the Department's HOME HBA loan documents are not prepared or reviewed by the Legal Division (Legal).

A title commitment contains information on the encumbrances affecting the property and provides assurance that the title is clear of other liens. Title commitments expire 90 days from their stated effective date. The Texas Administrative Code (for the HOME rules) requires that a title commitment is current prior to the execution of closing documents.

The federal Truth in Lending Act and the Real Estate Settlement Procedures Act (RESPA) require multiple forms of disclosure to be provided to borrowers at various times throughout the lending process. We tested for two of these disclosures in the loan files, one required by the Truth in Lending Act and one required by RESPA. We found that six (6.7%) of the 90 files we tested were missing at least one of these disclosures. This does not mean that these documents do not exist, but rather that the Department does not have copies of these documents in its files. Without these disclosures on file, the Department does not have evidence that it has complied with the federal requirements for these disclosures.

In addition, the Department's HOME HBA loan program documents are not prepared or reviewed by Legal staff. Program Services staff use templates approved by Legal to prepare the loan documents. Legal prepares or reviews the loan documents for the other single-family loan programs we tested (HOME HRA and Bootstrap). We were unable to determine why the HOME HBA program is different.

*Chapter 2-A*

### **Ensure that Title Commitments are Current at Loan Closing**

The Department should obtain current title commitments at the time of loan closing. A title commitment is a report of the status of the property being sold. It contains information on the recorded owner, proposed buyer and lender, the property's legal description, and encumbrances affecting the property. Thirteen (14.4%) of the 90 closed loan files we tested did not contain evidence of a current title commitment when the loan was closed.

Title commitments expire 90 days from their stated effective date. According to the Texas Administrative Code, Title 10, Part 1, Chapter 23, Subchapter C, §23.32 (b)(1) and Subchapter D, §23.42(b)(1), a title commitment or title policy that expires prior to execution of closing must be updated at closing. At the time of closing, these 13 expired title commitments were between 92 and 438 days old. Without updated title commitments, the Department does not have assurance that the property's title is clear from all other liens outside of the commitment's effective date and expiration date.

### **Recommendation**

In instances where the title commitment has expired, the Department should ensure that an updated title commitment is received prior to closing.

### **Management's Response**

*Management concurs with the recommendation and will immediately implement policies and procedures to ensure that the Department verifies that each loan has a current title commitment on file at the Department at the time of loan closing to demonstrate compliance with the Texas Administrative Code.*

*Responsible person: Jennifer Molinari, Brenda Hull  
Corrective action date: November 5, 2013*

Chapter 2-B

### **Maintain Documentation of All Required Federal Disclosures**

The Department should maintain documentation of all required federal disclosures. The federal Truth in Lending Act and the Real Estate Settlement Procedures Act (RESPA) require that multiple forms of disclosure be provided to borrowers at various times throughout the lending process.

We tested 90 closed loan files for two disclosure statements, one required by the Truth in Lending Act and one required by RESPA. These disclosures must be provided to the borrower prior to loan closing. Six (6.7%) of the 90 files we tested were missing evidence of these disclosures. Five of the six files were missing both disclosures and one file was missing only the RESPA disclosure. This does not mean that these documents do not exist, but rather that the Department does not have copies of these documents in its files. Without these disclosures on file, the Department does not have evidence that it has complied with the federal requirements for these disclosures.

## **Recommendation**

The Department should maintain evidence that disclosures required by the Real Estate Settlement Procedures Act and the Truth in Lending Act were provided to the borrower.

## **Management's Response**

*Management concurs with recommendation and will implement processes to ensure disclosures are maintained in the files.*

*Responsible person: Jennifer Molinari, Homero Cabello, Brenda Hull  
Corrective action date: December 1, 2013*

Chapter 2-C

## **Re-Visit the Process for Preparing HOME HBA Loan Documents**

The process for preparing HOME HBA loan documents is different from the process used by the other single-family programs we tested. The loan closing documents for HOME HBA loans are not prepared or reviewed by Legal staff. Instead, the loan closing documents are prepared by staff in Program Services using templates approved by Legal. However, these templates have not been reviewed or updated by Legal since 2011. As a result, errors or irregularities in the prepared loan documents could occur and may go undetected.

## **Recommendation**

The Department should ensure that the Legal Division:

- periodically reviews the templates used by the HOME HBA loan closer to determine if they should be revised, and
- reviews the loan documents on a sample basis to ensure they are being completed accurately and used as intended.

## **Management's Response**

*Management has reviewed the process for the preparation of HOME HBA loan documents and determined that the process will include a review by the Legal division. The updated process, including a Legal review for all loans, will be implemented by November 15, 2013. In addition, the HOME, Legal and Program Services divisions will ensure that the loan document templates are periodically reviewed and updated.*

*Responsible person: Jennifer Molinari, Brenda Hull  
Corrective action date: November 15, 2013*

*Chapter 3*

## **Information in the Loan Servicing System is Generally Accurate and Complete**

Information in the Department's loan origination and servicing system (MITAS) is generally accurate and complete. We tested 90 single-family loans to determine if the information in MITAS matched the information in the hard copy loan files. We compared the information in MITAS to the information in the hard copy files for the following data (depending on the type of loan):

- note date
- loan maturity date
- loan term
- type of loan (repayable, forgivable, deferred forgivable, etc.)
- loan amount

We noted only two minor data entry errors in the 90 loans we tested. These errors were promptly corrected by management after they were identified.

Chapter 4

**Loan Processing Times are Improving for Some Programs**

The Department’s average loan processing times for some programs are improving. The Department implemented a loan tracking database (called the “Loan Window”) during the last quarter of fiscal year 2012 to track and facilitate the progress of loans. For the 90 loans we tested, we compared loan closing times during fiscal year 2012 to loans closing times during fiscal year 2013. We measured loan closing time as the number of business days between a program area’s approval of the loan application and the loan’s closing date. This was measured as the date listed in the Department’s Housing Contract System when the loan setup was approved by the accounting section – the last step in the Housing Contract System’s activity setup.

We tested 30 loans each from the HOME HRA, HOME HBA, and Bootstrap single-family loan programs. The Bootstrap Loan Program includes self-help construction activities between the time of loan approval by the program staff and the loan’s closing date. The pace of these construction activities is beyond the Department’s control. Consequently, we were unable to reliably measure the closing times for Bootstrap loans using the available data.

However, loan processing times for the 30 HOME HRA and the 30 HOME HBA loans in our sample decreased as described in the table below.

Loan Processing Times (in Business Days)	HOME HRA				HOME HBA			
	Average	Longest	Shortest	# of HRA Loans	Average	Longest	Shortest	# of HBA Loans
<b>Fiscal Year 2012</b>	81.7	160	30	15	21.3	191	1	16
<b>Fiscal Year 2013*</b>	35.7	65	20	15	10.9	36	1	14

\* Through July 15, 2013

We also noted that 12 (13.3%) of the 90 loan files we tested were not recorded in the Department’s Loan Window. These loans were closed after the implementation of the Loan Window on June 9, 2012. The Department’s loan closing policies and procedures require Department staff to input information into the Loan Window at various points in the loan processing cycle. When staff does not update the Loan Window, staff members in other divisions who participate in the loan processing cycle are unable to track a loan’s progress through the Department. In addition, information used to determine the loan processing time is not readily available.

**Recommendation**

The divisions involved in loan processing should ensure that loans are entered into the Loan Window as required so that loan processing times can be tracked.

**Management's Response**

*Management appreciates the information regarding improved processing times and will ensure that loans are consistently entered and tracked in the Loan Window.*

*Responsible person: Jennifer Molinari, Homero Cabello, Brenda Hull  
Corrective action date: November 5, 2013*

## ***Appendix A***

### **Objectives**

The objectives of the audit were to determine whether:

- 1) single-family loans are processed according to federal regulations, state rules, and Department policies, and
- 2) information in the Department's loan servicing system is accurate and complete.

### **Scope**

The scope of this audit was state fiscal years 2012 and 2013 through July 15, 2013.

### **Methodology**

The following methodology was developed and was used to answer the audit objectives:

- We interviewed program staff in the HOME, Bootstrap, Program Services, Loan Servicing, and Legal divisions and reviewed checklists, standard operating procedures, Texas Administrative Code, and federal code and regulations related to processing loans for the HOME HBA, HOME HRA, and Bootstrap single-family loan programs.
- We tested a sample of HOME HBA, HOME HRA, and Bootstrap loan files to determine if they are prepared according to established criteria. As part of the assessment we determined if the key documents (or acceptable copies) are obtained and retained by the Department as required.
  - Based on discussions with the Legal Division and reviews of the Texas Administrative Code, divisional checklists, and divisional processes, the key documents tested for the HOME HRA, HOME HBA, and Bootstrap programs were the:
    - promissory note,
    - deed of trust,
    - Truth in Lending statement,
    - HUD-1 settlement statement
    - title commitment, and
    - title policy.
  - For the HOME HBA program and the Bootstrap Loan program we tested the RESPA disclosure.
  - For the HOME HRA program we tested the:
    - mechanic's lien note,

## *An Internal Audit of Loan Processing*

- mechanic's lien contract, and
- construction loan agreement.
- For the Bootstrap Loan program we tested the real estate lien note.
- We determined if the trailing documents were tracked, received or followed-up on. Based on discussions with the Legal Division and reviews of the Texas Administrative Code, divisional checklists, and divisional processes, the trailing documents we tested were the:
  - title policy
  - recorded deed of trust, and
  - certified, final HUD-1 settlement statement.
- We determined the actual timeframes for loan processing based on the time between the program's approval of a loan application and the loan closing date.
- We determined if the loans were setup in the loan origination and servicing system (MITAS) accurately and completely by comparing the data in MITAS to information in the hard copy files. We verified that the information in the system and the loan files agreed for the:
  - borrower's name,
  - loan program,
  - loan type,
  - loan amount,
  - loan term,
  - loan closing date, and
  - maturity date.
- We did not evaluate the process used to determine an applicant's eligibility for a loan.

### **Type of Audit**

This audit was a performance audit of the Department's single-family loan processing.

### **Report Distribution**

As required by the Texas Internal Auditing Act (Texas Government Code, Chapter 2102), this report is distributed to the:

- Texas Department of Housing and Community Affairs' Governing Board
- Governor's Office of Budget and Planning
- Legislative Budget Board
- State Auditor's Office
- Sunset Advisory Commission



## **Project Information**

We conducted audit fieldwork from July 2013 through October 2013. 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*.

The following staff performed this audit:

Betsy Schwing, CPA, CGMA, CFE, Project Manager

Nicole Kludt, CFE, CICA

Derrick Miller

## **Appreciation to Staff**

We would like to extend our sincere appreciation to the management and staff of the HOME, Program Services, Office of Colonia Initiatives, Legal, and Financial Administration divisions for their cooperation and assistance during the course of this audit.

## ***Appendix B***

### **Background**

The single-family loan processing function crosses multiple divisions of the Department. The loan application's intake is handled by a subrecipient who then submits the application to the applicable program area within the Department. A performance specialist in the program area reviews the application and sends it to the Program Services Division where a loan specialist will perform a quality assurance review. The loan specialist then moves the loan application to a loan closer in the Program Services Division who prepares the loan documents for review and signature by an attorney in the Legal Division. The Legal Division prepares loan closing documents to be provided to the title company for execution. However, if the loan application is for the HOME HBA program, then the loan closer prepares all of the loan documents. The Legal Division then returns the documents to the loan closer who forwards the documents to the title company. The title company closes the loan. The title company returns the loan documents to a post-closer in the Program Services Division for review. The post-closer then collects the reviewed loan packet and sends it to the Loan Servicing Section of the Financial Administration Division. The Loan Servicing Section uses the loan documents to set up the loan in the Department's MITAS loan origination and servicing system.

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December 4, 2013

*Writer's direct phone # 512.475.3813*  
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### **RE: AN INTERNAL AUDIT OF THE ETHICS PROGRAM (REPORT # 14-1059)**

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) ethics program. We found that while the Department has an ethics policy and periodically reminds staff of the requirements of the policy, there are opportunities to enhance the ethics policy and to further develop the ethics program. For example, the Department should consider conducting an ethics risk assessment, requiring periodic ethics training and written acknowledgement of receipt of the training, posting situational examples of ethical dilemmas and appropriate responses, maintaining a log of gifts received and their disposal and keeping a record of the ethics opinions issued by the ethics officer.

As part of this audit we evaluated the ethics policy as well as conducted an agency-wide survey of the ethics program. We received responses from 165 (69.9%) of the Department's 236 employees. In addition, we determined if new employees had a signed acknowledgment form in their personnel file that indicated they had received and read the ethics policy. We tested the files of the 48 new employees hired over the last three fiscal years and found that all of them (100%) had a signed acknowledgement in their personnel file.

### **Conduct an Ethics Risk Assessment**

The ethics policy, although comprehensive, is not based on an ethics risk assessment of the Department. Conducting an ethics risk assessment would allow the Department to identify its' highest ethical risk areas and to ensure that the ethics policy addresses those risks.

### **Recommendation**

The Department should consider conducting an ethical risk assessment to ensure that the ethics policy addresses the areas of highest risk to the Department.



### **Management's Response**

*Management agrees. The Ethics Advisor, Jeff Pender, has begun this process and anticipates completion by January 15, 2014.*

## **Periodically Update the Acknowledgement Forms**

New employees are required to sign an acknowledgment form within 30 days of their date of hire that indicates they have received and read the ethics policy. We tested all 48 new employees hired between September 1, 2010 and September 13, 2013 to determine if they had a signed acknowledgment form in their personnel file. All 48 (100%) of the new employees tested had a signed acknowledgment form in their personnel file.

However, the acknowledgment form is only signed at the beginning of employment and although periodic ethics training is provided, there is no a periodic re-acknowledgment that employees are aware of the ethics policy. Without periodic re-acknowledgment of the ethics policy, employees may not be aware of any changes to the policy and could unintentionally violate it.

### **Recommendation**

The Department should have all employees sign an acknowledgment form on a periodic basis that indicates the employee has read and understands the ethics policy.

### **Management's Response**

*Management agrees and will implement a mandatory annual reaffirmation form with the roll out of an updated ethics policy on or before January 31, 2014. Gina Esteves, Human Resources Director will be responsible for implementation.*

## **Increase Communication of the Ethics Policy**

We developed an anonymous Department-wide survey (with input from the ethics officer and the general counsel) regarding the ethics program. We received responses from 165 (69.9%) of the Department's 236 employees, however not all respondents answered each survey question. Therefore, the total number of respondents to each individual question may vary.

The results of the survey indicate that employees are generally aware of the ethics policy and know how to report ethical violations. However, the survey responses also indicate that an increase in communication regarding ethical dilemmas and clarification of the ethics policy would be beneficial.

When asked the question, do you understand the ethics policy, 11 (6.8%) of 162 respondents indicated that they did not understand the ethics policy. Forty-two (25.8 %) of 163 respondents were not able to identify the ethics officer.

Thirty-two (19.6%) of 163 respondents indicated they did not know how to report violations of the ethics policy. When asked the question, would you feel comfortable reporting violations of the ethics

policy, 39 (23.8%) of 164 respondents indicated that they would not feel comfortable reporting violations of the ethics policy.

When asked the question, are the Department's efforts to promote learning about the ethics policy sufficient, 42 (26.3%) of 160 respondents indicated that they did not believe that the Department's efforts to promote learning about the ethics policy were sufficient.

It is important that management communicate regularly with staff about the ethics policy and provide clarification regarding the ethics policy. This would allow staff to be mindful of the policy and would help prevent unintentional violations.

### **Recommendation**

The Department should increase communication with staff regarding the ethics policy. In addition, the Department should consider posting situational examples related to the ethics policy as well as frequently asked questions to the Department's intranet site.

### **Management's Response**

*Management agrees and has already begun this process. The Ethics Advisor has convened a broad based committee to review the Ethics Policy and make recommendations for improvements. Also the Ethics Advisor has sent an agency-wide communication pointing out, among other things, the ability to report suspected ethics violations via the Fraud Hotline. This will be completed by January 31, 2014 by the Ethics Advisor, Jeff Pender.*

## **Enhance the Ethics Policy**

We performed an analysis of the ethics policy in comparison to best practices identified by the Institute of Internal Auditors. We determined that although the ethics policy is comprehensive, there are areas that can be strengthened or enhanced. For example, the ethics policy does not identify the fraud, waste, and abuse hotline number as one of the ways employees can report ethical violations nor does it identify the individual who serves as the ethics officer. The ethics policy is currently located in the Department's Human Resources Policy and Procedure Manual, which makes it difficult to locate. Twenty-eight (17.1%) of 164 respondents to the survey did not know where to locate the ethics policy.

### **Recommendation**

The Department should consider including the fraud, waste and abuse hotline number in the ethics policy as one of the ways in which employees can report unethical behavior. In addition, the visibility of the ethics policy could be increased by providing a copy of the policy (or a link to the policy) on the Department's intranet site.

### **Management's Response**

*Management agrees and has requested that Information Systems provide a link to the ethics policy and the Hotline on the homepage of the intranet. This was completed on December 3, 2013.*

## **Track Ethical Decisions and the Disposition of Gifts**

The ethics policy addresses potential areas where conflicts of interest can occur. In addition, the ethics officer occasionally receives written questions from current and former staff and Board members about potential conflicts of interest. Currently, the ethics officer does not maintain complete files of the information about these opinions. It is important that this information be maintained in the event that questions arise at a later date regarding the opinion.

The ethics policy also states that an employee may not “accept or solicit any gift, favor, or service that might reasonably tend to influence the employee in the discharge of official duties, or that the employee knows or should know is being offered with the intent to influence the employee’s official conduct.” Gifts are often received in the mail and the policy does not specify what an employee is to do with such gifts. Staff has been informed by a memo from the ethics officer that any gift received by an employee should be refused by the employee, returned to the sender, or turned over to Legal Services for disposal. Though some records are kept, a complete record of when and how Legal Services disposes of these gifts is not maintained in every instance. It is important that a record is maintained in order to avoid the appearance that gifts received by staff are not disposed of in the proper manner.

### **Recommendation**

The Department should consider maintaining:

- any written documentation that relates to legal opinions made regarding conflict of interest questions, and
- a record of how Legal Services disposes of gifts received by the Department or by staff.

### **Management’s Response**

*Management agrees. The Ethics Advisor maintains records but is developing a more formal and comprehensive structure for organizing and retaining these records for the required periods. The record system will be completed by December 16, 2013 by the Ethics advisor, Jeff Pender.*

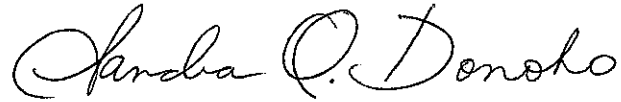
## **Objective, Scope and Methodology**

The objective of this audit was to examine and assess the Department’s ethics program to determine if there are processes in place to encourage employees to report ethical misconduct, promote learning about ethics, and establish and maintain an acceptable agency-wide culture. The scope of our fieldwork was fiscal year 2011, 2012, and 2013 up to and including October 25, 2013. Our methodology consisted of interviewing responsible individuals, reviewing documentation, and developing and completing a Department-wide survey regarding the ethics program.

This audit was conducted as part of our fiscal year 2014 internal audit plan. We conducted our fieldwork in October and November 2013. 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 conclusion 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 individuals involved with the ethics program for their cooperation and assistance during the course of this audit.

Sincerely,

A handwritten signature in black ink that reads "Sandra Q. Donoho". The signature is written in a cursive style with a large, looped initial "S".

Sandra Q. Donoho, CISA, CIA, CFE, CICA  
Director of Internal Audit

Sqd/nak

cc:

Tim Irvine, Executive Director  
Barbara Deane, General Counsel  
Jeff Pender, Deputy General Counsel



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October 15, 2013

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RE: REPORT ON THE INTERNAL AUDIT DIVISION'S QUALITY ASSURANCE AND IMPROVEMENT PROGRAM

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

The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* (Standards) requires that the director of internal audit develop and maintain a quality assurance and improvement program that includes both internal and external assessments of the internal audit activity. The objective of the internal and external assessments is to evaluate the internal audit activity's conformance with the Institute of Internal Auditors' definition of internal auditing, the Standards and the code of ethics.

Internal assessments must include ongoing monitoring of the performance of the internal audit activity as well as periodic reviews performed through self-assessment. The Standards require that the results of these periodic assessments be communicated to the governing board at least annually.

The Internal Audit Division (Division) of the Texas Department of Housing and Community Affairs maintains an ongoing quality assurance program and performs ongoing monitoring as required. In addition, the Division recently completed a self-assessment. The scope of this self-assessment included the audit projects with reports released in fiscal year 2013. The methodology consisted of performing a comprehensive review of the audit working papers for these audit reports, as well as discussions with internal audit staff. The internal self-assessment was conducted by two internal audit employees. Each audit was reviewed by an employee that did not manage the audits they reviewed.

To further support the goals of quality audits and ongoing commitment to improving the internal audit activity, the Division actively solicits feedback from its auditees by conducting an annual customer satisfaction survey. Survey participants are able to respond anonymously because the survey is conducted using an online survey tool.

For fiscal year 2013, the Division received 10 of 20 potential responses, an overall response rate of 50 percent. The customer satisfaction survey solicits information regarding the auditees' opinion of



the usefulness of the audit and the audit recommendations, clarity of the audit objectives and the audit report, the objectivity, professionalism and communication of the auditors, duration of the audit and timeliness of the draft report. Overall, the responses received were favorable, with one respondent indicating a "Fair" rating for the question regarding clarity of the audit report, and all other respondents indicating a "Good" or "Excellent" rating for each question. However, the low survey response rate limited the usefulness of the survey results. We will continue to encourage participation in the annual auditee survey and to look for ways to increase the survey response rate.

To satisfy the Standards, the quality assurance and improvement program must also include external assessments. The Texas Internal Auditing Act requires that an external peer review be performed once every three years. The last external peer review of the Division was completed in December 2012. The overall opinion of the external peer reviewers was that the Division is in compliance with Standards and granted the Division a rating of "pass" which is the highest of the three possible ratings – pass, pass with deficiencies and fail.

The self-assessment conducted by the Division also determined that the Division receives a "pass" for compliance with the definition of internal auditing, the Standards and the code of ethics. This opinion means that policies, procedures, and practices are in place to implement the Standards and the requirements necessary for ensuring the independence, objectivity, and proficiency of the internal audit function were met.

If you have any questions regarding our quality assurance process or the recently completed self-assessment, please let me know.

Sincerely,



Sandra Q. Donoho, MPA, CISA, CIA, CFE, CICA  
Director of Internal Audit

DDM

cc: Tim Irvine, Executive Director

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**AUDIT COMMITTEE REPORT ITEM**

**INTERNAL AUDIT**

**JANUARY 23, 2014**

Presentation and Discussion of the Status of External Audits.

**REPORT ITEM**

There were two (2) external audits or monitoring visits scheduled or completed during fiscal year 2014 to date.

**BACKGROUND**

So far, there have been two (2) external audits or monitoring visits in fiscal year 2014. The State Auditor's Office reported on the Department's annual financial statements under agenda item #2. We are waiting on the final report for the Statewide Audit of Federal Funds, which is due in March. This audit is performed by KPMG under contract with the State Auditor's Office.

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS  
INTERNAL AUDIT DIVISION – STATUS OF FY 2014 EXTERNAL AUDITS  
January 23, 2014**

External Audits/Activities	Scope/Description	Stage	Comments
SAO	Annual opinion audits: <ul style="list-style-type: none"> <li>• Basic Financial Statements for the FYE August 31, 2013.</li> <li>• Revenue Bond Program Audit for the FYE August 31, 2013.</li> <li>• FY 2013 Unencumbered Fund Balances.</li> </ul>	Completed	Final reports were released on December 20, 2013.
KPMG	The scope of the financial portion of the Statewide Single Audit includes an audit of the state’s basic financial statements for fiscal year 2013 and a review of significant controls over financial reporting and compliance with applicable requirements.	Reporting	The final report will be released in March 2014.

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**AUDIT COMMITTEE REPORT ITEM**

**INTERNAL AUDIT**

**January 23, 2014**

Presentation and Discussion of the Status of Prior Audit Issues.

**REPORT ITEM**

Internal Audit tracks prior audit issues from both internal and external auditing or monitoring reports. These issues are followed up and cleared as time allows.

**BACKGROUND**

Of the 5 current prior audit issues:

- 4 issues were recently reported by management as “implemented” and are reflected on the attached list. These will be verified and closed by internal audit once we have reviewed the supporting documentation. All 4 were for the Compliance Division.
- 1 issue is still “pending” and is reflected on the attached list. Internal Audit will verify and close this issue once it is reported as “implemented.” This pending issue is for the Compliance Division.

In addition, it should be noted that HUD recently closed several audit findings related to a June 2012 monitoring of the HOME Program.



# ***Texas Department of Housing and Community Affairs***

## ***Detailed Audit Findings***

**Report Name:** HUD Affordable Housing Monitoring and Technical Assistance Visit

**Division:** Compliance Division

**Report Date:** 08/17/2012

**Current Status:** Pending

**Finding:** Review of the multifamily portfolio report indicated that there are numerous projects that are out of compliance with the HOME Program requirements.

On June 20, 2012, Stephen Eberlein met with Tim Irvine, Executive Director and Sara Newsom, Director, HOME Program, to discuss issues and progress in resolving the defaulted activities listed in HUD's FY 2009 Monitoring Report. Following is a recapitulation of the meeting.

- St. John Colony Park alk/a, Del Meadows, Dale, TX - IDIS #4001- All issues have been resolved
- Thomas St. Apartments, 925 Thomas St, Linden, TX - IDIS #2727 - All issues have been resolved
- Colonias Del Valle, Pharr, TX-IDIS #2710- All issues have been resolved
- Mexia Homes - Mexia, TX - IDIS #2637 - *Enforcement action underway by State Administration Penalties Office*
- Juan Linn Apartments- Victoria, TX-IDIS #4369 - *New owner in place. Progress is being made to reestablish the LURA*
- Carriage Square Apartments - Dickinson, TX - IDIS #2670 - *Property was demolished. The land is being marketed for sale and redevelopment*
- Red River - Wharton, TX - IDIS # 7607 - *State is working with new owner to reestablish the LURA*
- Palisades at Belleville- Belleville, TX- IDIS #2647- *State is working with new owner to reestablish the LURA. Note: This owner also owns the Red River Project directly above.*
- Gardens of DeCordova - Granbury, TX - IDIS #26281- *Owner defaulted on construction loan. The private lien holder has maintained compliance with LIHTC/Board requirements and the state is optimistic that he will accept the HOME requirements. The state is scheduled to monitor this project in July 2012.*
- Community Action of South Texas - Three projects - All of the LURAs have been extended and all other issues resolved.
- Duncan Place- Hillsboro, TX- IDIS # -*State will request a grant reduction*
- Flamingo Bay Apartments (Lakeside Center) - 200 Garfield, LaPorte, TX - IDIS # 1529 - *State will request a grant reduction*

The following projects noted in the FY 2009 monitoring report have been brought into compliance and no further action is required at this time.

Lincoln Court Apartments - IDIS #2631  
Port Yelasco Apartments - IDIS #2636  
Colorado City Homes- IDIS #2676  
Colorado City Homes II - IDIS #2677  
Southeast Texas Community Development- IDIS #2680  
Ebenezer Senior Housing- IDIS #2681  
Spur Triplex - IDIS #2694  
Sterling Park Square • ID IS #2696  
Tyler Community Homes (Path) IDIS #2699  
Weldon Blackard Rental- IDIS #2706  
Railroad Street Rental Housing- IDIS #2711

# ***Texas Department of Housing and Community Affairs***

## ***Detailed Audit Findings***

Sunrise Villas Apartments IDIS #2723  
Alamo Plaza Apartments- IDIS #3200  
Villa De Reposo - IDIS #4002  
Alta Vista Village Retirement Community- IDIS #4006  
Spring Garden Apartments IV- IDID #4007  
Plainview Duplex - IDIS #4008

**Recommendation:** Because two projects noted in FY 2009 report remain unresolved, this finding remains open. Once the remaining issues for *Duncan Place and FlamingoBay (Lakeside Center)* are resolved through repayment of the HOME Investment to the state's HOME Treasury Account; approval of a grant reduction; or otherwise brought into compliance, this finding can be cleared. The state needs to continue to work to bring the *Juan Linn and Red River* projects into compliance.

These final corrections need to be completed on or before February 28, 2013. If compliance cannot be achieved via one of the above-referenced options, the state must repay its HOME Treasury Account for the full amount of the HOME Investment for these projects from non-federal funds. The state should also provide a monthly update on the status of the above noncompliant projects with the first report being due on or before September 5th, and by the 5<sup>th</sup> day of each month thereafter.

**Management Response:** The Department is providing an update to HUD on the multifamily portfolio.

**Target Implementation Date:** 02/28/13

**Actual Implementation Date:** N/A

**Status:** Management has not yet reported this recommendation as implemented.

**Recommendation Age (in days):** N/A

Management has reported a revised implementation date as 07/31/13.

# ***Texas Department of Housing and Community Affairs***

## ***Detailed Audit Findings***

**Report Name:** An Internal Audit of Compliance Monitoring

**Division:** Compliance Division

**Report Date:** 08/05/2013

**Current Status:** Implemented

**Finding:** The data entered into the CMTS or access database is not consistent with the data on the hard copy reports. In addition, the data is not always entered into the CMTS or access database.

**Recommendation:** The division should ensure that all of the required information is entered into the various tracking systems and that the information entered is consistent with the information in the hard copy reports.

**Management Response:** Management agrees that the Division should ensure that all of the required information is entered into the various tracking systems and that the information entered is consistent with the information in the hard copy reports. To improve in this area, as monthly reports are provided to employees as feedback, management will sample 5% of the data to ensure accuracy. Wendy Quackenbush, JR Mendoza, Earnest Hunt and Stephen Jung are responsible for this. The Target date for implementation is September 1, 2013.

**Target Implementation Date:** 09/01/13

**Actual Implementation Date:** 01/08/14

**Status:** Management reports that this recommendation has been implemented. Internal Audit has not yet verified this assertion.

**Recommendation Age (in days):** N/A

# ***Texas Department of Housing and Community Affairs***

## ***Detailed Audit Findings***

**Report Name:** An Internal Audit of Compliance Monitoring

**Division:** Compliance Division

**Report Date:** 08/05/2013

**Current Status:** Implemented

**Finding:** Physical Inspections

There were four (13.3%) inspections that were not closed within 45 days of either the review or the corrective action due date.

Community Affairs Monitoring

The average time taken to issue a report was 54.82 days

Contract Monitoring Section

On-site Reviews - There was 1 (3.3%) on-site review that was not closed within 120 days of the review.

Desk Reviews - There were 2 (6.7%) desk reviews that did not close out the review within 30 days of the review date.

Compliance Monitoring Section

There were 4 (13.3%) on-site reviews that were not closed within 45 days of the review date.

**Recommendation:** The Division should ensure that monitoring reviews and inspections are closed out within the timeframe required by the divisions' policies and procedures and federal oversight agencies.

**Management Response:** Management agrees that monitoring reports should be issued within the timeframe required by federal regulations, Department rules, and the Division's policies and procedures, and that monitoring reviews and inspections should be closed out within the timeframe required by the Division's policies and procedures and federal oversight agencies. The division will continue to review the timeliness of report issuance and onsite close out on a monthly basis and continue to follow the Department's Human Resources Policies and Procedures for employees who cannot perform as required by their job description. The management team of the Compliance Division is responsible for this. The target date for implementation is August 1, 2013.

**Target Implementation Date:** 08/01/13

**Actual Implementation Date:** 01/08/14

***Texas Department of Housing and Community Affairs***  
***Detailed Audit Findings***

**Status:** Management reports that this recommendation has been implemented. Internal Audit has not yet verified this assertion. **Recommendation Age (in days):** N/A

# ***Texas Department of Housing and Community Affairs***

## ***Detailed Audit Findings***

***Report Name:*** An Internal Audit of Compliance Monitoring

***Division:*** Compliance Division

***Report Date:*** 08/05/2013

***Current Status:*** Implemented

***Finding:*** Physical Inspections: There were 14 (46.7%) of 30 reports where a 90 day corrective action period was not given to the property as required by the section's policies and procedures.

Compliance Monitoring Section: There were 14 (46.7%) of 30 reports where a 90 day corrective action period was not given to the property as required by the section's policies and procedures.

***Recommendation:*** The Division should ensure that a full 90-day corrective action period is given to development owners as required.

***Management Response:*** Management agrees that the Division should provide a full 90-day corrective action period to development owners as required. An excel tool has been created and provided to all employees to ensure the correct number of days are provided for a corrective action period. This was implemented on August 1, 2013. Chief of Compliance Patricia Murphy is responsible.

***Target Implementation Date:*** 08/01/13

***Actual Implementation Date:*** 01/08/14

***Status:*** Management reports that this recommendation has been implemented. Internal Audit has not yet verified this assertion.

***Recommendation Age (in days):*** N/A

# ***Texas Department of Housing and Community Affairs***

## ***Detailed Audit Findings***

**Report Name:** An Internal Audit of Compliance Monitoring

**Division:** Compliance Division

**Report Date:** 08/05/2013

**Current Status:** Implemented

**Finding:** We tested 150 monitoring and inspection reports; 120 reports were for the Compliance Monitoring, Contract Monitoring, and Physical Inspections sections. Of these 120 reports, 11 (9.2%) were not issued within the required timeframes.

Seven (70.0%) of the 10 WAP monitoring reports tested were not issued within 30 days of the monitoring visit.

**Recommendation:** The Division should ensure that monitoring reports are issued within the timeframe required by federal regulations, Department rules, and the Division's policies and procedures.

**Management Response:** Management agrees that monitoring reports should be issued within the timeframe required by federal regulations, Department rules, and the Division's policies and procedures, and that monitoring reviews and inspections should be closed out within the timeframe required by the Division's policies and procedures and federal oversight agencies. The division will continue to review the timeliness of report issuance and onsite close out on a monthly basis and continue to follow the Department's Human Resources Policies and Procedures for employees who cannot perform as required by their job description. The management team of the Compliance Division is responsible for this. The target date for implementation is August 1, 2013.

**Target Implementation Date:** 08/01/13

**Actual Implementation Date:** 01/08/14

**Status:** Management reports that this recommendation has been implemented. Internal Audit has not yet verified this assertion.

**Recommendation Age (in days):** N/A

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**AUDIT COMMITTEE REPORT ITEM**

**INTERNAL AUDIT**

**JANUARY 23, 2014**

Presentation and Discussion of the Status of the Fraud, Waste and Abuse Hotline and Other Fraud Complaints.

**REPORT ITEM**

The Internal Audit Division received 24 complaints of fraud, waste or abuse in fiscal year 2014 (as of December 31, 2013).

**BACKGROUND**

In fiscal year 2014, Internal Audit received 24 fraud complaints. Of these:

- 21 calls were received on our hotline:
  - 4 were related to the Department's programs or staff:
    - Tax Credits - 2
    - Multi Family - 1
    - Personnel - 1
  - 17 were not related to the Department's programs or staff. These callers were referred to the appropriate agency for assistance.
- 3 complaints were received from other sources:
  - 3 were related to the Department's programs:
    - CEAP and/or WAP - 1
    - Compliance - 1
    - Tax Credits - 1

The sources for these 3 complaints were:

- TDHCA Staff – 2
- Public - 1
- 17 of the 24 complaints (71%) were not under the Department's jurisdiction.
- The 7 TDHCA complaints were resolved as follows:
  - Referred to SAO and/or other oversight agencies – 3
  - Investigated and Closed – 2
  - Pending – 2 (Both of the pending complaints were received in December 2013.)

# Executive Session