AUDIT COMMITTEE MEETING

9:00 a.m.
Thursday,
July 25, 2010

Capitol Extension Auditorium
Capitol Extension
1500 North Congress
Austin, Texas

MEMBERS PRESENT:

LESLIE BINGHAM ESCAREÑO, Chair
TOM GANN
MARK McWATTERS

STAFF PRESENT:

TIM IRVINE, Executive Director
SANDY DONOHO, Director, Internal Audit
# AGENDA

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PROCEEDINGS

MS. BINGHAM ESCAREÑO: Good morning. Welcome to the Audit Committee of the Texas Department of Housing and Community Affairs. We will start with roll call. Mr. Gann?

MR. GANN: Here.

MS. BINGHAM ESCAREÑO: Mr. McWatters.

MR. McWATTERS: Here.

MS. BINGHAM ESCAREÑO: Welcome, Mr. McWatters. Glad to have you on the Committee.

MR. McWATTERS: Thank you.

MS. BINGHAM ESCAREÑO: I am here. And we’ll go ahead and get started with the agenda. I think the first item on the agenda is the presentation and discussion of the minutes from the January meeting.

MS. DONOHO: Good morning, Madam Chair, Committee members. For the record, I am Sandy Donoho, Director of Internal Audit. Item 1 is presentation, discussion and action on the Audit Committee minutes for January 17, 2013. The minutes are in your Board book. Are there any questions regarding the minutes?

(No response.)

MS. BINGHAM ESCAREÑO: Does anybody have any questions about the minutes?

(No response.)
MS. BINGHAM ESCAREÑO: I will entertain a motion and a second.

MR. GANN: I so move.

MR. McWATTERS: Second.

MS. BINGHAM ESCAREÑO: Okay. Mr. Gann moves, Mr. McWatters second. All those in favor?

(Chorus of ayes.)

MS. BINGHAM ESCAREÑO: Opposed?

(No response.)

MS. BINGHAM ESCAREÑO: The motion carries. All right. Item 2, presentation, discussion and possible action on the status of the Internal Audit work plan for FY 2013.

MS. DONOHO: Okay. Looking at the table under Item 2, in your Audit Committee book, we have six audits on this year’s work plan. Four of these are complete.

We are writing a report on the compliance audit as well, and we hope to brief you on that at the September Audit Committee meeting. The final project, which is loan processing just started field work last week.

We will talk about two recent Internal Audit reports under Agenda Item 3. We are also working on our annual risk assessment, used to develop our 2014 Audit work plan. We have completed all of the non-audit projects on this year’s plan also, except for one, which
we will talk about shortly.

In addition, our Internal Audit report will be submitted in November as required. The one non-audit project on our 2013 plan we can’t complete is the consolidation of the Enterprise Risk Management process with the risk assessment process that Internal Audit uses to develop our annual work plan.

This project required us to coordinate and work with the Information Systems Division, who are the owners of the Enterprise Risk Management process. Due to several unexpected resignations and retirements from Information Systems, Curtis Howell, who is the director, and I decided that this project is not feasible this year.

Curtis simply doesn’t have the time. As you can imagine, interviewing, hiring and training these staff is taking a lot of his time.

So the Fraud, Waste and Abuse complaints we have received this year have taken longer to resolve than we anticipated. And at this point, we are about 79 hours over on Fraud, Waste and Abuse complaints.

So instead of doing the Enterprise Risk Management project, we would like to move those 175 hours to the tracking, follow up and disposal of fraud complaints. And that is the staff recommendation. Are there any questions?
MS. BINGHAM ESCAREÑO: Do you have any questions about the recommendation?

(No response.)

MS. BINGHAM ESCAREÑO: I am comfortable with that. Okay. We’ll take -- I need a motion on that item. I will entertain a motion.

MR. GANN: I will move staff recommendation as presented.

MR. McWATTERS: Second.

MS. BINGHAM ESCAREÑO: Motion by Mr. Gann, second by Dr. McWatters. Any further discussion?

(No response.)

MS. BINGHAM ESCAREÑO: All those in favor, aye?

(Chorus of ayes.)

MS. BINGHAM ESCAREÑO: Opposed?

(No response.)

MS. BINGHAM ESCAREÑO: The motion carries.

Thank you. Sandy, Item 3. Presentation, discussion of our recent Internal Audit reports.

MS. DONOHO: Okay. We have two Internal Audit reports that I want to talk about today. The first one is an Internal Audit of the Bond Finance Division’s transfers to the Housing Trust Fund.

Chapter 2306, Sections 204 to 205 of the Texas Government Code requires the Department to transfer a
portion of any excess funds from the Bond program to help fund the Housing Trust Fund. The statute includes a formula to calculate the amount of the transfer.

However, since at least fiscal year 2000, this calculation has not been performed according to the statute. Specifically, the statute requires the highest rated bonds be excluded from the calculation, and all other bonds be included.

Instead, the Division calculated the amount of any potential transfers. And they did this based on guidance that they received from Moody’s Investor Service in 2001. This resulted in all of the bonds being included in the calculation, regardless of their rating.

We calculated the transfer amounts, using the methodology outlined in the statute and determined that as much as an additional $5.5 million could have transferred from the Housing Trust Fund between 2000 and 2002. However, there may never be additional funds available to transfer to the Housing Trust Fund because the large amount of the Department’s multifamily bonds adversely affects this calculation.

Also, the majority of the unencumbered funds are subject to the terms of the bond indentures, which required the Department to meet certain conditions before the funds can be transferred to other programs. It is
important to note that during this time period, that the Bond Division reported that they transferred 12.9 million from the Bond program to other housing programs, outside of the transfers required by this statute.

Management indicated that they believed the annual calculation of the unencumbered fund balance upon which the transfer amount is based should exclude the amounts tied to the bond indentures. However, the statute doesn't define unencumbered fund, nor does it provide guidance on how to calculate the unencumbered fund balance.

The unencumbered fund balance is audited annually by our external auditors, according to the methodology determined by the Department. As a result, we didn't recalculate the unencumbered fund balances using the new interpretation.

In addition to recommending the Division revise their methodology so that future calculations follow the requirements of the statute, they should develop a written policy regarding how the calculation should be performed. I think management was generally in agreement with the findings, and they indicated that they intend to implement the recommendations that we made. Are there any questions regarding this report?

MR. GANN: Did you get a time line on when you
might get that information?

MS. DONOHO: I believe that they were planning on implementing it by August, I think. Mr. Irvine?

MR. IRVINE: Tim Irvine, Executive Director. We are in the process of finalizing an updated standard operating procedure. We will have it in place here within the next few days, hopefully.

We have been in discussions with the SAO folks that are performing our annual audit. The new methodology will be employed in that audit. I would just like to clarify that it is staff’s position that the funds, including cash that reside within and subject to an indenture are by definition encumbered.

MS. DONOHO: And that will be reflected in the policy.

MR. IRVINE: That is correct. Yes. We view this really as a requirement that you identify all of your cash funds.

You look at those that are encumbered, such as those that are indentured or those that are already programmed or set-aside by the Board action as reserves, or you know, already put into the trust fund or whatever. Then if you have residual available cash, that be moved to the Trust Fund.

MS. BINGHAM ESCAREÑO: Any questions for Mr.
Irvine?

(No response.)

MS. BINGHAM ESCAREÑO: Any other questions in general on the item?

(No response.)

MS. DONOHO: The second audit is an internal audit of asset management. Asset management is a newly created division. They oversee the development performance for all multifamily properties, and they perform collections on single family accounts.

Asset management provides oversight of development performance in order to minimize the Department’s risk. Their oversight includes performing a variety of activities, such as processing cost certifications, analyzing financial information, working with troubled properties and delinquent borrowers to return them to good standing with the Department.

Asset management monitors and processes all post carryover activities for developments involving housing tax credits, HOME funds, Housing Trust Funds, and Neighborhood Stabilization Program funds. We evaluated the performance of selected asset management activities, and we found that asset management effectively performs their assigned duties, but there are, I think small opportunities to improve consistency.
Asset management performs the financial analysis when processing ownership transfer requests. The analysis is a high level overview of a borrower’s financial statements.

These analyses are generally performed and communicated to management as required, but they are not always performed in a consistent manner. And I think that is because the criteria that they use to perform them are not specific enough. In addition, they had procedures for this process that were in draft form and were not finalized, when we did the audit.

We attempted to determine the timeliness of the cost certifications that are completed prior to the issuance of IRS Form 8609 to developers for the tax credit program. Although the cost certifications are processed accurately and completely in our opinion, the data is not readily available to determine timeliness, because asset management does not consistently document the request or the receipt of additional information needed for processing cost certifications.

Sometimes, the information that comes in isn’t complete, and they ask for additional information, which sort of stops the clock. But they don’t always know why this clock is stopped, or when it starts back up. And so, we weren’t able to look at timeliness.
Rather than developing their own policies and procedures, they are using guidance developed for divisions previously charged with these tasks. They have developed some policies and procedures of their own, but they haven’t finalized them. Enhancing their policies, procedures and processes, I think, will help increase their consistency and enable them to better track their performance.

Management agrees with our recommendations. They have indicated they were working to implement the recommendations in the report. And I believe that they have reported to us that they have implemented them all.

Are there any questions regarding this report?

(No response.)

MS. BINGHAM ESCAREÑO: Are there any comments on this report?

(No response.)

MS. BINGHAM ESCAREÑO: Mr. Irvine, do you have anything to add?

(No response.)

MS. BINGHAM ESCAREÑO: We will move on to Item 4, then. I don’t think that one requires action. Item 4, presentation and discussion of the status of our external audits.

MS. DONOHO: We have had ten external audits or
monitoring visits scheduled or completed during the current fiscal year. That is about average for this point in the year.

One of these reports we discussed at the January Audit Committee meeting. We received reports on six more of these visits since then, and we are awaiting final reports on three more visits that were recently completed.

In addition, we received two other reports for monitoring reviews completed in fiscal years 2011 and 2012. The details of these eight reports, we will talk about under Agenda Item 5.

We have two other old reports from 2011 and 2012 that I hope to be able to discuss with you at the next Audit Committee meeting. Are there any questions on the status of external audits?

MS. BINGHAM ESCAREÑO: Do we have any questions on the status of external audits?

(No response.)

MS. BINGHAM ESCAREÑO: Any comments? Mr. Irvine?

MR. IRVINE: No.

MS. BINGHAM ESCAREÑO: Okay. Great. Okay. Thank you, Sandy. We will move on then to Item 5. Presentation and discussion of our recent external audit
MS. DONOHO: As I have just mentioned there were eight external audit or monitoring reports that we have received since we last met. Six of these are from this fiscal year, and two are carry-overs from previous years. So, I will go through these pretty quickly. None of them are very lengthy.

The first one is the Statewide Single Audit, which is an audit that is performed every year. It is the SAOs audit that KPMG performs it as a contractor. They had no findings for the Department. So that is good news.

The second one is the Section 8 program’s use of criminal history records information. The Section 8 program performs criminal background checks on program participants as the required.

So this was an audit by the Department of Public Safety, who maintains the criminal history systems used to perform these background checks. They also had no findings from their review.

DOE onsite monitoring of the Weatherization Assistance Program. DOE conducted an onsite monitoring of the Department in February, and they visited combined community action agency in Giddings. They had no findings or concerns.
We also recently received a draft on another DOE report that we will talk about next time. It also had no findings or concerns. So I think that program seems to be doing well, these days.

National Foreclosure Mitigation Counseling Program, Rounds 4 and 5. Mayor Hoffman and McCann PC, under contract with Neighborworks conducted a quality control and compliance review of two of the Department’s subrecipients under Round 4 and 5 of the National Foreclosure Mitigation Counseling Program. That is a mouthful.

These reviews were performed in 2012, and one of them, which was North Texas Housing Coalition, we talked about in September, at our Audit Committee meeting. The second review, which was Austin Habitat for Humanity was recently closed down.

This review found that due to a conflict of interest at the subrecipient level, there were 20 clients that were ineligible. The associated funds totaled $8,191.50. They were deobligated. And $2,825 in costs for removal of the ineligible records were repaid to Neighborworks.

Austin Habitat for Humanity reimbursed the Department for these amounts. And consequently, the auditors stated that the findings for this review were
cured and closed.

DOE, OIG monitoring of the Weatherization program. Lanny Elco and Company, CPA, under contract with the Department of Energy, Office of Inspector General reviewed the ARRA Weatherization Assistance Program at Travis County Health and Human Services and Veterans Services program for April 2009 through June 2011.

They completed this field work in August of 2011. The final report was received by the Department in April of 2013. This makes all of the rest of us auditors feel good about the timeliness of our reports.

This audit identified two findings. Travis County didn’t have procedures in place to ensure compliance with federal requirements that prohibit use of federal funds to weatherize dwellings designated for acquisition or clearance by a federal, state or local program within twelve months from the date of the weatherization. As a result of this finding, Travis County developed a disclosure form and implemented it in February of 2013.

There were also signatures that denote authorization and/or approval of weatherization services that were missing. And two additional client files were missing key documentation, such as invoices or final inspection reports.
The missing documents were stored elsewhere, and were later provided to the auditors. But they mentioned that they didn’t find them the first time they looked.

They also conducted an audit of the Alamo Area Council of Government during this same time period; August 2011. We recently received a draft report on that, and hope to talk to you about it at the next Audit Committee meeting.

MS. BINGHAM ESCAREÑO: Wow.

MS. DONOHO: HUD Section 8 Management Assessment Program, C-MAP review. HUD conducts an annual review of the Section 8 program. And they calculate an overall score, based on various factors that they measure and evaluate.

This year, the Department scored a 100, and was designated as a high performer. So good news for the Section 8 program.

The State Auditor's Office did a statement of auditing standards 119, review of the HUD re-aq, which is a real estate assessment center data. The State Auditor's Office compared and reconciled data from the Department’s financial data schedules to the accounting records used to prepare our financial statements, and to the financial statements themselves.
These stated that the financial data schedule was fairly stated, in all material respects, in relation to the financial statements as a whole. This work is performed as part of the Department’s required submission of data to HUD for the Section 8 program that occurs in August. This was some agreed upon procedures that they did under contract with the Department.

The final one is the National Foreclosure Mitigation Counseling Program Round 6. They had no findings and no further action was required from the department on that one. So most of these reports, I think, or probably all of them are good news. Are there any questions regarding any of these reports?

MS. BINGHAM ESCAREÑO: Committee members, do you have any questions regarding these?

(No response.)

MS. BINGHAM ESCAREÑO: Any comments?

(No response.)

MS. BINGHAM ESCAREÑO: Well, you make it sound so easy. And those are some pretty significant audits. And the fact that there were little to no significant findings is really, I think, a testimony to the good work of the staff, and all of the divisions. So congratulations to the Department, and all of the divisions.
I know it is time consuming. I am sure you are just anxiously awaiting that A-COG report back from 2011, that we finally got in draft form. So, great. Any other questions on that item?

(No response.)

MS. BINGHAM ESCAREÑO: If not, we will move on to Item 6. Presentation and discussion of the status of prior audit issues.

MS. DONOHO: We are currently tracking 35 prior audit issues. And this is the time when I always remind everybody that when I started at the Department, I had 457 of these.

Thirty issues were recently reported by management as implemented, and are reflected on the list that is in your Board book. These issues are all from the last year, or so.

We are going to verify and close these issues, once we have reviewed the supporting documentation. We generally try to do that at the end of the fiscal year. And we have already started working on these.

So hopefully, the 30 that have been reported as implemented will be cleared out, and go away in time for the start of the fiscal year. As a reminder, at a prior Audit Committee meeting, we determined that the NSP issues, the Neighborhood Stabilization Program could be
closed when the program reaches its expenditure deadline, which was extended to August 18, 2013.

Of the 30 implemented issues, 15 were for the Neighborhood Stabilization Program. Five are for the HOME multifamily program. Four for financial administration. Four for homeless housing and services, and two for community affairs.

There are five issues that are still pending, and they are reflected on the attached list. We will verify and close these issues once they are reported to us as implemented.

Of these, three are for multifamily finance. They are from a HUD monitoring in August 2012, related to the Uniform Relocation Act requirements. One is for the Neighborhood Stabilization Program from a HUD OIG report. And it is related to meeting program requirements as well. One is for the Compliance Division. It is from an August 2012 HUD monitoring. The same one that the multifamily ones are from. It is related to Sterling multifamily projects currently in asset management. Are there any questions regarding our prior audit issues?

(No response.)

MS. BINGHAM ESCAREÑO: Do the Committee members have any questions on prior audit issues?

(No response.)
MS. BINGHAM ESCAREÑO: Any comments?

(No response.)

MS. BINGHAM ESCAREÑO: Okay. Thank you. All right. Final item, Item 7 is presentation and discussion of the status of the Fraud, Waste and Abuse Hotline and any other fraud complaints.

MS. DONOHO: In fiscal year 2013, up to July 15th of this year, Internal Audit received 75 fraud complaints. That is probably about average.

But some of them took a little more time this year than in previous years. Of these, 56 were received on our hotline. Nineteen were received from other sources.

Of our hotline calls, eleven were related to the Department’s programs and staff, and 45 were not related to the Department’s programs or staff. But we referred these callers to the appropriate agency for assistance.

It takes some time to figure out if a complaint is one of our developments, one of our Section 8 clients, something like that. And then, to figure out where we need to refer these folks if they are not somebody that is a client of ours, or who lives in a development that we oversee.

Of the 19 complaints that were received from
other sources, 16 were related to the Department’s programs and three were not. The sources for the 19 complaints that we got from other sources were nine from the public, six from Agency staff, two from the State Auditor’s Office. They refer complaints back to us if they get complaints that are related to our programs.

One from a sub-recipient and one that was a media call, I believe. Forty eight of the 75 complaints we received were not under the Department’s jurisdiction. Twenty seven remaining complaints were resolved as follows: twelve were closed, eight we determined were unsubstantiated, six were referred to the State Auditor's Office or other agencies, other oversight agencies like DOE-OIG, HUD-OIG.

Generally, we will make a referral to both the State Auditor's Office and the oversight agency. And there was one pending that we received in April.

That is a little different from what is in your Board book, because we closed two more after the audit book was posted. Are there any questions regarding the fraud hotline or fraud complaints?

(No response.)

MS. BINGHAM ESCAREÑO: Are there any questions about the fraud hotline from the Committee members?
(No response.)

MS. BINGHAM ESCAREÑO: So there were 75 total calls that came in, but of those, really only 27 were relevant to the Department or any of the divisions?

MS. DONOHO: Yes, ma’am.

MS. BINGHAM ESCAREÑO: And those are all, either ten of them are closed, the rest of them are in process somewhere?

MS. DONOHO: Right.

MS. BINGHAM ESCAREÑO: Any other questions, comments on that item?

Mr. McWatters?

MR. McWATTERS: Sandy, of the six that were referred to the State Auditor's Office, when will we hear something about those?

MS. DONOHO: That is a good question. Generally, we don’t hear anything at all about these complaints, because they are investigating them, and we are not privy to that information.

So they will issue a letter when they have either -- generally, when someone, if it is a -- like a criminal offense, or when a conviction is obtained. Sometimes, it takes two or three years.

We have gotten letters that were long before my tenure in the Department that they have resolved in the
last couple of years. So you know, I got a call yesterday from HUD-OIG about some disaster recovery complaints that we made in 2006. So, and those cases are still pending with the U.S. Attorney’s Office. So sometimes, it is years before we get a resolution on these cases.

MR. McWATTERS: Okay. But I assume sometime along the continuum, we will receive some feedback.

MS. DONOHO: Yes.

MR. McWATTERS: So we can improve our internal control procedures?

MS. DONOHO: Right. They will send us a letter saying, here is what happened with this case. If they close it. Sometimes, those cases sit out there for a long time. So, and I communicate with them fairly regularly, and occasionally, they will tell me what is going on with a particular case.

MR. McWATTERS: Thank you.

MS. BINGHAM ESCAREÑO: Sandy, so you make notes on kind of a cumulative log? In other words, those items that are referred, they stay open until you hear otherwise?

MS. DONOHO: Yes. And we keep a spreadsheet. And we actually have, in our audit software, we have an actual audit setup for the fraud complaints. So we have a spreadsheet for tracking, or actually, two spreadsheets.
that track either our interim complaints or external complaints. And we keep track of those.

And we have them set up for the last few years, since I have been here. So you know, even if something gets resolved from say, 2006, 2007, we can go back and look it up, and note that. So we do track all of those.

MS. BINGHAM ESCAREÑO: We should have known that your department would audit the fraud log. That is great.

MS. DONOHO: And Betsy Schwing, who works for me, is the person who handles all of that in addition to her other duties.

MS. BINGHAM ESCAREÑO: Good. Thank you very much. That concludes all of the posted agenda items.

Are there any other questions from the Committee members?

(No response.)

MS. BINGHAM ESCAREÑO: Any comments from the group?

(No response.)

MS. BINGHAM ESCAREÑO: Then that will conclude the Audit Committee meeting for today. Thank you very much.

(Whereupon, at 9:25 a.m., the meeting was concluded.)
CERTIFICATE

MEETING OF: TDHCA Board Audit Committee
LOCATION: Austin, Texas
DATE: July 25, 2013

I do hereby certify that the foregoing pages, numbers 1 through 26, 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.

7/31/2013
(Transcriber) (Date)

On the Record Reporting
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