AUDIT COMMITTEE MEETING

Ric Williamson Hearing Room
Dewitt C. Greer Building
125 East 11th Street
Austin, Texas

Thursday,
April 16, 2015
8:30 a.m.

MEMBERS PRESENT:

LESLIE BINGHAM ESCAREÑO, Chair
TOM GANN
TOLBERT CHISUM

STAFF PRESENT:

TIM IRVINE, Executive Director
PATRICIA MURPHY

ON THE RECORD REPORTING
512-450-0342
AGENDA

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ITEM 1: Presentation, Discussion, and Possible Action to Approve the Audit Committee Minutes Summary for January 15, 2015 3

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EXECUTIVE SESSION

ADJOURN
MS. BINGHAM ESCAREÑO: Good morning. Welcome to the Texas Department of Housing and Community Affairs Audit Committee meeting, today April 16, 2015. We will start with roll call. Mr. Tolbert Chisum.

MR. CHISUM: Present.

MS. BINGHAM ESCAREÑO: And Mr. Tom Gann?

MR. GANN: Present.

MS. BINGHAM ESCAREÑO: Glad to have you guys. I am getting a little bit of feedback there. All right. Okay. Let’s go ahead and get started on Agenda Item 1, which is the presentation, discussion and approval of the Committee minutes from January 2015. Good morning, Mark.

MR. LYTTLE: Thank you. Yes, this is the April meeting of the Audit Committee which meets approximately every three months. At the January 2015 Audit Committee meeting, the Committee was updated with the two new projects that have been added to the Internal Audit work schedule, which include consulting related to subrecipient monitoring and also the addition of one internal audit of sources and uses of funds. And so I would ask for approval of the minutes.

MS. BINGHAM ESCAREÑO: Any questions on the minutes to the previous Audit Committee?

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

MR. GANN: I so move.

MS. BINGHAM ESCAREÑO: Mr. Gann moves.

MR. CHISUM: I 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: The motion carries.

Great. Mark, let’s go on to report items. The first one will be the presentation and discussion of the recent Internal Audit activity. Do you want to take the payroll audit first?

MR. SCOTT: Yes, ma’am. The Internal Audit reports are in a new format that provides a background information about the programs and functions that are audited. And the audits describe the various, the different functions within the Agency.

The first audit for presentation this month is payroll processes, Audit 15-004. And on this audit, there is a one page summary report at the front. And it is followed by detailed report with background and sections A through H, which described the various aspects of the
payroll processes. And this is basically the format we are going to follow for audit reports. And our audit results, we found that the processes are well managed as described in audit report. And everybody is on the payroll receiving checks does work at the Agency. And we did a test, a standard test for ghost employees, and we found none.

We had minor findings related to the automation of the processes. At some point, management might want to consider electronic routing of personal action forms, and also the spreadsheet used for payroll distribution among the funding sources needed to be put on the T drive, which was done. And that is appropriately protected also.

And we also conducted a survey of staff as to the customer service provided by the payroll program. And the responses were extremely favorable. So I will pause for a moment to see if there is any questions on the first audit, the payroll audit.

MS. BINGHAM ESCAREÑO: Does the Committee have any questions? How did you find the new format for the report? Easy to go through?

MR. CHISUM: It was for me my first time through. Very readable and understandable.

MS. BINGHAM ESCAREÑO: Okay. Good. Thank you. So and Mark, there were two minor recommendations. The
report shows that management had already established resolutions to both of those?

MR. SCOTT: Right. As soon as we brought it to their attention during the audit, they took care of it.

MS. BINGHAM ESCAREÑO: Great.

MR. SCOTT: So by the time we were finished, it was already completed.

MS. BINGHAM ESCAREÑO: Good.

MR. SCOTT: And both staff from payroll and also staff -- the records management staff are here, I see.

MS. BINGHAM ESCAREÑO: Great.

MR. SCOTT: Let’s see. The next one is on the records retention process. It is Audit 15-005.

And records retention is actually a very important function. People that read the newspapers will know that there is always something in the news related to records retention issues both at the state and the federal level actually.

In TDHCA housing community affairs has a very systematic way of retaining records as described further in the audit report. And the records retention coordinator recently conducted training sessions to ensure that all of the records retention liaisons had the most updated information.
And on that audit, we tested it fairly thoroughly as we do all of our audits. We didn’t have any findings. Everything was running well. So the audit report doesn’t include the sections for information.

MS. BINGHAM ESCAREÑO: Great.

MR. SCOTT: So if there is any questions on the records retention?

MS. BINGHAM ESCAREÑO: Do the Committee members have any questions on the audit of records retention?

(No response.)

MS. BINGHAM ESCAREÑO: No?

MR. CHISUM: No, ma’am.

MS. BINGHAM ESCAREÑO: No. Very good. And Mark, you don’t need action on either one of those?

MR. SCOTT: No, ma’am.

MS. BINGHAM ESCAREÑO: Very good. All right. Then do you want to move on then to talking about the consultation on subrecipient monitoring processes?

MR. SCOTT: Yes. At the January meeting, I introduced this consultation project on subrecipient monitoring. This agency of course, gets a lot of federal funding and passes it through to subrecipients.

It is like one of the -- it is either one of, or the biggest thing we do. And this is a continuation of working with the programs to assist with the processes.
And we are focusing at this point on review of the A-133 audit reports.

And the project, the consulting project also includes follow up on issues noted in A-133 audits and monitoring reports. As part of this project, I requested and received from the State Auditors Office the delegation of authority for audit work on Cameron Willacy County Community projects. That is what was discussed a couple of meetings ago.

Also related to that, we are going to establish a process for referring substandard audits to the State Board of Public Accountancy. In the processes for monitoring subrecipients, the A-133 audits are supposed to be a major control point.

And from reading some of the reports and comparing them to monitoring reports prepared by the internal compliance staff, it looks like some audit firms are conducting the financial statement portion of the audits. They are not doing proper sufficient work on the federal compliance part of the audit.

In particular, the allowability and allocability of expenses is a concern. And that is, they are -- whether the subrecipients are charging things to the right period, and not double charging expenses.

And I know that the A-133 is -- it is a very
esoteric topic, because we have -- it is a particular type
of audit. And I am mentioning in the same subject, I am
talking about our monitors. I am talking about the
auditors that the subrecipients hire on our behalf.

And now, I am talking about a process whereby
we are going to make a determination to the extent we can,
if this control we are relying on, this A-133 audit, if
they are not doing what they are supposed to be doing and
we are relying on it, then that is a problem with our
overall process. So if there is any questions on that, if
that is not clear in any way, I will be happy to answer
any questions.

MS. BINGHAM ESCAREÑO: You guys, so I think
this has come up a couple of times. And the A-133s are
typically submitted by the subrecipients as they should
be.

But I think sometimes the kind of the
historical view of the A-133s is that they are fulfilling
a requirement, but that they may not be substantive. And
of course, Mark seems concerns is that they may not be
accurate.

And that every period, you know, you have the
required A-133s coming in without a whole lot of an
excuse. I am just going to use lay vernacular. But
without a whole lot of scrubbing of those. So they are
submitting them, and kind of checking the box, okay. We submitted our A-133.

So I like what Mark and his team are doing to put a process in place where one, we are kind of scrubbing those, and looking at those a little bit. And if they aren’t -- if they are insufficient, or inaccurate, then Mark is establishing a referral process where we can refer them to the state --

MR. SCOTT: The State Board of Public Accountancy.

MS. BINGHAM ESCAREÑO: State Board of Public Accountancy, right. Which gives us -- because ultimately, as an Agency, we are ultimately accountable for that.

And so if there is a history of A-133s from any subrecipient that historically haven’t been sufficient or accurate, then the onus of responsibility really comes back to us as an organization. So he is putting a process in place where we will be able to -- their Department will be able to get that information and then seek additional attention from the State Board if they need to.

MR. SCOTT: Yes. And the dispersal of that information will hopefully encourage the CPAs to do better jobs.

MS. BINGHAM ESCAREÑO: One would hope so.

MR. SCOTT: Yes.
MR. GANN: It puts them on notice too, that we are doing it.

MR. SCOTT: Yes. Okay. And then the next topic is the status of the Audit Plan. As you know, every year, an Audit Plan is approved for the year, an annual plan. And we schedule out the projects. And this is -- we are basically -- we are pretty much on schedule.

Let’s see. We are getting ready to start -- we have started the single family home program audit, which was a carryover from last year. We just finished payroll and records retention. We are going to start with program income, and then the sources and uses. So that is really the rest of the audit. So we should be able to finish those fairly on time. And we have the ongoing consultation activities which, in this case, are very important.

Then as far as external audits, there are no external audits being done of the agency. And again, now I am talking about another type of audit. So we have -- this agency is subject to audits by the State Auditor, by the federal government and so forth.

So I would like to update the Committee always on what external audit activity is going on. Now, there is always, in addition to that, there is always some kind
of reviews, programmatic reviews and things like that. But at this point, there was a HUD review that we answered a while back. But there is no State Auditor audits going on, and the KPMG does the federal compliance part of the statewide audit. They are always working on something. So they are always kind of auditing us. But they haven’t selected a program at this point for the next year’s audit.

MS. BINGHAM ESCAREÑO: Very good. So we would hear from you when KPMG is actively doing anything, or actively closing anything, then that would make it up to Audit Committee?

MR. SCOTT: Yes, ma’am.

MS. BINGHAM ESCAREÑO: Very good. Are there any questions before you go on? So the Audit Plan right now, what we are hearing is that everything is in line the way it should be.

There is no recommendations to add anything or to change the order or the priority. Do the Committee members have any feedback about that, or are we comfortable with the Audit Plan continuing?

MR. GANN: I have no concerns about it. I am comfortable with it.

MS. BINGHAM ESCAREÑO: Very good.

MR. CHISUM: I am comfortable with it, too.
MS. BINGHAM ESCAREÑO: Very good. Great.

MR. SCOTT: Thank you.

MR. CHISUM: I have one question though, Ms. Chairman. Did I understand you to say that we were not -- we do not do any external audits?

MR. SCOTT: I was talking about right now, there is no external audits by external parties of this agency.

MR. CHISUM: Okay.

MR. SCOTT: Taking place at this point.

MS. BINGHAM ESCAREÑO: We definitely receive external audits. We are refreshingly not reporting any today.

MR. CHISUM: Yes. Right. I understand. But I --

MS. BINGHAM ESCAREÑO: Very good. Good for clarification.

MR. CHISUM: Yes. I did want clarification. 

MR. SCOTT: Okay. And then the last thing I think is, the fraud, waste and abuse numbers. We keep track of that.

As you know, we have a hotline where we receive complaints about potential fraud, waste and abuse. And we have updated the format of that report also. Hopefully, it is an easier to read chart.

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Also related to that, we had a conference call with the vendor that does our fraud hotline, with the objective of getting better information on the calls and also, the ones -- because we get charged for those, if they go over the number of calls. So I was concerned about that.

And so we are going to work with them to better filter those out. So if they don’t pertain to TDHCA’s programs, they can funnel them to the appropriate agency, so we won’t have to deal with them, for one.

And also, so we won’t get charged for them. And we are also going to consider updating our website to clarify you know, what is some kind of potential fraud that we would be concerned with, versus what is something that is like, for local law enforcement or something like that.

MR. CHISUM: Could I ask you a question, please?

MR. SCOTT: Yes, sir.

MR. CHISUM: Chairman?

MS. BINGHAM ESCAREÑO: Yes.

MR. CHISUM: Would you explain to me how we are charged for calls?

MR. SCOTT: Well, we have a contract with a vendor that does the intake for the calls. And we have
a -- it is up to a certain number, I don’t know it off the top of my head, but up to a certain number, we pay a fixed rate. And when we go over that, then they start charging us overage fees.

So we got a bill for four -- I don’t remember what it was. But we got a bill for the overages a couple of months ago. So I wanted to make -- and I know from looking at the reports that come in of the fraud calls, that a lot of them are not really related to something that we would have anything, any control over.

MS. BINGHAM ESCAREÑO: So Mr. Chisum, so we outsource the hotline to a third party.

MR. CHISUM: Right.

MS. BINGHAM ESCAREÑO: And Mr. Gann and I, having been on the Committee for a while are very familiar with -- what you will notice is the vast majority of calls that come in through that hotline are not relevant at all to any of the Departments. They are typically subrecipients that are reporting each other or other parties that are reporting each other.

And we may want to look at the relationship that we have with the outsource company to see if there is a different way to negotiate it. But I think the step that they are trying to take is maybe work with the vendor.
And then use our own website to see if we can guide people that are using the hotline or other means of reporting to determine what is in scope for appropriate fraud, waste and abuse for TDHCA and what items might be better channeled to another area. So it may be, like what we are envisioning is, giving examples, and saying, if you need to report this, this and this, then this is the appropriate authority to report those to.

If you need to report this, then the agencies. And see if we can’t get some of those calls. Otherwise, we will continue to see like what we have seen, where 118 complaints come in and only eight are relevant to the Department.

MR. CHISUM: Well -- and, Ms. Chairman, that is why I raised the question. Now that you said we are over, our usage is over.

So that being the case, some calls, I would suspect would be very short, and some might be lengthy, depending on the circumstances. So is it based on a time used, or is it simply number of calls.

MR. SCOTT: I think it is just based on the number of calls.

MS. BINGHAM ESCAREÑO: Now, and correct me if I am wrong, Mark, or if the Director or anybody in Compliance has any feedback, I don’t think they do
anything with the call except just take it. The hotline, hi Tim.

MR. IRVINE: Yes. Tim Irvine, TDHCA. First of all, we think that it is very important that you have your information flows set up in a manner that assures that things are addressed.

And by having Internal Audit oversee the intake of these calls, we take off the table the possibility that you know, somebody complained about Tim Irvine, and Tim Irvine took the call. So [inaudible] left here. So that is good.

Also, I think that Mark serves in a critical role when fraud, waste and abuse is reported or suspected, we have an internal process to convene a number of folks, including the Director of Internal Audit, me, our Chief of External Affairs, so that he is aware of it, and the appropriate [inaudible] for oversight committees and offices. The deputy responsible for the activity area that is affected. Our General Counsel, and our Ethics advisor.

So every time there is a report of suspected fraud, waste and abuse that is the group that convenes and whittles over it, and says, okay, let’s come up with a strategy that will address it. And Mark sits in on those meetings, and is a very constructive and positive

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I certainly do not envy working at screening out the calls that we get where somebody calls and says well, my next door neighborhood in my apartment complex is not income eligible. Or whatever.

And you know, it is just somebody complaining about something that they have no basis to do anything about. Although, if it were a complaint about income eligibility, we would probably look into it a bit.

But you also, you have people who have complain about other things that really aren’t even suspected fraud, waste or abuse. They are just people complaining about the way the world is. We refer that to the appropriate things, if they need to. [inaudible] aware.

MS. BINGHAM ESCAREÑO: So Tim, so the Committee that you just mentioned all of the different team that gets together, they are really the ones that vet out those complaints. The outsource company only just receives the raw calls and pushes you guys that raw information. They are not responsible for researching it or categorizing it, okay.

MR. IRVINE: And also, I would say that, I have noticed a really significant increase over the last few years in internally identified instances of suspected fraud, waste and abuse. When our compliance monitoring
folks are out in the field, they find a questionable
documents and so forth, they will come back and convene
that same group. And we bring Mark into that process. It
is a great thing.

MS. BINGHAM ESCAREÑO: Great. Good. Mr.
Chisum, any other questions?

MR. CHISUM: One more. Yes.

MS. BINGHAM ESCAREÑO: You bet.

MR. CHISUM: Mark, so the vendor that we are
using, is that the same vendor that other agencies are
also using, or are we standalone?

MR. SCOTT: Well, when we had the conference
call, he was very keen to point out that they are the
industry leader so far. But yes, they are a well known
vendor to do this type of thing. And as far as --

MR. CHISUM: I wanted to know if other state
agencies are using him. Probably so if they are --

MR. SCOTT: Probably so. I mean, there is --
every agency has some type of intake mechanism for fraud
complaints.

MR. CHISUM: Right.

MR. SCOTT: But I couldn’t tell you off the top
of my head which agencies use this particular vendor.

MR. CHISUM: Could you give me a ball park on
how much money we spend for this?

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MR. SCOTT: Betsy, do you know -- the spend is
on that?

MS. SCHWING: It has been about $3,200.

MR. SCOTT: Per year?

MS. SCHWING: Per year.

MR. SCOTT: Okay. And then the overage, the
overage we just got was like --

MS. BINGHAM ESCAREÑO: Hi, Betsy.

MS. SCHWING: Hi. I am Betsy Schwing with the
Internal Audit Division. When we first set up the
hotline, our charges were about $1,200 per year.

From there, they went to $1,800. In the past
year, because our volume has gone up so high, the cost has
been about $3,200 in this past year.

So we are at a very critical point as far as
determining what we are going to do going forward. And I
think it was the conference call that really allowed us to
determine how this vendor can help us redirect some of
these calls that --

MR. SCOTT: That $3,200 you cited, that was
before the overage bill.

MS. SCHWING: That was including the overage.

MR. SCOTT: That was including the overage.

Okay.

MS. SCHWING: Just to break it down, the cost
of the calls, we have got calls that are more specific.
Those are about $35 per call. The calls that we may get
that are just hangups or inquiries, those are $4.50 a
call. So that is kind of how that gets in.

MR. SCOTT: So that addresses your question to
some extent about the length. Yes.

MS. BINGHAM ESCAREÑO: That does. Yes.

MS. SCHWING: Okay.

MR. SCOTT: Thanks.

MS. BINGHAM ESCAREÑO: Thank you.

MR. CHISUM: Thank you, Mark. Thank you,
Chairman.

MS. BINGHAM ESCAREÑO: Well, do you want to do
this then? Just maybe, it sounds like maybe the Committee
would appreciate you just keep us posted.

We may be able to see it, if some of the
efforts that we take pan out, then we may see a reduction
in the call volume. But maybe periodically, you can just
update the Committee on how that relationship with the
vendor is going, and if you are recommending any
additional steps.

MR. SCOTT: Okay. Thank you. Yes. I made it
clear to the vendor that we didn’t want to not know about
stuff.

But there is some things that we get that are
obviously not related to us. So if they could work it out so that they, on their end, if it is something that is clearly local law enforcement and not fraud, waste and abuse as to our programs, if they could refer them to the appropriate agency, that way, we won’t get charged.

MS. BINGHAM ESCAREÑO: Great. And charge us $4,50 instead of $35.

MR. SCOTT: Yes.

MS. BINGHAM ESCAREÑO: Very good. Does the Committee have any other questions about the fraud, waste and abuse report? And do you have any feedback for Mark and his team on the format? Mr. Gann, are you comfortable with the --

MR. GANN: Yes. I am trying to get it --

MS. BINGHAM ESCAREÑO: Yes. Is it pretty --

MR. GANN: Trying to get it.

MS. BINGHAM ESCAREÑO: Good.

MR. GANN: It looks good so far.

MS. BINGHAM ESCAREÑO: Very good. Great. I think that concludes the agenda for Audit Committee. Does the Committee have any other items that they would like to address?

(No response.)

MS. BINGHAM ESCAREÑO: Any other comments from staff? Mr. Irvine?
MR. IRVINE: Thank you, Madam Chair. Tim Irvine again. I would actually like to comment on two things. First of all, with regard to the report on the audit of the payroll administration process, I really thank Mark.

I think that a big part of the value added component is just communication and awareness. Salary data, hours worked are critical pieces of information for us as we go about our business of running this Agency as efficiently and effectively as possible.

And it is a tool. I can=t ask for more people if the records only reflect that people are working 40 hours a week and getting time for vacation and sick leave and holidays and that sort of thing.

So when somebody does more but doesn’t report it, they are not only failing to comply with the requirement to report under the Federal Wage Hour laws, they are doing us a disservice by not giving us the information that we need to go and make our case for more resources. So thank you very much for doing that.

Also, Chief Murphy would like to come up and join me. You know, I have got to say this, consultation on the A-133 audit process has been very helpful. It is not just a check box thing. I think that we have always looked at A-133 audits to see what the issues are and what
is going on.

But I think Mark has been exceptionally helpful in helping us to decipher auditese. Which frankly, is just as complex as legalese. And really, figuring out when people submit these audits, what are they really saying.

Because what we want to know is, did you look at all of the programs the way that they interrelate. Did you make sure that the funds that are being expended are being expended on allowable activities and our properly documented? You know, the compliance component.

And then when you came in and did this year’s audit, did you look at the issues you had identified into the past years’ audit and satisfy yourself that those things were being addressed. So it is very valuable.

MS. BINGHAM ESCAREÑO: Thank you.

MS. MURPHY: Good morning.

MS. BINGHAM ESCAREÑO: Good morning.

MS. MURPHY: Patricia Murphy, Chief of Compliance. Yes. I also wanted to thank Mark and his staff.

It has really been very, very helpful having them assist in reviewing the single audits and really scrubbing them. And I am asking a lot of questions. And he is very patiently working with me through these issues.
A couple of other things that I wanted to 
follow up about that is, the Department does have a single 
audit rule in our Texas Administrative Code. And as we 
are finding issues that are not addressed in the single 
audits that we are receiving, Mark and I have begun 
discussions about amendments to that rule to include other 
things that we may like our subrecipients when they do a 
procurement, to say, in addition to these federal 
requirements, we are asking that you have your auditor 
check these items as well.

And one last thing I wanted to bring to your 
attention is, later today, Item 6 on your agenda is the 
previous participation rule. And part of that is going to 
take a look at the network as a whole. The subrecipient 
network, in looking at their single audit findings and our 
monitoring findings.

And that will really crystallize where, wait a 
minute, our own monitoring staff had all of these 
findings, and there were no single audit findings. That 
will really, we have got a good process in place with the 
adoption of a new rule to bring that to light.

MS. BINGHAM ESCAREÑO: Great. Fantastic.

Good. That sounds like that will bring everything 

together. Any other questions from the Committee members?

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MS. BINGHAM ESCAREÑO: Any public comment?

(No response.)

MS. BINGHAM ESCAREÑO: Great. Okay. Then I will first thank Mark, and his team, Robin and Betsy for your good work on these audits. It sounds like you have got your work cut out for you for the rest of the plan year, too. If there is nothing else, I will entertain a motion to adjourn.

MR. GANN: So moved.

MR. CHISUM: Second.

MS. BINGHAM ESCAREÑO: All right. I have a motion and a second, Mr. Gann and Mr. Chisum. All in favor, aye.

(A chorus of ayes.)

MS. BINGHAM ESCAREÑO: Opposed?

(No response.)

MS. BINGHAM ESCAREÑO: The motion carries. The meeting is adjourned. Thank you very much.

(Whereupon, at 9:00 a.m., the meeting was adjourned.)
CERTIFICATE

MEETING OF:  TDHCA Audit Committee
LOCATION:  Austin, Texas
DATE:  April 16, 2015

I do hereby certify that the foregoing pages, numbers 1 through 27, 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.

04/21/2015
(Transcriber) (Date)

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