TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

AUDIT COMMITTEE MEETING

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

January 28, 2016
9:03 a.m.

MEMBERS:

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

MS. BINGHAM ESCAREÑO: Good morning. Nice to see you guys. Welcome to the Audit Committee of the Texas Department of Housing and Community Affairs.

I did roll call just a little while ago, but just to have it on the record, I'm the chair, Leslie Bingham, I'm here.

Mr. Tolbert Chisum?

MR. CHISUM: Present.

MS. BINGHAM ESCAREÑO: And Mr. Tom Gann wasn't able to make it with us today, but we do represent quorum for the committee meeting, so we'll move forward with business.

We'll go ahead and start with item 1, which is the review and approval of the committee minutes. The committee had a chance to review the minutes. Any changes? Are you good with it?

MR. CHISUM: I approve.

MS. BINGHAM ESCAREÑO: Very good. So the committee approves the minutes as presented.

We'll move on to item 2. Item 2 is the presentation, discussion and possible action regarding our State Auditor's Office audit, number 15-014, a report of the audit of the Texas Department of Housing and Community Affairs for fiscal year 2015 financial statements.
Mark, would you like to introduce the item?

MR. SCOTT: Yes, ma'am.

This item is the annual audit that the State
Auditor does of our financial statements, and they also
audit compliance with the Public Funds Investment Act, and
the State Auditor's staff are here to say a few words
about it.

MS. BINGHAM ESCAREÑO: Welcome.

MR. SALDIVAR: Good morning. For the record, my name is Cesar Saldivar. I'm an audit manager with the State Auditor's Office.

With me this morning is Philip Stringer, the project manager, Sarah Puerto, the assistant project manager. I'm going to hand it over to them to talk about the deliverables. This audit has many different deliverables, so I'm going to hand it over to Philip to talk a little bit about that, and we'll all three be available for questions if you have any questions after that.

MS. BINGHAM ESCAREÑO: Thank you, Cesar.

MR. STRINGER: Good morning.

MS. BINGHAM ESCAREÑO: Good morning.

MR. STRINGER: The State Auditor's Office issued several reports as part of this audit. On December 18, 2015 we expressed unmodified opinions on the
Department's fiscal year 2015 basic financial statements, the Revenue Bond Program Enterprise Fund financial statements, and the computation of unencumbered fund balances of the Housing Finance Division. And like Mark said, we also issued a report on compliance with the Public Funds Investment Act.

Also, with this audit we issued two reports previously. On August 3, 2015 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 '14 basic financial statements taken as a whole. And on September 24, 2015 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 certain hard copy documents.

Do you have any other questions on those?

MS. BINGHAM ESCAREÑO: Mr. Chisum?

MR. CHISUM: Nothing.

MS. BINGHAM ESCAREÑO: Thanks, Philip.

MR. SCOTT: Thank you very much.

The State Auditors do the financial statement audits, as we've discussed before, and KPMG does the audits of the federal compliance, and we get an extra audit because of the bonds that are kept outside of the
state treasury.

MS. BINGHAM ESCAREÑO: Let's see. So if there aren't any other questions, I think we'll look for action from the committee to recommend the State Auditor's Office report?

MR. SCOTT: Yes, that's correct. This committee will recommend to the full Board that they approve the State Auditor's Report. And Cesar will probably have to do another presentation to the full Board.

MS. BINGHAM ESCAREÑO: But it was perfect.

MR. SCOTT: Yes. Same way you did it.

MS. BINGHAM ESCAREÑO: So just for the record then, Mr. Chisum, are you comfortable?

MR. CHISUM: Yes.

MS. BINGHAM ESCAREÑO: So the committee will recommend the report as presented to the Board.

MR. SCOTT: Thank you very much.

MS. BINGHAM ESCAREÑO: Very good.

Shall we move on to the Internal Audit Program?

MR. SCOTT: Yes. The next item I was going to talk about is the program income audit that was an internal audit. It was carried over from the 2015 audit plan, and based on a project risk assessment; we focused on the Tax Credit Assistance Program, TCAP, and the
Neighborhood Stabilization Program, NSP. Program income is recorded in several agency systems. We tested the identification recording of the amounts. For TCAP, the amounts in the various systems reconciled except for some immaterial differences.

The main issue we found was that for the NSP program reconciliations, the Disaster Recovery Grant Reporting System, DRGR, were not being done in a timely manner. DRGR is what our agency uses to report to HUD. The amounts in DRGR were not being reconciled to People Soft which is used for financial accounting.

Management did agree with the audit recommendation and has set up a plan to perform complete reconciliations at a minimum every three months, which I think will coincide with the external reporting to HUD. And the management staff that were involved with the audit are here, and they were very helpful. This is an audit that we had to interface with accounting staff and program staff, so it was good to have cooperation from everybody to get everything, if not solved, at least get it on the road to being solved.

MS. BINGHAM ESCAREÑO: Great. Thank you, Mark. So this is on the agenda as a report only item. No action is necessary at this time?

MR. SCOTT: Yes, ma'am, that is correct.
MS. BINGHAM ESCAREÑO: The report was thorough, the committee is in receipt of the report. Are there any comments that management would care to make on the record regarding the program income audit? Mr. Irvine.

MR. IRVINE: Thank you very much. Tim Irvine, executive director.

You know, any time you go into an audit, you get a little nervous, you get your fingers crossed and all that, but I've got to say that we really enjoy working with the Internal Audit folks. They are straightforward, they are objective, they are practical and useful, and I value the recommendations that they make.

It's noted in the actual materials, but I do want to point out just on this record that TCAP loan repayments are not, strictly speaking, program income, they're just loan repayments.

MS. BINGHAM ESCAREÑO: Very good. So they were in the scope of the audit but they are not necessarily officially considered program income.

MR. IRVINE: They're not technically program income, which has a very specific legal meaning, but they were absolutely within the scope of the engagement and we appreciate the guidance on keeping track of what we've got.

MS. BINGHAM ESCAREÑO: Very good. Thanks, Tim.
MR. CHISUM: Thank you.

MS. BINGHAM ESCAREÑO: Anyone else from management care to make any comments?

(No response.)

MS. BINGHAM ESCAREÑO: Great. Thank you very much.

So we'll move on then to report item number 2, discussion of any recent external audit activity.

MR. SCOTT: Yes. As I mentioned before, KPMG and the State Auditor's office, they do the audit for the entire state so they're pretty much with us year round, and they've been doing their annual statewide audit. They also do some IT audit work, which is very useful. And by the way, the Department of Information Resources provides services and guidance to the agency, as it does to all state agencies.

At the last Audit Committee meeting, we discussed the KPMG audit and they were planning to use the new OMB circular rules as criteria for their 2015 audit which would have resulted in findings of non-compliance. We had further discussions with them and they have agreed to not write any findings related to implementation of the new circular. They do have a few minor findings related to internal review of information related to the HOME program, which is the program they're auditing. And as
far as external audits, SAO just did their presentation.  
And then the federal health and human services agency, their Division of Energy Assistance did a review of our LIHEAP program, which is the energy program, and they were very complimentary of TDHCA's practices related to outreach, ease of enrollment, service delivery plans and training.  

So those are the external audits.  

MS. BINGHAM ESCAREÑO: External ones. Great.  

Thanks. Very good.  

Any questions under external audit? Everything sounds good.  

Report item number 3 is the discussion of internal audits and consulting activity. Just want to go over kind of what's coming up?  

MR. SCOTT: Yes. In November we did the audit plan and so I was going to give an update on where we are on that.  

We just did the program income audit which was on that plan. We're going to start the sources and uses audit and also the real estate analysis audit. And both of these involve a lot of what auditors would call analytical procedures, and so it won't take up as much staff time as an in-depth operational audit.  

And as far as consultations, Internal Audit is
doing ongoing consultation related to subrecipient monitoring, specifically the reviews of the A-133 audits. And I've been working with the monitoring staff and also with the Texas State Board of Public Accountancy on getting better A-133 audits from the subrecipients. And by the way, they're going to have a hearing in February on one of the audits that I referred to them.

So that's the status of the audit plan and the consulting activity.

MS. BINGHAM ESCAREÑO: Very good. So Mark, regarding those -- what are they?

MR. SCOTT: They're called A-133 audits.

MS. BINGHAM ESCAREÑO: A-133s, so you have kind of two things going on with that: you're actually doing some consulting actively on our current subrecipient A-133s, but you're also seeking some guidance from the state regarding our practices moving forward and what will be expected of subrecipients?

MR. SCOTT: Well, the State Board of Public Accountancy regulates the CPAs that do these audits for the subrecipients and they're auditing our funds, and they have the ability to review and sanction, as appropriate, CPA firms. They have been trying to get agencies like us to work with them to identify where things need to improved as far as their audits go.
MS. BINGHAM ESCAREÑO: Okay. Understood. So it's accountability. In other words, the State Board of Public Accountancy has criteria or expectation for CPAs that do those A-133s to meet, and they'd like to work with us to make sure that the subrecipients are using accountants that are abiding by that criteria?

MR. SCOTT: That's perfectly stated. Yes.

MS. BINGHAM ESCAREÑO: Not really, but that's how I understood it. Very good. Any questions then on our upcoming consulting and audit activities?

(No response.)

MS. BINGHAM ESCAREÑO: Very good. Then we'll move to our update on fraud, waste and abuse activities, report item number 4.

MR. SCOTT: And as we've discussed before, we have a fraud hotline. The State Auditor also has a fraud hotline. We work with them regularly. There's a lot of these calls that aren't really related to our programs, but they are generated out in our properties, the tax credit properties or some other way. It's work to sift through them, as I've said before, but it's better to know it than not to know it, so we continue to utilize that service and keep track of that.

MS. BINGHAM ESCAREÑO: Any specific questions
relative to fraud, waste and abuse? The documentation of the allegations that came in is in our committee packet.

Very good.

Mark, any other items for consideration for the committee today?

MR. SCOTT: No, ma'am, that's everything.

MS. BINGHAM ESCAREÑO: Very good. Thank you.

Any additional considerations recommended from management or staff?

MR. IRVINE: Nothing specific to recommend, but just another comment on the subject of fraud, waste and abuse. Under state law we also have very specific reporting requirements. When we suspect certain types of wrongdoing or loss or impropriety, we're required to report that to the State Auditor's Office, and we file those reports promptly and carefully and work with them as their fraud investigation unit follows up on them.

MS. BINGHAM ESCAREÑO: Very good. Mr. Irvine, should the committee and the board assume that any material recommendations, findings that come out of fraud, waste and abuse would end up in this report?

MR. IRVINE: We are very careful to protect things like ongoing criminal investigations or legal proceedings and so forth, but through appropriate vehicles we make sure that the board knows everything serious.
that's going on.

    MS. BINGHAM ESCAREÑO: Thank you. Very good.

Any other comments?

    (No response.)

    MS. BINGHAM ESCAREÑO: Very good. I think that concludes the committee meeting of the Audit Committee of the Texas Department of Housing and Community Affairs. Thank you all for coming.

    (Whereupon, at 9:15 a.m., the meeting was adjourned.)
CERTIFICATE

MEETING OF: TDHCA Audit Committee
LOCATION: Austin, Texas
DATE: January 28, 2016

I do hereby certify that the foregoing pages, numbers 1 through 15, 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.

Nancy H. King 02/01/2015
(Transcriber) (Date)

On the Record Reporting
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