TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

AUDIT COMMITTEE MEETING

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

January 15, 2015
8:30 a.m.

MEMBERS:

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

MARK SCOTT, Director, Internal Audit

ON THE RECORD REPORTING
(512) 450-0342
### AGENDA ITEM

| ITEM 1: | Presentation, Discussion, And Possible Action To Approve The Audit Committee Minutes Summary For October 9, 2014 | 4 |
| ITEM 2: | Presentation, Discussion, and Possible Action on the yearly update of the Internal Audit Charter and Board Resolution No. 15-011 | 5 |
| ITEM 3: | Presentation, Discussion, and Possible Action regarding the State Auditor=s Office Audit #15-014 AA Report of the Audit of the Texas Department of Housing and Community Affairs Fiscal Year 2014 Financial Statements@ | 6 |

### REPORT ITEMS

1. Presentation and Discussion of Status of the Internal Audit Activity Including Staffing 12
2. Presentation and Discussion on the Status of the FY2015 Internal Audit Work Plan 13  
   a) An Internal Audit of TDHCA payroll  
   b) An Internal Audit of Sources and Uses of Funds B New audit to be added to FY2015 Audit Plan  
   c) Consultation on Sub-recipient Monitoring Processes B New Project  
3. Presentation and Discussion of the Fraud, Waste, and Abuse Hotline and Other Fraud Complaints 19

### PUBLIC COMMENT ON MATTERS OTHER THAN ITEMS FOR WHICH THERE WERE POSTED AGENDA ITEMS
none

### EXECUTIVE SESSION
none

### ADJOURN
22

ON THE RECORD REPORTING  
(512) 450-0342
Ms. Bingham Escareño: Welcome to the January meeting of the Texas Department of Housing and Community Affairs Audit Committee. I'm Leslie Bingham. We're going to start with calling roll, but maybe first I'll just introduce Mr. Tolbert Chisum who has joined us.

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

Thanks for being here.

MR. CHISUM: Thank you.

Ms. Bingham Escareño: I'll mark you as present.

And Mr. Tom Gann?

MR. GANN: Present.

Ms. Bingham Escareño: Very good. So we're all present, we represent a quorum, and we'll get started with the committee agenda.

I guess the other introduction that I should make, most of us will know, but Mr. Mark Scott has taken over the role of director of our Audit Department, and so this is your first committee meeting and we welcome you also.
MR. SCOTT: Thank you very much.

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

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

MR. GANN: I so move.

MR. CHISUM: Second.

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

MR. SCOTT: No, ma'am.

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

(A chorus of ayes.)

MS. BINGHAM ESCAREÑO: Opposed?

(No response.)

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

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

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

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

MS. BINGHAM ESCAREÑO: Thanks, Mark. So the charter will go to the Board later on this morning. The format is nice and clean. I think it was easy to go through and hit the highlights. We had originally thought that we would so resolve to approve, and I think we can just go with a straight approval if the committee is okay.
with that. Do you have any questions for Mark about the charter?

MR. GANN: Would you like a motion?

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

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

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

MR. CHISUM: Second.

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

(No response.)

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

(A chorus of ayes.)

MS. BINGHAM ESCAREÑO: Opposed?

(No response.)

MS. BINGHAM ESCAREÑO: Motion carries.

We'll move on to item number 3, which is presentation, discussion and possible action regarding the State Auditor's Office audit number 15-014, a report of the audit of the Texas Department of Housing and Community Affairs FY 2014 financial statements.
Mark, do you want to give a brief overview and then introduce our guests?

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

MS. BINGHAM ESCAREÑO: Good morning.

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

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

MS. QUIÑONEZ: Good morning. I'm Jeannette Quiñonez. I'm the project manager for the Department of
Housing and Community Affairs financial audit. As part of this audit we had several deliverables, and I will just go over each report that we sent or issued.

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

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

And after we issued all those reports, we sent you an email, on December 29, 2014, titled "Required Communication with Those Charged with Governance," and in that communication we listed several items that we're required to tell the Board. Do you have any questions on
that document, or would you like me to go over that in
more detail?

MS. BINGHAM ESCAREÑO: Do you have any
questions?

MR. CHISUM: No.

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

Mark, any additional comments?

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

MS. QUIÑONEZ: Thank you.

MS. BINGHAM ESCAREÑO: Thank you very much.

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

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

MR. CERVANTES: Sure. For the record, David
Cervantes, chief financial officer for the Department.

Good morning.

I guess two things. First off, just a thank
you to the SAO. This year we tried a few different things
in our coordination efforts. For example, usually we do
some interim work earlier in the year and then finish out
the year with final audit work towards the latter part of the year. This year we made an adjustment in our coordination and our planning and we pretty much did all for the work in the latter part of the closeout period. So first off, I just wanted to say thank you to Cesar and Ms. Quiñonez and their staff and their group for all the professionalism and helping us work through the planning and the coordination to make this a successful audit for the Department. So thank you, Cesar and Jeannette.

The second thing, I don't get this opportunity very often so I'm going to cease the moment, and it's recognizing some of the key staff of the Department. Behind the scenes there's a group right across the street here that works day-in and day-out, crunching the numbers and the bean counters and behind-the-scenes folks, but in terms of the leadership, I have several of my key staff members: Ernie Palacios, who is the director of Financial Administration; Jose Guevara, who is the manager in charge of Financial Services that deals with pretty much the proprietary side of the business of TDHCA; Stephan D'Conto, who is the manager for Loan Servicing and anything that we're doing with the loans that we have within our disposition and servicing through the latter part of those loans. And we're actually missing a couple of staff
members that are also key: Esther Ku, when we're dealing with the federal programs of the agency, Esther Ku is the other party that is actually not feeling well today and couldn't join us; and the other one is Julie Dumbeck, and as it pertains to procurement matters for the Department, maintaining controls of that type of sort, that's the other person that's not present today.

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

(Applause.)

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

MR. SCOTT: Okay. Thank you very much.

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

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

MR. CHISUM: So moved.

MR. GANN: Second.

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

(No response.)
MS. BINGHAM ESCAREÑO: Great. All those in favor, aye.

(A chorus of ayes.)

MS. BINGHAM ESCAREÑO: Opposed?

(No response.)

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

MR. CERVANTES: Thank you for your support.

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

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

Anything else on SAO audit, Mark?

MR. SCOTT: No.

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

MR. SCOTT: Well, in a minute I'm going to go over the status of the audit plan. There's an audit plan that's approved approximately September or October, and then during the course of the year I like to give updates on which audits have been completed and what the status
is. That way there is always an ongoing knowledge of
where the status is.

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

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

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

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

One is a sources and uses audit, and what that
is it's an operational audit. The State Auditor did
financial statement opinion audits. This audit is going
to be a process audit, so what we'll do is basically take
the various functions, the various financial functions of
the agency, which are very complex, and try to have in one
document a description of where the money that the agency
uses comes from, and the appropriations, the federal
funding sources, how it's used, how the money is
controlled, and what we'll do is basically a risk
assessment of the various financial functions, and based
on that, we'll do the testing of the processes.

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

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

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

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

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

MS. BINGHAM ESCAREÑO: Mark, I'm understanding that management is kind of aware of the plan too, and Mark has had a chance to go over it, I think, with the Audit Committee. What sounds really good to us, I think, is one, being able to leverage other audits and even the CPA work on the 133s, using that to be able to kind of condense some of the man hours or the amount of time that we typically would assign to an audit so that it frees the Department up to do more consulting and other audits as they may come up and are needed. So I think we particularly like that as you're looking at payroll that you already have some data from external audits that will be helpful with that. And then really leveraging what the CPAs are doing with the subrecipients, I think, sounds like a good idea and an opportunity for the agency to take advantage of some work that's already being done so that we're not duplicating that and so that we can work with accountability and structure with the subrecipients.
The sources and uses audit, I think, is of
great interest to us because it's a little different than
what we're used to, so typically -- and Mark has been able
to review some of the report formats with us -- typically,
I think, as an audit committee we're used to a finite
audit that ends up with an opinion. And so when we look
at like sources and uses, one, I think it will be nice to
have in one document -- that probably will end up being
rather large -- but that assessment of the processes in
that sources and uses, but also in the action or in the
findings area being able to have a finding, a
recommendation, and then a process for continually
monitoring how management addresses those findings and
those recommendations instead of it being a real finite
here's the opinion and here's the recommendation, here's
what management has to do.

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

MR. SCOTT: Okay. Thank you very much.

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

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

And so KPMG, for this program, looked at
subrecipient monitoring that we do for that program, and
they also looked at you might hear some refer to FATA
which is Federal Funding Accountability and Transparency
Act. Basically, that's just an updated version of the old
federal reporting requirements for states and agencies
that pass through federal funds. They didn't have any
findings on those. They had some preliminary issues but
they got resolved.

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

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

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

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

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

Mr. Gann, you've been on the committee for a
while with me. Typically the Audit Committee receives
kind of a quantitative detail of everything that comes
through fraud and abuse. One of the things that Mark and
I talked about was whether or not that was more
appropriate for a consent agenda item or whether the
committee was comfortable with a verbal report or whether
you would prefer to go back to kind of that quantitative
written report.

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

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

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

MS. BINGHAM ESCAREÑO: Very good.
Mark, are you comfortable with that too?
MR. SCOTT: Yes, ma'am, absolutely.
MS. BINGHAM ESCAREÑO: So moving forward we'll just bring back that written quantification report and then Mark can summarize for us anything that is trending, but it will give the committee a chance to look at it too.

Great. So that concludes the report items, there was nothing for action under the report items. Does the committee have any additional questions?
(No response.)
MS. BINGHAM ESCAREÑO: Any additional comments from anybody in the audience or any staff members?
(No response.)
MS. BINGHAM ESCAREÑO: We can open up the committee meeting now for any other public comments. Is there any public comment registered?
(No response.)
MS. BINGHAM ESCAREÑO: All right. That being said, that concludes the business items for the Audit Committee for the January meeting. I'll entertain a motion to adjourn.
MR. GANN: I so move.
MS. BINGHAM ESCAREÑO: Mr. Gann moves.
MR. CHISUM: Second.
MS. BINGHAM ESCAREÑO: Mr. Chisum seconds. All
those in favor, aye.

(A chorus of ayes.)

MS. BINGHAM ESCAREÑO: Opposed?

(No response.)

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

(Whereupon, at 8:57 a.m., the meeting was concluded.)
MEETING OF:     TDHCA Audit Committee
LOCATION:      Austin, Texas
DATE:      January 15, 2015

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

01/20/2015
(Transcriber)         (Date)

On the Record Reporting
3636 Executive Ctr Dr., G-22
Austin, Texas 78731