TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

AUDIT COMMITTEE MEETING

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

July 30, 2015
8:30 a.m.

MEMBERS PRESENT:

TOM GANN, Vice Chair
TOLBERT CHISUM, Member

MARK SCOTT, Director of Internal Audit
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MR. GANN: Good morning to all of you. Most of you are familiar faces. This is going to be the Texas Department of Housing and Community Affairs Audit Committee meeting. We started at 8:30, and we're in the John Reagan Building in Room 140.

WE need to certify a quorum, so let me see who all is here. Mr. Chisum?

MR. CHISUM: Present.

MR. GANN: Ms. Bingham?

(No response.)

MR. GANN: She's not going to be with us. And I'm Tom Gann, and that makes a quorum, so Mr. Secretary, I'll tell you we have a quorum.

MR. SCOTT: Thank you.

MR. GANN: The first item of business is going to be the approval of any minutes that were sent to us. Those minutes were in our Board book and were sent to us approximately a week ago through electronic means. Any additions or corrections to the minutes?

MR. CHISUM: I make a motion to approve the minutes.

MR. GANN: A motion has been made and I'll second. All those in favor say aye.

(A chorus of ayes.)
MR. GANN: Any opposed?

(No response.)

MR. GANN: It's unanimous.

Item number 2 is going to be consideration of the update of the Fiscal Year 2015 Internal Audit Work Plan, and I think that's going to be easily explained by you.

MR. SCOTT: Thank you. Yes. On the 2015 Audit Plan --

MR. GANN: Mark, you'd better tell them who you are.

MR. SCOTT: I'm Mark Scott. I'm the director of Internal Audit. And on the 2015 Audit Plan I want to omit the Single Family HOME audit and replace it with a consulting project related to the evaluation of internal controls and assurance functions at TDHCA. The Single Family HOME program is being audited by KPMG as a major program for the statewide single audit, and KPMG announced this recently, and so the internal audit that was put on the plan last October would duplicate KPMG's work, so I'm asking to remove that audit from the plan.

MR. GANN: No sense in doing it twice.

MR. SCOTT: Yes, sir.

MR. GANN: I appreciate you adding another audit to our side or attempt to.
Do we have any further discussion on item number 2?

(No response.)

MR. GANN: If not, I'll take a motion to approve.

MR. CHISUM: I make that motion.

MR. GANN: A motion has been made and I'll second. All those in favor?

(A chorus of ayes.)

MR. GANN: Any opposed?

(No response.)

MR. GANN: There are none.

Item number 3 is a report on a survey, and actually, I think the Board chairman requested a management letter from you on this one, did he not?

MR. SCOTT: Yes, sir, that's correct. In this management letter I tried to outline the major functions at TDHCA and who reviews them, not in detail but just an overview. They're audits conducted by Internal Audit, the State Auditor's Office and federal offices of inspector general. The letter has a brief description of the programs, how audits them and the last time they were audited, and there's a reference chart at the back of the document for easy reference. The programs with subrecipients are monitored by Patricia Murphy's group and
periodic audits of the programs are done by Internal Audit, the State Auditors Office and federal audit groups.

The letter lists the federal oversight agency for each program, along with the CFDA numbers. That's Code of Federal Domestic Assistance. And by the way, CFDA numbers are a handy way to look up programs requirements, et cetera, for the various programs.

I'll pause for a second. Are there any questions on that part so far?

MR. CHISUM: No, sir.

MR. GANN: No.

MR. SCOTT: Okay. The Tax Credit program is monitored by TDHCA staff as well as the Internal Revenue Service. As a side note, the Federal Government Accountability Office just issued a report recommending joint IRS-HUD oversight of the Tax Credit program at the federal level. I don't know what will come of that.

The loan programs are monitored by TDHCA staff and the SAO does an annual audit of the trust funds. And at the agency, the administrative functions, like human resources, accounting and information technology, IT, are audited by Internal Audit and various external audit groups. An IT review was just conducted by Gartner, Inc. Internal Audit did a payroll audit just a few months ago, and the SAO audited the trust fund financial statements.
back in December, just for some examples of how the administrative programs are audited.

Any questions on that?

MR. GANN: No questions from me.

MR. CHISUM: Yes. Mark, since we have multiple audits going on, is there someplace where we know what their audit results are as compared to where we are?

MR. SCOTT: Yes. I try to go to every meeting that the external auditors have and keep apprised of what they're doing, and if they announce to me that they're going to audit something that I plan to audit, I'll try to avoid the duplication.

MR. CHISUM: Okay.

MR. GANN: There's some level of confidence there too, I think.

MR. CHISUM: Yes. Thank you.

MR. SCOTT: In addition to monitoring, auditing and other assurance functions, the agency has internal controls. A shorthand way of describing them is to say that internal controls are built into the programs and are designed to prevent problems that would have to be detected in the audit process. Individual audits of programs and administrative functions look at internal controls for individual areas.

The letter also discusses in general the
organizational placement of functions at the agency. Some positions and functions are required by statute, while some are organized based on best practices or other considerations.

So that's kind of an overview of that management letter, so if there's any questions, I'll answer them.

MR. GANN: I don't have any more. This is just an oral report, isn't it? This is something you're going to be covering at the Board meeting.

MR. SCOTT: Yes, sir.

So that concludes my presentation on the management letter.

MR. GANN: Okay. And we're going to go to some report items now and there's several of those that you're going to cover, and none of these require a vote, from what I looked at.

MR. SCOTT: That's correct. These is just to apprise the Audit Committee of the external audits that are going on.

As I mentioned, the group Gartner, they work in conjunction with the Department of Information Resources which is kind of the equivalent of the State Auditor's Office for IT things. They are not working for them in this case, they were doing this project for us. And the
topic of IT security came up briefly when the agency
budget was presented last month, so I wanted to at least
mention this. Previous to that, the agency had hired
Gartner, Inc., an IT consulting company, and they reviewed
IT security and other IT issues at TDHCA. It's generally
against protocol to discuss IT security in detail,
however, I can say they took a very systematic approach
and provided some good recommendations.

The federal HUD came out, their monitors came
out and reviewed our Section 8 Housing program, and the
staff just got the audit report yesterday. They tested
things like the numbers of housing units reported, dollar
amounts on vouchers paid, numbers of beneficiaries served,
and they had no formal findings but had ten concerns. And
the reason they had no formal findings was that the
variances for the various categories were all within
acceptable range which was 3 percent.

The concerns that they noted related to things
like timing issues on cutoff dates for reported and they
said that we had a lot of manual processes, and as far as
they were concerned, they were doing their audit and
either because -- I guess they found it somewhat difficult
to find everything they needed for the audit, but in the
end apparently everything was there, so everything was
within range. So that report came out yesterday and we
have some amount of time to respond to it.

Then the KPMG, as I mentioned, they're doing an audit of the Single Family HOME program, and just as a reminder, KPMG, they're pretty much always auditing the state. They work for the State Auditor's Office and they do the federal compliance component of the whole state. And I talk about A-133 audits a lot in respect to our subrecipients; that is basically the A-133 audit for the whole State of Texas. And the State Auditor's Office does the financial statement portion of the statewide audit and they contract with KPMG to do the federal compliance part. And each year KPMG chooses different programs, and they call them major programs, to audit, and a few months ago they notified us that this year they would be auditing the HOME program. And so far on that we've had a few meetings and they're going to get started with the program testing in September, and they already started looking at IT controls.

And I should mention that there's always various routine federal OIG investigations going on. They're usually of our subrecipients and most of the time they're initiated by us, so that's just to mention.

And at this point there's no other external audit activity going on. I did mention last month that I was going to start on the A-133 audits that we get of our
subrecipients. I was going to implement a program where we work with the State Board of Public Accountancy to make sure that the audits we get are adequate, and that has begun.

MR. GANN: And we're really repeating something they should have already known, but we want to make sure that they understand that we're going to be using this as a guideline.

MR. SCOTT: I'm sorry?

MR. GANN: On those 133s, we keep throwing it up, and the object is to make sure everybody really realizes that we're doing an A-133.

MR. SCOTT: That's correct, sir, yes. We've been getting these A-133 audits from CPAs for a long time, and we're just making sure that in addition to auditing the financial statements, they know that when they say that they audited the federal programs, we want to make sure that they really did audit those federal programs.

MR. GANN: Good. Did I interrupt you, or were you finished with that?

MR. SCOTT: I was finished with that part.

MR. GANN: Are you going into the part about the fraud?

MR. SCOTT: The other thing was the fraud, waste and abuse hotline, and I was just going to say that
we continue to administer that. And by the way, this hotline was originally set up, as I recall, at all the agencies and it was in response to RP-36 and that's an executive order. And the way they name those, by the way, that stands for Rick Perry 36. So it sounds official, but that's what it is, RP-36 is Rick Perry's 36th executive order. And I think there's some stuff in the statutes saying that we have to have a complaint line or something. That came up the other day, somebody asked why do we have to have this, so that's the answer.

MR. GANN: And by the way, I do like the chart that you've come up with over the last couple of times we've had this report. It lets you see how many contacts you've really had, which is busy work, it looks like, but it's stuff we need to do and have to do, but in essence, there's very few. We had, what, six this first half of this year.

MR. SCOTT: There's very few that are actually related to us, but it's good that we have a system to capture anything that might be out there.

MR. GANN: Well, thanks for putting that in the book. It's just really informative sometimes.

Do we have any other comments on that last report?

MR. CHISUM: No, sir.
MR. GANN: How about anything else we've discussed today?

MR. CHISUM: No, sir.

MR. GANN: If not, then we've got a portion for open comments. Anybody want to say anything from the public about something that's not included in these items?

(No response.)

MR. GANN: I don't see anybody up here in the front so I assume we don't have any open comment. If we don't have anything else, I'll take a motion to adjourn.

MR. CHISUM: So move.

MR. GANN: I'll second, and we are adjourned, and the time is 8:45.

(Whereupon, at 8:45 a.m., the meeting was concluded.)
CERTIFICATE

MEETING OF:     TDHCA Audit Committee
LOCATION:      Austin, Texas
DATE:      July 30, 2015

I do hereby certify that the foregoing pages, numbers 1 through 14, 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.

08/04/2015
(Transcriber)         (Date)

On the Record Reporting
3636 Executive Cntr Dr., G22
Austin, Texas 78731
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