

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

AUDIT COMMITTEE MEETING

Dewitt C. Greer State Highway Building
Dewitt C. Greer Building
125 East 11th Street
Austin, Texas

January 15, 2015
8:30 a.m.

MEMBERS:

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

MARK SCOTT, Director, Internal Audit

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P R O C E E D I N G S

1
2 MS. BINGHAM ESCAREÑO: Welcome to the January
3 meeting of the Texas Department of Housing and Community
4 Affairs Audit Committee. I'm Leslie Bingham. We're going
5 to start with calling roll, but maybe first I'll just
6 introduce Mr. Tolbert Chisum who has joined us.

7 Mr. Chisum joined the Board in December, had
8 his first Board meeting then. The Audit Committee
9 requested that Mr. Chairman Oxer add Mr. Chisum to our
10 Audit Committee and he duly paid attention to our request,
11 so we're glad to have Mr. Tolbert Chisum with us.

12 Thanks for being here.

13 MR. CHISUM: Thank you.

14 MS. BINGHAM ESCAREÑO: I'll mark you as
15 present.

16 And Mr. Tom Gann?

17 MR. GANN: Present.

18 MS. BINGHAM ESCAREÑO: Very good. So we're all
19 present, we represent a quorum, and we'll get started with
20 the committee agenda.

21 I guess the other introduction that I should
22 make, most of us will know, but Mr. Mark Scott has taken
23 over the role of director of our Audit Department, and so
24 this is your first committee meeting and we welcome you
25 also.

1 MR. SCOTT: Thank you very much.

2 MS. BINGHAM ESCAREÑO: It looks like it will go
3 very well.

4 We'll start on the agenda with item 1, which is
5 actually the presentation, discussion and approval of the
6 committee minutes from October. Just to make a note very
7 briefly, during that committee meeting we had the audit
8 plan for 2015 presented. There were a few comments from
9 committee members about opportunities to possibly clarify
10 or add additional functions to the plan. I think Mark
11 will talk about those later, but overall the motion was to
12 approve the plan, and so at this point I ask for
13 consideration to approve the minutes.

14 MR. GANN: I so move.

15 MR. CHISUM: Second.

16 MS. BINGHAM ESCAREÑO: Mr. Gann moves and Mr.
17 Chisum seconds. Any further discussion? Mark, any other
18 discussion?

19 MR. SCOTT: No, ma'am.

20 MS. BINGHAM ESCAREÑO: Very good. All those in
21 favor, aye.

22 (A chorus of ayes.)

23 MS. BINGHAM ESCAREÑO: Opposed?

24 (No response.)

25 MS. BINGHAM ESCAREÑO: Motion carries. Thank

1 you very much.

2 All right. We'll move on to item number 2,
3 which is presentation, discussion and possible action on
4 the yearly update of the Internal Audit Charter, and Mark,
5 you have some information on that?

6 MR. SCOTT: Yes, ma'am. The Internal Audit
7 Charter is required by auditing standards, and optimally,
8 this charter should be approved annually. The main
9 updates for this one are for consulting activities and
10 external audit coordination, and the charter format has
11 also been updated. At the October 2014 meeting of the
12 Audit Committee, there was interest expressed in having
13 Internal Audit perform consulting activities and so the
14 charter has addressed that, and we are currently working
15 on a consulting project which I will discuss in a little
16 while.

17 I would like for the Audit Committee to
18 recommend to the full Board that the charter be approved
19 as submitted.

20 MS. BINGHAM ESCAREÑO: Thanks, Mark. So the
21 charter will go to the Board later on this morning. The
22 format is nice and clean. I think it was easy to go
23 through and hit the highlights. We had originally thought
24 that we would so resolve to approve, and I think we can
25 just go with a straight approval if the committee is okay

1 with that. Do you have any questions for Mark about the
2 charter?

3 MR. GANN: Would you like a motion?

4 MS. BINGHAM ESCAREÑO: I'll entertain a motion.

5 MR. GANN: I move that we approve staff's
6 recommendation.

7 MS. BINGHAM ESCAREÑO: Very good. So I have a
8 motion from Mr. Gann to approve staff's recommendation to
9 recommend the approval of the charter to the full Board.
10 Do I have a second?

11 MR. CHISUM: Second.

12 MS. BINGHAM ESCAREÑO: Mr. Chisum seconds. Any
13 further discussion?

14 (No response.)

15 MS. BINGHAM ESCAREÑO: Great. All those in
16 favor, aye.

17 (A chorus of ayes.)

18 MS. BINGHAM ESCAREÑO: Opposed?

19 (No response.)

20 MS. BINGHAM ESCAREÑO: Motion carries.

21 We'll move on to item number 3, which is
22 presentation, discussion and possible action regarding the
23 State Auditor's Office audit number 15-014, a report of
24 the audit of the Texas Department of Housing and Community
25 Affairs FY 2014 financial statements.

1 Mark, do you want to give a brief overview and
2 then introduce our guests?

3 MR. SCOTT: Yes. This is an SAO audit of TFC's
4 agency financial statements, and we engaged the SAO -- I'm
5 sorry -- Housing and Community Affairs financial
6 statements, and we engaged the SAO to conduct the required
7 audits of our financial statements. The audit manager and
8 the project manager from SAO are here to present the audit
9 results, and our CFO, Mr. David Cervantes, is also here.
10 And we're happy to learn that we received unqualified
11 opinions, that's clean opinions, on all of the financial
12 statements, and I think the SAO staff would like to make a
13 presentation, make a few comments at this point.

14 MS. BINGHAM ESCAREÑO: Good morning.

15 MR. SALDIVAR: Good morning. For the record,
16 my name is Cesar Saldivar, audit manager with the State
17 Auditor's Office. With me this morning is Jeannette
18 Quiñonez and she was the project manager of this audit.
19 Jeannette is going to talk a little bit about the
20 deliverables and go over any questions over what it was
21 that we provided or answer any questions you may have.

22 MS. BINGHAM ESCAREÑO: Great. Thanks, Cesar.
23 Is the mic on? Are you picking him up?

24 MS. QUIÑONEZ: Good morning. I'm Jeannette
25 Quiñonez. I'm the project manager for the Department of

1 Housing and Community Affairs financial audit. As part of
2 this audit we had several deliverables, and I will just go
3 over each report that we sent or issued.

4 On December 19, 2014, we issued unmodified
5 opinions on several reports and they were on the basic
6 financial statements, the revenue bond program, enterprise
7 fund financial statements and the computation of
8 unencumbered fund balances of the Housing Finance
9 division. We also issued a report on compliance of the
10 Public Funds Investment Act.

11 We also previously issued two reports earlier
12 in the audit and that was on July 17 we issued a report
13 that concluded that the financial data schedule prepared
14 by the Department was fairly stated in all material
15 respects in relation to the fiscal year 2013 basic
16 financial statements. And then on September 29, 2014, we
17 issued a report that concluded that the Department's
18 electronically submitted financial data schedule to the
19 U.S. Department of Housing and Urban Development Real
20 Estate Assessment Center agreed with hard copy documents.

21 And after we issued all those reports, we sent
22 you an email, on December 29, 2014, titled "Required
23 Communication with Those Charged with Governance," and in
24 that communication we listed several items that we're
25 required to tell the Board. Do you have any questions on

1 that document, or would you like me to go over that in
2 more detail?

3 MS. BINGHAM ESCAREÑO: Do you have any
4 questions?

5 MR. CHISUM: No.

6 MS. BINGHAM ESCAREÑO: And you may not have
7 received it, but we received it and reviewed it.

8 Mark, any additional comments?

9 MR. SCOTT: I went through all of our financial
10 statements these last couple of days, and they're very
11 complex and I really appreciate the hard work you did.

12 MS. QUIÑONEZ: Thank you.

13 MS. BINGHAM ESCAREÑO: Thank you very much.

14 Mark, would you like to see if David Cervantes
15 would like to make any comments?

16 MR. SCOTT: Yes. Mr. Cervantes, since you got
17 clean reports, perfect grades, would you like to come up
18 and talk?

19 MR. CERVANTES: Sure. For the record, David
20 Cervantes, chief financial officer for the Department.
21 Good morning.

22 I guess two things. First off, just a thank
23 you to the SAO. This year we tried a few different things
24 in our coordination efforts. For example, usually we do
25 some interim work earlier in the year and then finish out

1 the year with final audit work towards the latter part of
2 the year. This year we made an adjustment in our
3 coordination and our planning and we pretty much did all
4 for the work in the latter part of the closeout period.
5 So first off, I just wanted to say thank you to Cesar and
6 Ms. Quiñonez and their staff and their group for all the
7 professionalism and helping us work through the planning
8 and the coordination to make this a successful audit for
9 the Department. So thank you, Cesar and Jeannette.

10 The second thing, I don't get this opportunity
11 very often so I'm going to cease the moment, and it's
12 recognizing some of the key staff of the Department.
13 Behind the scenes there's a group right across the street
14 here that works day-in and day-out, crunching the numbers
15 and the bean counters and behind-the-scenes folks, but in
16 terms of the leadership, I have several of my key staff
17 members: Ernie Palacios, who is the director of Financial
18 Administration; Jose Guevara, who is the manager in charge
19 of Financial Services that deals with pretty much the
20 proprietary side of the business of TDHCA; Stephan
21 D'Conto, who is the manager for Loan Servicing and
22 anything that we're doing with the loans that we have
23 within our disposition and servicing through the latter
24 part of those loans.

25 And we're actually missing a couple of staff

1 members that are also key: Esther Ku, when we're dealing
2 with the federal programs of the agency, Esther Ku is the
3 other party that is actually not feeling well today and
4 couldn't join us; and the other one is Julie Dumbeck, and
5 as it pertains to procurement matters for the Department,
6 maintaining controls of that type of sort, that's the
7 other person that's not present today.

8 So I'd just like to acknowledge their
9 contributions towards what is another year in the books.

10 (Applause.)

11 MR. CERVANTES: And Mark, I think that's it,
12 unless you all have other questions of me.

13 MR. SCOTT: Okay. Thank you very much.

14 And I think the process now is for me to
15 recommend that the Audit Committee recommend to the full
16 Board to accept the audit.

17 MS. BINGHAM ESCAREÑO: So we'll entertain a
18 motion to staff's recommendation that the Audit Committee
19 recommend acceptance of the SAO audit to the full Board.

20 MR. CHISUM: So moved.

21 MR. GANN: Second.

22 MS. BINGHAM ESCAREÑO: Mr. Chisum moves, Mr.
23 Gann seconds. Any other discussion? Any other comments
24 from staff?

25 (No response.)

1 MS. BINGHAM ESCAREÑO: Great. All those in
2 favor, aye.

3 (A chorus of ayes.)

4 MS. BINGHAM ESCAREÑO: Opposed?

5 (No response.)

6 MS. BINGHAM ESCAREÑO: Motion carries. Thanks
7 very much, David.

8 MR. CERVANTES: Thank you for your support.

9 MS. BINGHAM ESCAREÑO: Ernie, Jose and
10 Stephanie, bean counter day. Yay for the bean counters,
11 and make sure that Esther and Julie get our thanks too.

12 Cesar and Ms. Quiñonez, thank you very much for
13 the report and thank you for your fairness and your
14 support of the agency.

15 Anything else on SAO audit, Mark?

16 MR. SCOTT: No.

17 MS. BINGHAM ESCAREÑO: Very good. Then I guess
18 we'll move to the report items then. Report item 1 is
19 presentation and discussion of the status of the Internal
20 Audit activity, including staffing.

21 MR. SCOTT: Well, in a minute I'm going to go
22 over the status of the audit plan. There's an audit plan
23 that's approved approximately September or October, and
24 then during the course of the year I like to give updates
25 on which audits have been completed and what the status

1 is. That way there is always an ongoing knowledge of
2 where the status is.

3 I would also like to introduce my new staff
4 member, Robin Kolton. She has a lot of experience with
5 federal grants and auditing those type of issues, so I'm
6 very happy to have her here.

7 Then let's see, I guess I'll just go into the
8 rest of it?

9 MS. BINGHAM ESCAREÑO: Sure, you can go into
10 the rest of the report.

11 MR. SCOTT: Okay. On the fiscal year '15
12 audit, right now we're working on the payroll audit, and
13 that audit had substantial hours on the plan but there's
14 some external audit work that's been done. For example,
15 the federal funding agency has reviewed, to some extent,
16 how salaries are charged and the comptroller does some
17 work periodically related to payroll, and the reason I'm
18 bringing that up is I think we can get that audit done in
19 less time than was scheduled which will give us an
20 opportunity to do a couple of projects that I wanted to
21 do.

22 One is a sources and uses audit, and what that
23 is it's an operational audit. The State Auditor did
24 financial statement opinion audits. This audit is going
25 to be a process audit, so what we'll do is basically take

1 the various functions, the various financial functions of
2 the agency, which are very complex, and try to have in one
3 document a description of where the money that the agency
4 uses comes from, and the appropriations, the federal
5 funding sources, how it's used, how the money is
6 controlled, and what we'll do is basically a risk
7 assessment of the various financial functions, and based
8 on that, we'll do the testing of the processes.

9 Along with this audit, I included in the book a
10 new audit template that I want to use, and that basically
11 has a one-page report so people that are in a hurry can
12 just look at the one-page summary report, and then the
13 rest of the report has different sections of what we're
14 auditing, so it will describe from an auditor's point of
15 view the various processes that are in the area that we
16 are auditing.

17 And then for each section if there are findings
18 there will be a finding table, and that finding table will
19 have the finding, the recommendation, and the management's
20 response. And the reason I like to do it that way is it
21 helps track the findings. So for example, if for 2015 we
22 had, say, ten audits, the first audit if we had a finding
23 in it, it would be tracked 15-1-A, whatever, and then
24 during the course of the year we can track the findings
25 based on that and we'll send it out to management to get

1 periodic updates. So that's the new audit report
2 template.

3 Let's see, we're also doing a couple of
4 consulting projects relate to subrecipient monitoring.
5 The agency passes through a lot of funding, and at the
6 October meeting there was discussion about internal audit
7 doing consulting work for management at the agency. So I
8 think this will be a good project for several reasons.
9 One, the amount of money that passes through to the
10 subrecipients, which include local governments as well as
11 not for profit entities. Also, the federal OMB and
12 federal funding agencies have indicated that there will be
13 increased expectations on states for monitoring
14 subrecipients. And also, OIA staff has expertise and
15 experience related to the subrecipients monitoring. At
16 the old Health Department I was the manager of the
17 division that managed the federal grant audits, and as I
18 mentioned, Robin has experience with federal grants.

19 And also, we're going to go into this for this
20 consulting project and just on an ongoing basis, I think
21 that the A-133 audits that we're require the subrecipients
22 to get can be leveraged a lot better than they're being
23 leveraged at this point, so I'm going to work with
24 management on getting a better process in place for that.

25 And finally, we've scheduled out the audits. I

1 like to have probably one report approximately per month,
2 so we'll have a consulting -- I won't go over each one of
3 them but we'll have approximately one report per month for
4 the rest of the year, and we should be able to get done
5 with the whole audit plan plus the two projects I added,
6 the sources and uses audit and the various consulting work
7 we're going to do on subrecipient monitoring.

8 MS. BINGHAM ESCAREÑO: Mark, I'm understanding
9 that management is kind of aware of the plan too, and Mark
10 has had a chance to go over it, I think, with the Audit
11 Committee. What sounds really good to us, I think, is
12 one, being able to leverage other audits and even the CPA
13 work on the 133s, using that to be able to kind of
14 condense some of the man hours or the amount of time that
15 we typically would assign to an audit so that it frees the
16 Department up to do more consulting and other audits as
17 they may come up and are needed. So I think we
18 particularly like that as you're looking at payroll that
19 you already have some data from external audits that will
20 be helpful with that. And then really leveraging what the
21 CPAs are doing with the subrecipients, I think, sounds
22 like a good idea and an opportunity for the agency to take
23 advantage of some work that's already being done so that
24 we're not duplicating that and so that we can work with
25 accountability and structure with the subrecipients.

1 The sources and uses audit, I think, is of
2 great interest to us because it's a little different than
3 what we're used to, so typically -- and Mark has been able
4 to review some of the report formats with us -- typically,
5 I think, as an audit committee we're used to a finite
6 audit that ends up with an opinion. And so when we look
7 at like sources and uses, one, I think it will be nice to
8 have in one document -- that probably will end up being
9 rather large -- but that assessment of the processes in
10 that sources and uses, but also in the action or in the
11 findings area being able to have a finding, a
12 recommendation, and then a process for continually
13 monitoring how management addresses those findings and
14 those recommendations instead of it being a real finite
15 here's the opinion and here's the recommendation, here's
16 what management has to do.

17 So overall it looks like it's turning into a
18 little bit more aggressive plan for this year than what
19 was already submitted, but still very much holding to the
20 priorities that the Board and the Audit Committee
21 originally identified, and being to get a couple of other
22 really valuable things done too. So hopefully, that's a
23 good lay representation.

24 MR. SCOTT: Okay. Thank you very much.

25 Then the last thing I wanted to talk about are

1 the current external audits of the agency. So the first
2 one I want to talk about is the audit that's done every
3 year, and to avoid confusion, this is an A-133 audit that
4 is done of the state, and that is done by the State
5 Auditor's Office in conjunction with KPMG, so that is an
6 audit of our agency. We require our subrecipients to get
7 A-133 audits done of their activities, but we are also
8 subject to an A-133 of the whole state, so that when KPMG
9 comes out here -- and they're out here pretty much
10 continuously -- cycling through the various federal
11 programs, and this year they picked the Community Services
12 Block Grant to audit at this agency, and they've finished
13 the audit.

14 From what I understand, they're not going to
15 have findings on those. They looked at the subrecipient
16 monitoring which is -- I'll just stop here for a second.
17 There's new federal grant guidance that's been put out,
18 and a lot of people are familiar with it, but it's kind of
19 a new way of the feds are looking at all the money they
20 pass through the states. It's called the omniscircular.
21 And so I think there's going to be a lot more attention
22 paid to how money that is given out to the subrecipients
23 by the states is monitored.

24 And so KPMG, for this program, looked at
25 subrecipient monitoring that we do for that program, and

1 they also looked at you might hear some refer to FATA
2 which is Federal Funding Accountability and Transparency
3 Act. Basically, that's just an updated version of the old
4 federal reporting requirements for states and agencies
5 that pass through federal funds. They didn't have any
6 findings on those. They had some preliminary issues but
7 they got resolved.

8 And then HUD has done a review of the
9 environmental monitoring program. We've received the
10 report and are working on the response to that.

11 And the last thing, the fraud, waste and abuse,
12 the hotline, Internal Audit manages that for the agency.
13 Basically, what we do is we triage the complaints, we look
14 at them, if it's something we have to address in an audit
15 we will, but otherwise we pass them over to the program
16 that's involved. A lot of the complaints we're getting
17 don't involve our funds so they're not really applicable
18 to us, and a lot of them are for non-serious issues.

19 So I think that concludes everything I had to
20 say for internal and external audits.

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

22 So that pretty much took us through report items 1, all
23 of 2, and then Mark just summarized the fraud, waste and
24 abuse.

25 Mr. Gann, you've been on the committee for a

1 while with me. Typically the Audit Committee receives
2 kind of a quantitative detail of everything that comes
3 through fraud and abuse. One of the things that Mark and
4 I talked about was whether or not that was more
5 appropriate for a consent agenda item or whether the
6 committee was comfortable with a verbal report or whether
7 you would prefer to go back to kind of that quantitative
8 written report.

9 What I shared with Mark was that we would get
10 feedback from the committee about how they wanted to do
11 that moving forward, but that the most important thing
12 would be if the Department is picking up on any trends
13 related to fraud and abuse, typically what we're hearing
14 in committee is most of what's coming through the fraud,
15 waste and abuse hotline or any other communication avenue
16 is really just getting triage by the agency. Very few of
17 the complaints are actually appropriate for the agency
18 itself, most of them have to do with other relationships.

19 But to the extent that the committee wants to continue to
20 see that written quantification, the agency and the
21 Department certainly has that available.

22 MR. GANN: I personally like it because it lets
23 me look at the trends too. That's just my personal
24 position.

25 MS. BINGHAM ESCAREÑO: Very good.

1 Mark, are you comfortable with that too?

2 MR. SCOTT: Yes, ma'am, absolutely.

3 MS. BINGHAM ESCAREÑO: So moving forward we'll
4 just bring back that written quantification report and
5 then Mark can summarize for us anything that is trending,
6 but it will give the committee a chance to look at it too.

7 Great. So that concludes the report items,
8 there was nothing for action under the report items. Does
9 the committee have any additional questions?

10 (No response.)

11 MS. BINGHAM ESCAREÑO: Any additional comments
12 from anybody in the audience or any staff members?

13 (No response.)

14 MS. BINGHAM ESCAREÑO: We can open up the
15 committee meeting now for any other public comments. Is
16 there any public comment registered?

17 (No response.)

18 MS. BINGHAM ESCAREÑO: All right. That being
19 said, that concludes the business items for the Audit
20 Committee for the January meeting. I'll entertain a
21 motion to adjourn.

22 MR. GANN: I so move.

23 MS. BINGHAM ESCAREÑO: Mr. Gann moves.

24 MR. CHISUM: Second.

25 MS. BINGHAM ESCAREÑO: Mr. Chisum seconds. All

1 those in favor, aye.

2 (A chorus of ayes.)

3 MS. BINGHAM ESCAREÑO: Opposed?

4 (No response.)

5 MS. BINGHAM ESCAREÑO: Motion carries. Thank
6 you very much.

7 (Whereupon, at 8:57 a.m., the meeting was
8 concluded.)

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C E R T I F I C A T E

MEETING OF: TDHCA Audit Committee
LOCATION: Austin, Texas
DATE: January 15, 2015

I do hereby certify that the foregoing pages, numbers 1 through 23, inclusive, are the true, accurate, and complete transcript prepared from the verbal recording made by electronic recording by Penny Bynum before the Texas Department of Housing and Community Affairs.

(Transcriber) 01/20/2015
(Date)

On the Record Reporting
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