TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

AUDIT COMMITTEE MEETING

9:00 a.m.
Thursday, May 8, 2014

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

MEMBERS PRESENT:

LESLIE BINGHAM ESCAREÑO, Chair
TOM GANN
MARK McWATTERS

STAFF PRESENT:

TIM IRVINE, Executive Director
SANDY DONOHOO
## AGENDA ITEM

**CALL TO ORDER, ROLL CALL, CERTIFICATION OF QUORUM**  
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**PUBLIC COMMENT**  
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### CONSENT AGENDA

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PROCEEDINGS

MS. BINGHAM ESCAREÑO: Call the Audit Committee to order and take roll real quickly. I am here. Mr. Gann?

MR. GANN: Here.

MS. BINGHAM ESCAREÑO: Here. And Dr. McWatters is here.

MR. McWATTERS: Here.

MS. BINGHAM ESCAREÑO: Very good. We are all present, then. All right. We'll go ahead and start with the agenda. Our first item for action is the review and possible approval of the minutes. You had those in your packet.

Sandy, do you have any comments on the minutes?

MS. DONOHO: Just for the record, I am Sandy Donoho, Director of Internal Audit. The Audit Committee minutes for January 23, 2014, our last Audit Committee meeting, are in the Audit book. Are there any questions regarding the minutes?

(No response.)

MS. DONOHO: If not --

MS. BINGHAM ESCAREÑO: Do you have any questions?

(No response.)

MS. DONOHO: If not, staff recommends approval
of the minutes.

MS. BINGHAM ESCAREÑO: Very good. I will entertain a motion.

MR. GANN: I will move, make a motion to approve the minutes.

MS. BINGHAM ESCAREÑO: Okay. Mr. Gann motions.

MR. McWATTERS: Second.

MS. BINGHAM ESCAREÑO: Dr. McWatters seconds.

All of those in favor, aye.

(Chorus of ayes.)

MS. BINGHAM ESCAREÑO: Opposed?

(No response.)

MS. BINGHAM ESCAREÑO: The motion carries.

Okay. Let's review Item 2, presentation and discussion on the status of the fiscal year 2014 Internal Audit workplan.

MS. DONOHO: Okay. There are six audits on the plan this year, plus one contingency audit. We have completed four of the six audits, and we will talk about these under Agenda Item 3.

We are finishing up our planning on the audit of financial administration. And we are currently conducting field work on the performance measures audit. Performance measures was our contingency audit, which we put in our plan, in case there weren't any Board requests.
We had a few hundred extra hours that we could use for Board requests. And if not, then we were going to do the performance measures audit. We went ahead and started that, because we are going to be shorthanded this summer, and it made more sense to start those two audit, rather than start the two largest audits on the plan with only two staff.

So we anticipate that the final audit on our plan which is the home audit, will be our carryover audit. We always try and have one that we carry over into next fiscal year, so that we can get a new audit plan in place in September. And the staff is working on that audit, while we are developing the plan.

It will be done sometime -- we will start it late July or early August. And we plan on having it done later this fall. That way, we will have time to prepare the 2015 plan for September.

In January, I talked to you about the fact that we were somewhat behind, due to some staffing issues. And I am happy to report that through a lot of hard work, we are now caught up. I did a lot of auditing myself, actually.

I anticipate we will be able to complete this year's plan in spite of being about six months of one FTE down for this year. We had one staff that was out for
three months. And we now have another staff out on
maternity leave for three more months.

We are, however, excited about the new arrival,
which is Jacob Francis Klute. He was born on Sunday. And
he weighed in at 6 pounds, three ounces, and everybody is
doing fine. So we have a new little auditor. Any
questions on the status of the audit plan?

MS. BINGHAM ESCAREÑO: I am sure he is going to
appreciate when he is older being called the new little
auditor, but we will see how that goes. Any questions for
Sandy on the Internal Audit workplan?

(No response.)

MS. BINGHAM ESCAREÑO: Great job. Great job
catching up. Thanks for the heads up, because you
definitely had some workforce obstacles earlier. But it
is good to know that we are caught up. Let's see, action
item or no?

MR. GANN: No.

MS. BINGHAM ESCAREÑO: Okay. Very good. We
will move on to Item number 3 then, presentation and
discussion of the most recent Internal Audit reports. We
will start with LIHEAP and then Amy Young after that.

MS. DONOHO: Okay. As we talked about, we
completed three audits since the last meeting. One of
these I wanted to mention real quick was the Manufactured
As you may recall, we have an agreement with the Manufactured Housing Division to provide audit services in exchange for partial funding of one of our staff positions. They have a separate Board. So we report the results of that audit to their Board rather than to you all. But I wanted to make you aware of this audit, because it is on our plan, and it utilizes some of our audit resources.

The LIHEAP audit was one that we recently completed. The Department administers the LIHEAP grant. It is provided by the Department of Health and Human Services. The Department has a subrecipient network of 44 nonprofit community action agencies, councils of government and local governments that administer these grant funds for us.

LIHEAP provides for two programs; the Comprehensive Energy Assistance Program also called CEAP, and the Weatherization Assistance Program, called WAP. CEAP provides utility assistance to low income households and WAP provides funds for weatherization-related home improvements and client education.

The 2014 LIHEAP grant is $128.7 million. So it is one of the largest funding sources in the Agency. Overall, we found that the Department generally ensures
grant funds from LIHEAP are spent as intended by our federal, state and program rules.

The Community Affairs Division has processes in place to track the performance of its subrecipients in using LIHEAP funds to provide services to eligible households. Also there are processes in place to track subrecipients' progress through the contract period, reconcile reported expenditures to the Department's accounting system and reallocate funds as needed, to ensure that as many households as possible are served.

We tested a judgmentally selected sample of 48 of the Department's administrative expenditures. This included twelve months of payroll reports and 36 non-payroll transactions that were paid between January 1, 2011 and December 31, 2013, using LIHEAP funds.

We didn't find any problems with payroll costs allocated to LIHEAP. But the basis for other administrative expenses that were allocated to LIHEAP cannot always be determined from the supporting documentation.

Eleven or 30.6 percent of the 36 non-payroll transactions we tested did not indicate on the expense documentation how the allocation was determined, and how it was calculated. And without adequate documentation for cost allocation to LIHEAP funds, it is hard to tell
whether the allocation is reasonable and allowable. The rationale for cost allocations should be noted on the purchase request or purchase vouchers in order to document that reasonableness, and allowableness of the cost.

Also, we felt like the Community Affairs Division should review the LIHEAP expenditure reports on a regular basis, so that they can catch and correct errors promptly. Management has indicated they agree with the recommendations and they are working to implement them.

Any questions on the LIHEAP report?

MS. BINGHAM ESCAREÑO: Committee members, any questions on LIHEAP?

(No response.)

MS. DONOHO: Okay. The second audit that we have completed is the Amy Young Barrier Removal program. The Amy Young Barrier Removal program is funded through the Housing Trust Fund. Those are state funds appropriated by the Texas Legislature.

The Amy Young program provides one-time grants of up to $20,000 for persons with disabilities who need modifications to increase accessibility of their home or eliminate hazardous conditions. During 2012 and '13, $5.2 million was committed and expended for Amy Young. So it is a smaller program, but one that we have never looked at, because it is relatively new.
We determined overall, the program is providing services as intended, and in accordance with the Department's policies. We looked at a judgmental sample of 50 activities which are basically 50 homes that work was done on. And we looked at every stage of those transactions through the completion of construction and the draw request.

We didn't find any significant problems at all. I think they are doing a good job with those. However, when we were looking at the activity setup phase, we noticed that both the first- and second-level review is performed by the program staff. Part of the reason, I think, is because they only have three or four staff.

So and each staff has two separate logins to the Department's housing contract system, so that they can be both first- and second-level reviewer. I think there is a risk there that one individual could review a file and then approve their own work.

There are some compensating controls. It has to go through accounting in order to be paid and that sort of thing, so, you know, one would hope that they would catch it if somebody tried to pay themselves or something like that.

We didn't notice any instances of this happening in the files that we looked at. The approver
and reviewer were two separate people. However we recommended that the program ensure that individuals who perform the review of the activity setups are also not performing the second-level review of those same activity setups.

I think they could do that by maybe management or one of the supervisory staff reviewing those transactions to make sure that that doesn't happen, or periodically testing them. Management indicated they agree with this recommendation, and they are working to implement it as well. Are there any questions regarding this one?

MS. BINGHAM ESCAREÑO: Questions? Is it an electronic approval or a manual?


MS. BINGHAM ESCAREÑO: And there is no IT solution for that, to like have --

MS. DONOHO: We can talk to Curtis and see.

MS. BINGHAM ESCAREÑO: Just curious.

MS. DONOHO: Because we have had this problem on other programs as well.

MS. BINGHAM ESCAREÑO: Okay. Good morning.

MR. HOWE: Good morning. Good morning Audit Committee members. I am Curtis Howe, Director of Information Systems. There is actually a control within
the system that prevents the approval of -- that prevents
one user ID from receiving both the first-level and the
second-level approval roles.

What has happened is, because the staff is
smaller, they have requested two accounts. And so that is
actually moving around the control. We did discuss with
Internal Audit that we could implement a control. It may
be fairly expensive, like 40 to 80 hours of development
work.

But we could -- it is something we have
discussed and we could look at doing it, if we needed to.
I think we were recommending a reporting control where
reports are periodically run.

MS. BINGHAM ESCAREÑO: Okay. Thank you.

MS. DONOHO: And the reason that we didn't
recommend that they go the IT route is because of the time
and expense of the priority for the IT projects. I think
that when we talk with management about what the, you
know, best recommendation would be that they could
implement, that was not their choice.

MS. BINGHAM ESCAREÑO: Okay. Any questions for
Curtis?

(No response.)

MS. BINGHAM ESCAREÑO: Thank you.

MR. HOWE: You are welcome.
MS. BINGHAM ESCAREÑO: So management is comfortable with putting a manual process in place to take care of it. Great.

MS. DONOHO: That is my understanding.

MS. BINGHAM ESCAREÑO: Good. Okay.

MS. DONOHO: Next up.

MS. BINGHAM ESCAREÑO: So let’s see. So that covers LIHEAP and Amy Young. So congratulations to Brooke and Olmedo, great job. I know it is a new program. And it sounds like it was a really favorable audit result. So great work on your part.

And I was going to mention, too. I had an offline question with Sandy about manufactured housing and that it doesn’t even come through this Audit Committee. We were clear, it doesn’t go through our Board.

But it really doesn’t even go -- it is a small enough board. And manufactured housing that the results go directly to them. But I saw an email from the Executive Director that was thanking the Audit team for their professionalism and the thorough audit.

So great job with taking care of that through an agreement that we have with that organization. If there are no other questions, then, we will move on to Item 4, presentation and discussion of the status of our external audits.
MS. DONOHO: We have completed or had completed four external audits, or they are underway. The State Auditors Office completed our annual financial reports. We talked about those in January.

KPMG completed work on the Department's portion of the statewide audit of federal funds. We will talk about that under Agenda Item 5.

The State Auditor's Office is also working on the audit of the Texas Facilities Commission and their management of state agency data center security. They had selected the Department as one of the agencies they examine as part of the audit of the Facilities Commission. We anticipate that they will have some issues for us, though.

And that report, I believe, will be issued in June. They have not yet given us their draft report or anything on that. And HUD announced they will be visiting us in June as well, to look at the emergency solutions grant program.

I am a little bit concerned about the decrease in audits or monitoring visits from our federal oversight agencies this year. Last year around this time, we saw ten visits from these agencies compared to the four that we have only had this year.

If this trend continues, it may be necessary to
talk about increasing our resources and efforts in order to cover the association -- the associated risks that we have had. We can talk about this more in the fall when we see what happens in the last quarter of this fiscal year. Sometimes the auditors, the federal auditors schedule their stuff toward the end of our fiscal year, and during the summer.

So not really sure how that is going to all shake out. But right now, they don't seem to be visiting us at the same degree that they have in the past six or seven years.

MS. BINGHAM ESCAREÑO: Do you guys have any thoughts on that?

MR. GANN: I hope that is due to that ARRA stuff.

MS. DONOHO: Some of it could be. Yes.

MR. GANN: Most likely. Because we were finishing up, last year.

MS. DONOHO: But even six or seven years ago, we were still running you know, about eight to ten visits.

MS. BINGHAM ESCAREÑO: So just some thoughts on -- so we will chew on it until next Committee meeting. But just some thoughts on what do we need to do internally, just to make sure that we are watching things that traditionally were watched on a more regular basis
externally.

Okay. Thank you for bringing that to our attention. Any other questions on the status of the external audit?

(No response.)

MS. BINGHAM ESCAREÑO: Awesome. Then we will move on to Item 5, presentation and discussion of the recent external audit reports.

MS. DONOHO: Okay. KPMG under contract with the State Auditors Office released their report on the statewide audit of federal funds in March. They only had one finding for the Department. Last year, we didn't have any findings. This year, we only had one.

The Department didn't retain documentation to support the number of elderly, disabled and young children on an annual report that is required for the LIHEAP rollout grant. They also looked at LIHEAP this year, but what they audited was different from what Internal Audit looked at.

This was because the database that Community Affairs uses to track this information continuously overwrites. And they didn't print out the reports or keep the reports that supported the numbers that they had. So KPMG recommended that they retain the supporting documentation for all the federal reports that they file.
MS. BINGHAM ESCAREÑO: There was not a problem with that.

MS. DONOHO: There was no costs associated with that, no correction costs. Any questions?

MS. BINGHAM ESCAREÑO: No questions?

(No response.)

MS. BINGHAM ESCAREÑO: Very good. We will move on to Item 6.

MS. DONOHO: Okay. Item 6 is presentation and discussion of the status of prior audit issues. We added new issues to our prior audit issues list after the Board has been briefed on the audit results. And so, the number is never static.

For example, now that we have briefed you on the two internal audits we talked about under Item 3 and the external audit finding we just talked about, they will be added to the list of tracked. The findings that roll off of the prior audit issues list when we verified and closed them.

We recently verified and closed several issues that were reported as implemented in January. We have six left. Of the six that we have remaining on our prior audit issues list, five were recently reported by management as implemented, and they are on the attached list. We will verify and close these, once we have
reviewed the supporting documentation.

I believe several of them will require us to go back and do some testing before we can close them. So we will probably work on those hopefully later on this summer. The five issues cover multiple divisions.

We have one issue that is still pending. It is on the attached report. And it is for the Asset Management Division. And it is related to, I think, some properties that HUD wanted us to clear up. Are there any questions regarding prior audit issues?

MS. BINGHAM ESCAREÑO: The detail was in the packet, if any questions on the open items?

(No response.)

MS. BINGHAM ESCAREÑO: Very good. Great.

Thank you, Sandy. Item 7.

MS. DONOHO: Is our Fraud, Waste and Abuse complaints. In 2014, as of April 15, we had received 67 fraud complaints. This is an increase over the 54 that we had last year at this time.

Even if most of the complaints don't involve the Department, it still takes significant staff time -- that would be my staff, generally -- to investigate, respond, document and dispose of all of these complaints. We are considering adding some additional information to our Internal Audit webpage to try and cut down on the
number of complaints that we receive that don't involve TDHCA.

We really felt like even though the numbers are really -- you know, 13 more, that we seem to have gotten just a big blow of those in the last three months or so. But we don't want to discourage any legitimate complaints. So we answer all of them. Of the 67 we received, 63 of them were on our hotline. Only ten of them related to the Department.

The other 53, 51 we worked and then there were two that we didn't have enough information to determine. A lot of times there are other agencies, or they think that they are one of our properties and they are not. Or think that they are a Section 8 client of ours, and they are not.

We received four complaints from other sources. All of those were related to the Department's programs. There was one for CEAP, WAP, one for CSBG, one for Compliance, one for Tax Credits. The sources for those complaints were staff. One from the public and one from one of our contract administrators.

Fifty-four of the 67 complaints we received were not under the Department's jurisdiction. That is 80 percent. The thirteen complaints that we did feel were applicable and we resolved, seven were investigated and
closed. Four were referred to the State Auditor's Office or other oversight agency.

Sometimes -- we always refer anything that we feel is fraudulent to the State Auditor's Office. And then sometimes, depending upon the agency, HUD or our other oversight agencies, we will refer them there as well. And two are pending.

Both of the pending ones were received in March 2014. So they are relatively new. And I believe Compliance is looking into those. Are there any questions regarding the hotline calls and fraud complaints?

MS. BINGHAM ESCAREÑO: Any questions?

(No response.)

MS. BINGHAM ESCAREÑO: So the hotline, it is a push-button prompt. Are you guys brainstorming, if there is a way through the prompts, that if you can direct people to the hotlines of the appropriate organizations for the complaints?

I mean, you have a good point. If only 13 of 67 contacts were actually, you know, for agencies that we oversee, then --

MS. DONOHO: The problem is that it is not a prompt -- we have a third-party contractor. And they call the -- because it is totally anonymous.

And they call the third party contractor. And...
they have a person who just interviews the person who
calls. They also accept complaints in the mail and via
email. Those are a little harder to control.

We have a link on the front page of our website
that is required by statute that has the State Auditor's
Office hotline, and then we also have a link to our
hotline. And then, if you click on that link, it takes
you to the information about the hotline. And so that is
where we were planning on maybe, you know, elaborating a
little bit more about maybe here is the kind of things we
cover.

Because lately, it seems like we have gotten
complaints that are way out in left field that have
nothing to do with housing, really. There are complaints
that would be more appropriate for Children's Protective
Services or for the police department or something like
that. And so those, at least, if we cut down on those,
that might help a little bit.

MR. GANN: I had a question about the sources.
Tell me how, just an example of maybe what may come in
from staff. How does that work?

MS. DONOHO: Well, we have had personnel issues
come in from staff. We have had issues about the
recipients come in from staff. You know, I looked at this
file, and it just looks funny. Or you know, there is a
subrecipient here who would be --

MR. GANN: That is okay. I just wanted to see what an example would be.

MS. DONOHO: You know, here is what they did. You know, a lot of times, we get questions about, you know, we think this is fraud. And it is not really fraud. It is bad management or questionable decision making or something like that, that doesn't necessarily rise to the level of fraud. But you know, I personally would rather weed through all of those than not get them at all.

MR. GANN: Sure.

MS. DONOHO: But I think if we can kind of target toward -- you know, we get a lot of complaints from people who say, Well, this person lives in supportive housing and they are not -- you know, they have other sources of income. They have a job under the table. That sort of thing. And you know, a lot of times, they are not one of our clients, or they don't live in a tax credit property.

And so, or they are a Section 8 client, that is not under our jurisdiction, because they are in a participating jurisdiction. So then we just refer them to the housing authority, you know, the City of Dallas, here is the phone number for the Housing Authority. So in some ways, a public service as well.
MS. BINGHAM ESCAREÑO: Any other questions?
(No response.)

MS. BINGHAM ESCAREÑO: That is the last agenda item on the formal agenda. Anything else from the Committee?
(No response.)

MS. BINGHAM ESCAREÑO: Any comments from staff, public?
(No response.)

MS. BINGHAM ESCAREÑO: Then this will conclude the Audit Committee meeting. Thank you very much. We are adjourned.
(Whereupon, at 8:30 a.m., the meeting was adjourned.)
CERTIFICATE

MEETING OF: TDHCA Board Audit Committee
LOCATION: Austin, Texas
DATE: May 8, 2014

I do hereby certify that the foregoing pages, numbers 1 through 24, 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.

/s/ Carol Bourgeois 05/12/2014
(Transcriber) (Date)

On the Record Reporting
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