TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

AUDIT COMMITTEE MEETING

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

October 9, 2014
8:30 a.m.

MEMBERS:

LESLIE BINGHAM ESCAREÑO, Chair
J. MARK McWATTERS, Member
TOM H. GANN, Member
M. BETSY SCHWING, Secretary of the Committee
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PROCEEDINGS

MS. BINGHAM ESCAREÑO: Good morning. We'll call the Audit Committee of the Texas Department of Housing and Community Affairs to order.

We'll just do roll call quickly. Mr. Gann?

MR. GANN: Here.

MS. BINGHAM ESCAREÑO: And I'm Leslie Bingham Escareño, I'm here. And Mark McWatters is not here. So we'll have two present, which constitutes a quorum, so we will be able to conduct business.

Good morning, everybody.

Betsy is up here as interim director so she'll be working with us through the committee agenda today. Let's go ahead and start with item 1 which is the presentation, discussion and action on the minutes from the May 8 meeting. Those minutes are available in our board book. If you have any recommendations for changes, otherwise, we'll entertain a motion to approve.

MR. GANN: I'll make the motion to approve.

MS. BINGHAM ESCAREÑO: Very good. Mr. Gann moves to approve. I'll second. All in favor?

(A chorus of ayes.)

MS. BINGHAM ESCAREÑO: Opposed?

(No response.)

MS. BINGHAM ESCAREÑO: Very good. Motion
All right. Item 2 is not an action item but a report, presentation and discussion of the status of the Internal Audit activity. Betsy, would you like to give us that overview?

MS. SCHWING: Absolutely.

For the record, my name is Betsy Schwing. I'm the acting Internal Audit director at TDHCA.

Since last the Audit Committee met in May of 2014 there have been quite a few changes in the Internal Audit Division, and I just wanted to bring you up to speed with some of those.

First of all, our staffing has changed quite a lot. As you know, last time we were here there were four members of the Internal Audit Division. Since that time, Sandy Donoho has retired, and she's moved to Tennessee, and in addition to that, Nicole Kludt has left the agency to go work at the Department of Assistive and Rehabilitative Services. Both of those are a tremendous loss to our Audit Department, so I wanted to keep you up to date on that.

Currently the Audit Department is Derrick Miller and myself.

MS. BINGHAM ESCAREÑO: The cheese stands alone.

(General laughter.)
MS. SCHWING: Hi, Derrick, and good morning. We have a vacant director position and a vacant staff auditor position.

And that's one of the things I want to talk about today during this meeting, and know it will be a discussion item for the Governing Board meeting. Tim has a board action request for the Governing Board. He's recommending to reduce the Internal Audit staff from one director and three auditors to one director and two auditors. And I just wanted to talk about that a little bit because I think it's something that needs to be discussed in detail.

In 2002, according to our HR Department, there were four FTEs starting in July of 2002. As the division and the department changed a little bit because of ARRA and because of the disaster recovery, the staffing went up to six and that was four full-time equivalent employees and two temporary employees. And of course, when ARRA went away and disaster recovery was moved over to the General Land Office, we no longer needed those two temporary positions, so they are gone and we went back to a staff of four people. Then we lost our two staff this year and it's been quite a challenge, but Derrick and I are moving on. We've done two audit reports since our last meeting, and we'll tell you about that a little bit
later.

This is another important thing to consider when we're talking about staffing is our annual audit plan. I put that plan together not knowing what the makeup was going to be of Internal Audit. I created the plan calculating different scenarios for available audit hours. I did it based on two auditors, 2.5, three, 3.5, and of course, you don't have a half a person but you might have an auditor who is just there for half a year, so that's how that scenario worked out.

It's difficult to talk about the audit plan just yet, it will be coming up shortly, but when I prepared this audit plan, I did it based on three staff for twelve months, and the way it is right now, we're already one month into our fiscal year so we've lost out on about 350 labor hours. I think the staffing is important to talk about because it is going impact the work plan which will be presented shortly.

Another thing that's new for the Internal Audit Division is that management has expressed an interest in consulting engagements, and that's something that we haven't historically done in the Internal Audit Division at TDHCA. Of course, the Internal Audit Standards allow consulting engagements. After all, consulting is in the definition of internal audit.
There are several things to consider when doing a consulting engagement, and these things need to be set out up front. For example, when a consulting engagement is performed, it's important that the auditors do not impair their objectivity or independence. The auditors do not assume management responsibilities. The scope, procedures, expectations and deliverable of the non-audit service must be agreed upon and documented prior to the commencement of the engagement. And any deficiencies noted by the auditors must be reported to management and the Audit Committee.

In addition, if the auditors determine that management has decided to accept an unacceptable level of risk, this information must be reported to the Audit Committee. And also, internal audit summarizes the key consulting services and non-audit services, the observations, results and recommendations must be reported to the State Auditor's Office. Any impairment to an auditor's independence or objectivity while performing a consulting service may prevent the auditor from performing future assurances down the road, but as long as the engagement is carefully planned to satisfy the standards and the requirements, the internal auditor can perform the consulting engagement. So I just wanted to make sure that was very clear because we haven't done consulting
engagements in the past.

   Another item I want to make you aware of is the upcoming report to the State Auditor's Office. The Texas Government Code 2102 requires the Department's internal auditor to prepare an annual report and submit the report by November 1 of each year to the Governor, the Legislative Budget Board, the Sunset Advisory Commission, the State Auditor, the Department's Governing Board, and the Department's executive director. So that is coming up, that will be due on November 1.

   And that's kind of the update on the Internal Audit Division. I wanted to make sure that you all were aware of what's going on there.

   MS. BINGHAM ESCAREÑO:  Great, Betsy. Let's take just a minute, if it's okay. So that was kind of a lot to digest but I appreciate Betsy kind of walking us through where we are. So in the face of having some change in leadership in the department and also having a staff member leave, it presents -- and Betsy and I have kind of discussed this -- this presents kind of a unique opportunity. On one hand, things are a little disrupted already and I think Betsy and Derrick continue to do an excellent job plugging away on what they know their responsibilities continue to be.

   But we are kind of presented, also, with an
opportunity to kind of look at the department and the
function and the contribution to the agency with fresh
eyes and try to figure out if there's an opportunity to do
things differently or to look at things like consulting
right now. So it's kind of a double-edged sword or pros
and cons: one, we're already in a little bit of a
disruptive time, but two, is it the right time then to
kind of look at what other things we can do. So Betsy has
done a great job of kind of giving the overview.

This isn't an action item, but it would
probably be good, since this will be something that the
Board will be looking at today in the Board meeting, to
have any other questions or comments right now. So I
don't know if you have any questions, Tom, or if we'd like
to hear from Tim from management perspective about what
the opportunities are, what we're looking at.

MR. GANN: I mean, we're in an obvious
situation, so I don't have any questions on that, but I
would like to hear from Tim to give us some ideas.

MS. BINGHAM ESCAREÑO: Good morning.

MR. IRVINE: Good morning, Madam Chair and
Betsy. My name is Tim Irvine. I'm the executive director
of the Department.

We think that internal audit is incredibly
valuable and incredibly useful, and at the same time, as
executive director, I have to balance a lot of concerns. We are in a straitened situation with respect to available funding resources. Every place that we can identify available funding resource and reapply them to things like more compliance monitors and so forth, those are things that I really need to be on top of, but I really did not approach this from that sort of selfish perspective.

The way I looked at it was going back to the early 2000s, internal audit was doing some exceptional things. There was staffing relative to the introduction of enterprise-wide risk management with RP-36, followed shortly thereafter by disaster recovery response and ARRA, and it is just now that the Department is beginning to move back into line with normalized funding activity where it does not have a lot of exceptional programmatic or other activity going on. And in addition to coming back into that normalization pattern, it's dealing with declining funding in some significant sources. For example, the HOME funds, our largest federal housing funding source, has gone from $40 million a year to $24 million a year, and that has necessitated a lot of difficult choices with regard to staffing.

I think throughout the agency we have dealt with tough choices on staffing. Three years ago the executive director had a chief of staff and dedicated
administrative assistant and the chief of staff had

dedicated administrative assistant. Today that is me,

period. Other similar kinds of reductions have gone on in

programmatic areas. We've had to tighten our belts. So

that's simply an assessment of the operating environment.

With regard to the way that I actually

approached this exercise, I'm kind of back of the envelope

math sort of guy, and I figured, all right, we've got a

certain number of scheduled work hours in a given year, we

get a certain number of state holidays, people typically

take vacation. The Department average vacation taken

during the past fiscal year was 13-1/2 days, a little

under three weeks.

So I assumed that an FTE in Audit was going to

work the scheduled hours, take three weeks of vacation,

take all of the state holidays, work no comp time, no

additional overtime, and that when you multiplied those

three FTEs with those dynamics, you came out with a

projection of about 5,500 hours and you've got an audit

plan proposed that's 3,575 hours. It seemed to me that

that was a reasonable cushion. The Internal Audit

Division had a really tough year last year, they had a lot

of unusual circumstances that necessitated some people

working reduced hours. Even at that reduced level, if I

take the average for the entire Audit Division and
multiply it by three, I get 4,581 hours worked which is still close to a thousand hour cushion.

So given a cushion that appears to be somewhere in the range of a thousand to two thousand hours, or half an FTE to a full FTE, if you want to speak in those terms, it seemed reasonable to me to recommend taking it down to three.

I also cannot emphasize too strongly this is simply management input and a recommendation, but I completely respect that you need to look to our director of Internal Audit, and it's ultimately a Board decision. I don't decide how to staff Internal Audit.

I also am very open to the possibility that things change. That's kind of been the way life has worked out so far. And sometimes when things change, you do creative things to address those changes. For example, if an extraordinary audit need popped up, I would certainly be amenable to the idea of working with Internal Audit and with the SAO to get the necessary delegation to use an external audit firm to help address those extraordinary circumstances.

As regards consulting, I think it's very important for all of us to understand why I am so interested in consulting. Typically, when you talk to auditors about consulting engagements, they say: Well,
most of the time when we see consulting engagements, they're at the beginning or creation of a new program, setting it up, wanting to make sure that you've got the necessary internal controls and so forth.

I can say, pretty much unequivocally, not a day goes by that we at the executive group do not look at reinventing some major aspect of what this Department is doing. When I took this job three years ago, we were carrying multi-million dollar balances in programs. Those balances are gone. We've transformed the way that things like HOME and Housing Trust Fund moves those things. We have transformed the way that we monitor those things. We have created a single compliance monitoring function that oversees all of those activities.

Right now, with the assistance of Jeff Pender and others, we are, frankly, looking at reinventing the way that we manage data, that we manager records. We're very concerned about things like HIAA and the need for confidentiality. We are very concerned about things like records retention. Especially when you're in a litigation mode, you don't want to be producing records that you didn't have to keep.

So we are looking at all aspects of this Department and constantly reinventing it, and I think that there is more than ample opportunity for some adept
insight and participation from an Internal Audit staff to help us do those the best ways possible.

As far as hours are concerned, typically, auditors have told me that they spend a lot less time hour-wise on consulting activities than they do on full scope audit activities. So again, there seemed to me to be a complementary fit.

So that's my story, and I'm glad to try to answer any questions.

MS. BINGHAM ESCAREÑO: So I think what we're hearing from Internal Audit leadership and management are nice and aligned, and as we segue into the next action item, which will be the work plan, it may not be a bad idea. So Betsy, just finish going over kind of what the governing guidelines would be for Audit taking a consulting role, and some of that was a little legalese sounding. But overall, I think Betsy has done a really good job of painting the picture, at least for me as the Audit chair, for what that would look like.

So I had a little bit of hard time trying to figure out how do you decide which of your functions you look at from a consulting standpoint versus how many go kind of the traditional audit route. And so do you want to describe for just a minute what you were telling me earlier about how that works?
MS. SCHWING: Sure. When a consulting engagement is considered, it's very important for all the stakeholders to come together to determine what are the expectations of this engagement. It might be can you provide some guidance on this process, can you provide some training on this particular thing, can you provide facilitation. It depends on what the users want and what the stakeholders have in mind.

Now, when that discussion happens, it's important for the auditors to consider is accepting this engagement going to impair my independence or my objectivity in any way, and that depends on what the expectations are. If the expectations of Internal Audit are we want you to design this program for us, we want you to develop these SOPs for us, we want you to do some reconciliations for us, absolutely we could not do that.

If there are some specific controls that the client has questions about, whether it's going to be what kind of controls might be useful in a situation like this, we can provide information about that, but we absolutely, positively cannot accept any management responsibilities, we would not be able to design a system. And I'm just giving you examples, I'm not saying anybody would want us to do that but just to put it in perspective, that's kind of how it goes.
MS. BINGHAM ESCAREÑO: I like that. I think what I'm hearing is so management would come up with some thoughts on priorities for a consulting engagement, audit meets with management and goes through and says: What are you looking to accomplish in this? So let's say management says, just like Tim mentioned, so you're constantly evolving so it doesn't necessarily have to be a new service line or a new subset of something, it could be something that you've already had in place that you're just looking for retooling it and you want feedback from audit in a consulting methodology what they would recommend. So they're not necessarily developing your program, writing your policies or anything like that, they're really truly providing good expert consultative service on what tools might work and what tools might not.

Does that make sense?

MR. IRVINE: Absolutely. First of all, internal audit, by definition, cannot be the subject matter expert in everything that we do. I'm certainly not the subject matter expert. The subject matter experts are the people that run programs and other activities, and they are the ones that really have the knowledge and are in the position to design the programs, the SOPs, the protocols, and so forth.

To me, where I see value from internal audit is
to look at the way that those things are designed and to assess, say I think you've covered all of the necessary risk points, I think that you've identified mitigation strategies to identify and address those risk points, or I think that you missed a few, you might want to think about flanging this up. And then to go a layer deeper and say once management has developed the way that it would mitigate that particular identified risk, to form a view on whether that was a reasonable way to approach it, and if it's not, to say: Hey, Tim, that's a stupid thing. And it Tim doesn't respond, say: Hey, Leslie, that's a stupid thing. I mean, we want that independence and directness.

MS. BINGHAM ESCAREÑO: It sounds like to me a mechanism will be in place that it won't get too far down the way. If it doesn't look like the engagement is going to benefit the agency, then you drop back and punt, either it goes back into you work through management to do your development, or you go back to looking at a traditional model. But what I like, just in hearing kind of how the Department is looking to answer, meet the needs of management in terms of looking at consultative services is very early on there's a meeting on that area, where after audit hearing what management wants to accomplish, then audit and management figure out is consultation a good
path for this area or is it not. So I think that sounds good.

Any other comments?

MS. SCHWING: I did want to mention one thing.

It gets kind of murky in a consulting engagement when words like assess are used because that's very close to somebody having a misconception that we're providing assurance services, and of course, those are entirely two different things.

And the other thing to be careful of, when a consulting engagement is considered, audit would not be able to, at the beginning of a situation when we're providing guidance or consulting engagements, to say: Hey, you're good to go, carry on.

We might see that something is well designed, and if we give an opinion in the beginning, that takes away our independence and objectivity. So I just wanted to mention that because sometimes there's confusion when those words are used.

MS. BINGHAM ESCAREÑO: So good.

MR. IRVINE: I wasn't looking for formal assurances or anything like that.

MS. BINGHAM ESCAREÑO: There's no seal of approval that happens on the front-end that you're to get.

MR. IRVINE: Well, even an audit isn't a seal
of approval, frankly; it's only a seal of approval for what the scope of the audit covered.

MS. BINGHAM ESCAREÑO: Good. I'm glad that's up for clarification.

Thank you, Tim, for your comments and I appreciate Betsy and the Department looking at how they can accommodate that. As we move into the next item, one of the things -- and you'll probably go over it a little bit more -- as Betsy and the team looked at the work plan, they tried to kind of keep an open mind around what their workforce was going to look like, how many FTEs within the Department they would have to do that. But if there's no further discussion on item 2, we'll move to item 3.

So item 3 is the presentation, discussion and possible approval of the FY 2015 Internal Audit work plan. Betsy, do you want to review the high level?

MS. SCHWING: Absolutely. To develop the work plan we considered several factors, and most of them are based on the risk assessment and also the availability of audit hours.

When we did our risk assessment, we talked to TDHCA leadership, we reviewed agency documents, we tried to gain an understanding at a high level of the nature of the auditable area. In addition, we looked at staff turnover, we looked at prior internal and external audit
coverage and the internal control structures as we had understood them at the time we were doing our risk assessment.

And of course, the place where it got tricky is when we were taking into consideration the available audit hours because we have been in transition, and of course, we agree that definitely the resources need to be considered periodically to determine are we able to be an effective Internal Audit Division. So thinking about the available audit that we have and the risks that could be occurring in the agency, we developed an audit plan that includes two large projects, one small project. In addition to that, because we had an impact on our resources this past several months, we have a carryover project that's going to come into FY '15.

So based on all that information and the consideration of what we're going to be able to accomplish this fiscal year, I developed a draft audit plan that includes a project involving program income. The Department receives program income as a result of TCAP, NSP, the HOME Program and Housing Trust Fund activities. Program rules may differ in how the program income can be used. Considerations for this project are that program income is used as intended and that program income information is available, accurate and complete. Program
income has increased steadily since 2009. In FY '14 program income was over $19 million. So that's one potential project to be included in the plan.

Another project would be an audit of payroll. The payroll function affects all Department employees, and it's a large amount of expenditures. It's about 65 percent of our annual operating budget. I think expenditures in general are an important item for audit to look at, but especially payroll because it is such a large part of our operating budget.

And this is very timely and a topic that's getting a lot of attention in the headlines because there was recently a Special Investigations Unit investigation at University of North Texas where they had significant problems with their payroll process, and as a result, the State Auditor's Office is going to request the legislature to direct them to pay back $85 million to the state general fund. So that's grabbing a lot of attention, so it's not just a high risk because it's a large dollar amount, it's a high risk in general in the audit community.

I also propose an audit of the Department's record retention process. This is a very timely audit, I would suggest, because we recently lost a long-term employee in the records retention area. Mashon has
retired after eleven years with the agency. It's always a
nice time to take a picture of what the current condition
is of an area when there is a change in a long-term
employee. Again, records retention impacts everybody in
the division and the Department and our subrecipients as
well, so I think that definitely warrants a look at.

And as I mentioned before, the HOME single
family audit will be a carryover, and I expect that will
be about 550 hours.

So the proposed audit plan includes not just
the audits I just discussed, it also includes some
responsibilities and requirements that we must perform.
For example, performing an annual quality assurance self-
assessment, we also need to do continuing professional
education. There's the report to the State Auditor's
Office, the annual review and revision of the Internal
Audit Charter. And we track prior audit issues -- that's
required under the Internal Auditing Act and the
standards -- and of course, the annual risk assessment. I
mean, it's not just audits, we have quite a few
responsibilities. On top of that there's management
duties, such as performing employee evaluations, and while
that's just a small little thing, you add them all up. Of
course, now there's only two of us so that shouldn't take
so long, but there's items like that.
MS. BINGHAM ESCAREÑO: Betsy, did you mention the carryover of the HOME audit?

MS. SCHWING: Five hundred and fifty hours.

Yes.

And there's also the coordination with the external auditors, the meetings with management, just keeping up with the contemporary topics in internal auditing to make sure we're aware of what the new standards are. As Tim mentioned, there's vacation, there's fitness and wellness leave, all of that cuts into our audit hours as well.

So when you look at the plan, which is in your book, I've estimated about 1,900 hours for audits, the 550 hours for the carryover HOME project, the various responsibilities of internal audit, and that's about 1,100 hours, when you put in the management hours as well. So it's quite an undertaking.

It was a difficult assignment knowing that we're not aware of what our staffing is going to be, but like I said, I ran several different scenarios and math, I figured out the variable costs and the fixed costs, and thank goodness, I just did an audit of budgeting because I used a lot of what I had learned there as far as how to establish a budget that would work for us.

So I want to emphasize that this is a dynamic
document. It can change based on risks to the agency, it can change based on management changes, it can change based on just anything, just anything. I can't even think of all the ideas that could make this change, but it is a dynamic environment that we operate in and the audit plan is a dynamic document. So the presentation here is what I recommend making use of the best information at the time.

MS. BINGHAM ESCAREÑO: Thank you for that thoughtful overview.

This is an action item.

MR. GANN: Miss Chairman, I think that I can see that it is a presentation plus a very active possibility of change, so I'll move that we approve the fiscal year 2015 audit plan as presented.

MS. BINGHAM ESCAREÑO: Thank you. So we have a motion to approve as presented. I'll second that motion. Any discussion, any questions for Betsy, any discussion from management?

MR. PENDER: Madam Chair?

MS. BINGHAM ESCAREÑO: Yes.

MR. PENDER: Jeff Pender with the Legal Division.

I just want to emphasize that what you're approving here is the committee's decision to make this recommendation to the Board. There's really no approval
of this proposal at this time.

MS. BINGHAM ESCAREÑO: So Mr. Gann, are you comfortable with your motion being to recommend it to the Board for approval?

MR. GANN: I adjust my motion to recommend.

MS. BINGHAM ESCAREÑO: Very good. I also adjust my second. Any other discussion?

(No response.)

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

(A chorus of ayes.)

MS. BINGHAM ESCAREÑO: Opposed?

(No response.)

MS. BINGHAM ESCAREÑO: Very good. Motion carries. Thank you.

So then we'll move on to item 4 which is a report item, presentation and discussion of our current year internal audit work plan.

MS. SCHWING: Okay. As we've mentioned more than one time during this meeting, things have changed, and the original audit plan was based on four staff, we had six audits on the original plan, and one contingency audit. We've completed six of these audits and released the audit reports for each of the six. We will discuss the recently released reports under item 5.
The audit of the HOME Division has been postponed until January of 2015, and there was a lot of thought that went into that. It was based on the resources we had available, and also to be in fairness to the director of the HOME Division, she is expecting and she is going to expect to be out on leave, and we thought it would be important for her to be involved in the audit so we adjusted our timeline on that.

We've also completed two of the non-audit activities on the FY '14 plan. These are the quality assurance self-assessment review of audit projects conducted during FY '13 and the annual review and revision of the Internal Audit Charter. In addition, I've done the risk assessment for the work plan that we discussed just a moment ago. So of the plan that you see in your book, we've got several completed items.

Some of our management assistance special project items are ongoing in nature. For example the triaging and tracking of fraud, waste and abuse complaints. Also, the prior audit issues, that's going to be an ongoing requirement, and just following up on the fraud and the waste and abuse and the prior audit issues.

So just that's just a report item.

MS. BINGHAM ESCAREÑO: Mr. Gann, do you have any questions on any of the open items on the current year
report?

MR. GANN: I do not.

MS. BINGHAM ESCAREÑO: Very good. Thank you very much for that report. No action is necessary.

If the committee is okay, we'll move to item number 5. It's also a report only, no action required, just discussion of our most recent audit reports.

MS. SCHWING: The most recent audit reports were an internal audit of the performance measures of TDHCA and also an internal audit of the Financial Administration Division. First, we'll speak about the performance measures at TDHCA.

The Department reported reliable results to the Legislative Budget Board for all five key performance measures tested. A performance measure result is considered reliable if it is certified or certified with qualifications. Two of the measures we tested were certified with qualification because the methodology used to calculate the results was not strictly followed. A measure is certified with qualification when the calculation of performance deviates from the measure definition but the deviation is less than 5 percent, and that's the numbers that are reported to the LBB.

Management has already implemented changes to adhere to the methodologies for these two performance
measures, and the other three measures we tested were
certified. No issues were found in the internal controls
over the performance measure process.

Are there any questions about this audit?

MS. BINGHAM ESCAREÑO: No.

MS. SCHWING: Okay. The next audit we
performed was an internal audit of the Financial
Administration Division.

The operating budgets developed by the
Financial Administration Division are in alignment with
the anticipated funding and estimated expenditures. With
very few exceptions, the Department records, posts and
deposits housing finance revenue payments accurately and
timely. Of the 34 housing revenue payments we tested, 2,
or 5.9 percent, were not deposited by the third business
day after the date of receipt, as required by the Texas
Comptroller's Office. These two deposits were one day
late and three days late, respectively.

I want to mention that the Financial
Administration Division does have a very comprehensive
process in place to track these deposits, and they noted
reasons why this may have occurred. It seemed to be that
it was a training opportunity when they were training a
new employee, but I think it's very important to note that
although they missed the cutoff, it was one day and three
days, it wasn't a hundred days or three years or anything like that. I just wanted to keep that in perspective.

We did recommend that the division further enhance their internal controls by fully documenting procedures for processing housing finance revenue payments and those procedures be reviewed and approved by division management. Management agrees and has set a target date for implementation by February 1 of 2015.


We'll move on to item 6 then, presentation and discussion of the status of any external audits, reviews or monitoring activity.

MS. SCHWING: Okay. The State Auditor's Office released a report on physical controls at selected state agency data centers. That report was released in August of 2014. And for this particular audit, the SAO was looking at four agencies, not just TDHCA. They performed a review of physical controls over the data centers of TDHCA and I think the Texas Facilities Commission, and the two other agencies escape my mind at this time.

MS. BINGHAM ESCAREÑO: That's all right.

MS. SCHWING: Let me flip back to the actual report, if you'll bear with me for just a minute. Data
centers managed by the Department of Public Safety, Texas Facilities Commission, Texas Commission on Environmental Quality, and also the Texas legislative Council.

Curtis, is that correct? Are you out there? Okay.

When it relates to TDHCA, this is what the SAO said. They said that TDHCA has processes in place to manage electronic access to the data centers for their own employees and contractors. In addition, TDHCA has adequate environmental controls to protect the data center from environmental threats, such as fire and floods. They did have two recommendations for TDHCA, and they are TDHCA should define the job titles or roles of its personnel who require access to its data center, and TDHCA should also implement a process that includes a comprehensive review of all personnel with access to its data center, including employees and contractors of other state agencies. And the Department has implemented both of these recommendations.

MS. BINGHAM ESCAREÑO: Excellent.

Any other external auditing or monitoring to report, or is that the only one?

MS. SCHWING: We did have two other situations. There's actually four external things going on right now. The SAO audit which is an annual opinion audit that is in
process, and they will also be performing some agreed upon procedures. KPMG is performing an audit of the Community Services Block Grant for the State of Texas Single Audit. In addition, HUD is doing a monitoring, an in-depth monitoring of compliance with environmental review procedures. And then the last monitoring item was onsite monitoring of the Emergency Shelter Grants Program. TDHCA received results of the onsite monitoring, they responded to HUD, all of the issues have been closed.

MS. BINGHAM ESCAREÑO: Excellent. Very good.

Any other questions or discussion on item 6? If not, we'll move to report item 7, presentation and discussion of the status of any prior audit issues.

MS. SCHWING: As of September 24 we had 15 current open prior audit issues. Eight of these issues were recently reported by management as implemented, and I reflected on the attached list -- which it's in your book, it's fairly lengthy. These will be verified and closed by Internal Audit once we have reviewed the supporting documentation. Seven issues are still pending and are reflected on the attached list which is in your book, and Internal Audit will verify and close these issues once they're reported as implemented.

We add new issues to our prior audit issues as they are identified, and then as items are cleared, they

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move off the list, so it's constantly changing, it's not static, the numbers will vary, and of course, we'll keep you updated on those at each committee meeting.

MS. BINGHAM ESCAREÑO: Very good. And if the Department had any concern about open items that weren't reaching resolution quickly or had any concerns in general, you would bring them to the committee.

MS. SCHWING: Oh, absolutely. Derrick has been managing the prior audit issues. He follows up with the Department's divisions on a regular basis. There's constant dialogue going on, and if there was something that we felt was not being resolved in a reasonable amount of time, we absolutely would bring that to your attention.

MS. BINGHAM ESCAREÑO: Great. Mr. Gann, do you have any questions?

MR. GANN: I don't have.

MS. BINGHAM ESCAREÑO: Very good. Then we'll move on to the last item, item 8, which is the presentation and discussion of any status on any fraud, waste and abuse hotline or other fraud complaint issues.

MS. SCHWING: The fraud hotline has been very busy, I must say. Last year we had 79 complaints just coming through our hotline. This year we have received 131 complaints of fraud, waste and abuse. Complaints received have increased 65 percent, about, so that's quite
significant. Of the 131 fraud complaints that we received, 123 of those were received through the hotline, 18 of those were related to the Department's programs or staff, 15 of those were tax credits, one was multifamily, one was CEAP, and one was a personnel issue.

Ninety-eight of those calls were not related to the Department's programs or staff, and those callers were referred to the appropriate agency for assistance. For example, if it would be a public housing authority in their area, we would provide them with contact information to get in touch with that public housing authority.

Seven of the callers did not provide sufficient information to determine the purpose of the complaint, and there's nothing we can do there, we don't know what their problem might be, what the concern is, what the allegation would be.

We received eight complaints through other sources. Six were related to the Department's programs: two were related to HOME, one related to CEAP and/or WAP, one related to CEAP and CSBG, one related to compliance, and one related to tax credits. And what's tricky about classifying them is the complainant doesn't think of the programs like we think of them, whether it's WAP or CEAP or whatever, they just have an allegation they bring forward so it's very difficult to put it in a box of this
is what it relates to.

The sources for these six complaints were TDHCA staff, two were from the public, and one was from a contract administrator. So in all, of the 131 complaints that we received, 107 were not under the Department's jurisdiction.

I do want to point out that even if a complaint is not under the Department's jurisdiction, it does take time to do the intake, to triage it, to find out what's going on, to determine if it is related to one of our programs and to respond accordingly. So even though they're not under our jurisdiction, they still take time to triage and address.

The 24 complaints that did involved TDHCA were resolved as follows: 18 were investigated and closed, five were referred to the SAO and/or another oversight agency, and one is pending. The one that is pending was received in August of 2014, so that's still kind of new to be able to figure it out. So that's all I have on that.

MR. GANN: I have a question. I was curious to know -- that's a real significant increase, I wanted to know maybe why you think that happened and what caused it maybe. And also, the biggest part of the increase is apparently in the complaints that weren't related to our Department.
MS. SCHWING: Right.

MR. GANN: So I mean, I wonder what's causing all that.

MS. SCHWING: Sometimes it's caused by just getting the word out there about our fraud hotline, when people realize there's an avenue that they can bring their allegations to. I think we've done a better job of just advertising the hotline is there, and as a result we've had more calls. And I think that's important, it's not just in our agency, it's really nationwide where people realize if I'm not comfortable with something, there is an avenue where I can take it and report it.

Some of our cognizant agencies are very vocal about promoting the use of fraud, waste and abuse hotlines and that those complaints come forward. For example, we had a meeting with some folks from the Housing and Urban Development Office for Inspector General yesterday and they just wanted to remind us that they're available to help us in any way when we receive allegations and to make sure that we have effective communication between us and them when situations do come about. But I think the increase is mostly better advertisement of the hotline, not just at TDHCA but nationwide.

MS. BINGHAM ESCAREÑO: Any other questions?

(No response.)
MS. BINGHAM ESCAREÑO: So I think that concludes all of the agenda items that were on our agenda. Just in closing, just wanted to recognize Betsy and her awesome team of one, Derrick, for continuing to shoulder the responsibility. Also, from a committee standpoint, we're very appreciative of the ongoing dialogue that's occurred over the last weeks or months regarding kind of the current state of affairs in audit and our opportunities to continue to work together.

As a Board, we are responsible, we are stewards of the State's resources, and we have to be judicious and thoughtful about how we carry out the responsibilities of the agency, so I think there will probably be a little bit more discussion about this at the Board meeting shortly, but I think this was a great preparation for those discussions, and I think the information that Betsy and Tim provided will help us make the best decisions for the agency and for the State.

So if there are no further issues, I will entertain a motion to adjourn.

MR. GANN: I so move.

MS. BINGHAM ESCAREÑO: I'll second. All those in favor, aye.

(A chorus of ayes.)

MS. BINGHAM ESCAREÑO: Opposed?
(No response.)

MS. BINGHAM ESCAREÑO: Meeting adjourned.

Thank you.

(Whereupon, at 9:18 a.m., the meeting was concluded.)
CERTIFICATE

MEETING OF: TDHCA Audit Committee

LOCATION: Austin, Texas

DATE: October 9, 2014

I do hereby certify that the foregoing pages, numbers 1 through 38, inclusive, are the true, accurate, and complete transcript prepared from the verbal recording made by electronic recording by Nancy H. King before the Texas Department of Housing and Community Affairs.

10/15/2014
(Transcriber) (Date)

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