TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

AUDIT COMMITTEE MEETING

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

October 13, 2016
8:00 a.m.

MEMBERS:

LESLIE BINGHAM ESCAREÑO, Chair
TOM H. GANN, Member
T. TOLBERT CHISUM, Member (Absent)
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MS. BINGHAM ESCAREÑO: Good morning. So this is the Audit Committee of the Texas Department of Housing and Community Affairs, our October 13 meeting. Good morning.

We will call roll. I am here.

Tolbert Chisum is absent today.

And Mr. Gann?

MR. GANN: Here.

MS. BINGHAM ESCAREÑO: Here. Very good. So for the purposes of doing business as a committee, to still represent a committee quorum, so you guys are going to hear Mr. Gann make motions and me second everything. We will be pretty predictable.

There is actually not a whole lot of action items on the agenda this morning. But there are some important reports.

So we will go ahead and get started with the agenda. The first item is possible action on the Committee minutes from the July 28 meeting. If we will take a look at those, and I will entertain a motion.

MR. GANN: I don't hear any additions or corrections. They were sent out to us, so I have already read them.

MS. BINGHAM ESCAREÑO: Very good.
MR. GANN: So I will make a motion to approve
the minutes of the last meeting.

MS. BINGHAM ESCAREÑO: Good. Mr. Gann moves
acceptance. I will second. All those in favor, aye?

(A chorus of ayes.)

MS. BINGHAM ESCAREÑO: Opposed?

(No response.)

MS. BINGHAM ESCAREÑO: The motion carries.

Thank you very much. Item 2 is presentation, discussion
and possible action to approve the FY 2017 Internal Audit
work plan. Good morning, Mark.

MR. SCOTT: Good morning. I am Mark Scott, the
Director of Internal Audit. I am going to go over the
proposed 2017 Internal Audit plan. Then I am going to
discuss the other items on the audit agenda.

The way the Audit Plan was prepared was with
the risk assessment methodology. The Texas Internal
Auditing Act requires that an Annual Audit Plan be
prepared using risk assessment techniques.

The Audit Plan was prepared based on risk
assessment done in the standard matrix format. The
auditable units that were listed and risk ranked included
organizational area, programs, and administrative
functions.

The auditable units were ranked according to a
list of risk attributes that includes such things as program size, risk of fraud, and the last time a unit was audited. We also obtained input from management on an ongoing basis.

But the new audit projects for 2017 are Information Services. And the Internal Auditing Act requires periodic audits of an agency's information systems. We will assess the various IS functions, such as programming, help desk, network security, and project management.

There has been some IS assessment work done last year by an external firm. But this will the first comprehensive internal audit.

The second new project will be the audit of the bond finance program. And this is a complex program that has not had a recent internal audit.

This audit will follow well from the audit we did of sources and uses that was presented at the July Audit Committee. The Bond Finance program seeks to provide loans with below market interest rates.

And then the third new project would be the home contract for deed conversion program. And this is a program that helps people convert from a contract for deed situation to something more like a standard mortgage.

A contract for deed is basically owner
financing. And there may be concern that the contract for deed did not provide the same protections as a standard mortgage. This audit was selected because of the potential for fraud, and because it has not been previously audited.

Then there were carryover projects from 2016. And last year, when I presented the 2016 Audit Plan, I noted the two audits were somewhat interrelated.

The Multifamily Finance Division ranked high as an organizational unit, while the tax credit program rated high as a program. And both of these have a high level of interest from the development community and intensive competition for resources that the programs provide, as evident from the discussions at most of the Board meetings.

And this year, I am proposing to combine the two audits. That is what is listed as a carryover project on the Audit Plan.

We also had on last year's plan, an audit of the Compliance Division. And we are almost complete with that audit. We should have that issued by the end of the month. So I will pause for a second, to see if there is any questions on the new audit projects.

MS. BINGHAM ESCAREÑO: Great. Okay. So thanks, Mark. So let's go back to -- so we are
comfortable with the risk assessment methodology. It is working in terms of identifying priorities and risk areas. So there is three that are scheduled. Information Services, any questions about Information Services as appropriate?

MR. GANN: No.

MS. BINGHAM ESCAREÑO: Any questions or comments from management about it?

(No response.)

MS. BINGHAM ESCAREÑO: Okay. Bond Finance, obviously, a good opportunity there for audit. Any questions there?

(No response.)

MS. BINGHAM ESCAREÑO: Any comments from management about a bond finance audit?

MS. BINGHAM ESCAREÑO: Good morning.

MR. IRVINE: Tim Irvine, Executive Director. Just a question to the auditor, actually. With regard to the Bond Finance Audit, will that also encompass the other non-bond programs that they create and operate such as the TBA program?

MR. SCOTT: I haven't really decided that yet. So once we scope the audit, if it looks like that is something that is a good area for audit, you know --

MR. IRVINE: Okay.
MR. SCOTT: -- I will discuss it with you in the meantime, but --

MR. IRVINE: Well, I ask it candidly, because frankly, one of the best values that management derives from the audit process is the dialogue with Internal Audit as they are scoping their audit. Because when you ask a question, that is what triggers the thought, ah hah. That might be an issue we need to look at.


MS. BINGHAM ESCAREÑO: So the preference would be to just -- for management to stay engaged in the scoping portion.

MR. IRVINE: Absolutely.

MS. BINGHAM ESCAREÑO: Very good. Okay.

Great. Thank you. And then the last one is the contract for deed conversion part of HOME, also sounds appropriate.

MR. GANN: Yes. It really does.


MR. IRVINE: It is Tim again. The contract for deed thing, one thing I think needs to be made pretty clear is that while contracts for deed, in and of themselves are certainly subject to all kinds of abuse, there have been some pretty significant changes in the law, in recent years.

And quite honestly, one of the most effective
ways to convert a contract for deed to a straight up mortgage is through a process that doesn't even involve funding. So I think that although we have a legislative mandate to offer that program, I think it is moving to a different approach.

MS. BINGHAM ESCAREÑO: Okay.

MR. GANN: This is one item, Ms. Chairman, that the laws have changed significantly. And they are trying to keep this type of financing to a minimum. And those rules reflect all of that.

MS. BINGHAM ESCAREÑO: Good. All right. So carryover. Just very quickly. I had some questions about carryover, just to clarify. So the tax credit and the Multifamily Finance were two that were on the 2016 plan.

We are recommending, you had been kind of giving us updates that you had finished the Compliance Audit, but that the Multifamily Finance and the tax credit probably would not be finished in '16, and would need to carry over into '17. And you are recommending combining those, because of their similarities, or their alignment?

MR. SCOTT: Yes, ma'am. The way we do the risk assessment methodology, we have to list out. In order to capture everything, we have to list out the agency by your organizational units, how it is set up internally, as far as divisions.
And then we also have to list out the programs or activities. So when we did the risk assessment, both the Housing Tax Credit and the Multifamily Division ranked high on the list. But since that division does that program, they can be done at the same time.

MS. BINGHAM ESCAREÑO: I have got you. Very good. Mr. Gann, any questions about that?

MR. GANN: No questions.

MS. BINGHAM ESCAREÑO: Any other comments from management about that? Does that make sense?

MR. IRVINE: Yes. I think that makes a lot of sense. I mean, many, many affordable housing developments have multiple layers of financing in them, often involving tax credits, private activity bonds, HOME funds, TCAP loan repayment funds, and frankly, soon they will likely include National Housing Trust Fund as an additional layer of financing.

And they are all very closely interrelated. We do have a single multifamily set of rules that governs the attributes of these programs, to try to conform them to the greatest extent possible. We also will be bringing for adoption rules that will embody the loan policy discussions that we have been having for extended periods.

We finally have a multifamily direct loan rule. And it will have a lot of policy criteria in it. And
this will be a good chance to scrub those policies up
front, and make sure that we caught everything we needed
to catch.

MS. BINGHAM ESCAREÑO: Great. Very good. Are
there -- Mark, are there any efficiencies in labor or
resources when you do combine them? Or is it just a
matter of --

MR. SCOTT: Yes, ma'am. There are. So yes.
On the one hand, it is more efficient to combine them.
But then just to make sure that the risk assessment is
complete, and that we consider everything, when we
actually do -- when we lay out the risk assessment. We
list them out separately.

MS. BINGHAM ESCAREÑO: Great. The same with
management, maybe? In other words, you are kind of
getting both of them done at the same time?

MR. IRVINE: Yes. Efficiency is critical to
management in this process. I mean, frankly, the
Multifamily Finance activities never cease. But during
the allocation season, which basically runs from January
through the end of July, people are racking up literally
hundreds of comp hours.

MS. BINGHAM ESCAREÑO: Yes. I have got you.
Very good. Good. Thank you. Should we -- let's see. Do
you want to go ahead and go over the rest of it, before we
take action?

MR. GANN: Yes.

MR. SCOTT: So on the Audit Plan, as far as allocation of resources, I always allocate some time for management and Board requests. Because during the course of the year, things come up that need to be looked at.

And so we can accommodate requests from management and the Board. During the course of fiscal year 2016, Internal Audit assisted management with subrecipient monitoring and also the coordination of external audits.

And then the last section of the Audit Plan is the administrative reports. We scheduled time to do the follow-up audit report, the annual audit plan, annual report on Internal Audit and also the peer review.

The peer review, that, the way I have it listed out on the Audit Plan is kind of those three projects. Because the first thing that you have to do is do a self-assessment.

And so we will do the self-assessment. We will probably, you know, maybe make some kind of management letter out of it.

MS. BINGHAM ESCAREÑO: Mark. Can I ask you just real quickly.

MR. SCOTT: Yes.
MS. BINGHAM ESCAREÑO: So who is the you that does the self-assessment? What entity is responsible?

MR. SCOTT: We do the self-assessment internally.

MS. BINGHAM ESCAREÑO: Internally.

MR. SCOTT: And so you have -- in fact, you can't get a peer reviewer to come out unless you have done a self-assessment.

MS. BINGHAM ESCAREÑO: Great. Okay.

MR. SCOTT: So we will do that. And then we will go through the process of procuring the peer review. And then they will come out and do the peer review.

And when they do the peer review, they do a lot of interviewing. So that will take up some time. So the scheduling of that will have to be worked around.

MS. BINGHAM ESCAREÑO: Great. Mark, are there guidelines that already exist for the peer review process? So as an agency, we move through that process using those guidelines?

When is anybody -- I guess my question is, when is anyone external of the Agency engaged in the peer review process? Or is it all driven by established policy and guidelines through the State?

MR. SCOTT: Well, okay. In the State, they have two processes. One is, you can go through what they
call the SAIAF peer review. That is a state internal audit forum.

And they -- but to do that, you have to do other people's peer reviews, which takes a lot of time. And they sent me a point list the other day.

And this agency, for some reason, is like -- seven points negative, six or seven for whatever reason. Because we didn't do enough peer reviews, or we had too many peer reviews or something.

But anyway, so to catch up would be a task. And it is kind of more efficient to have it done by an external party.

MS. BINGHAM ESCAREÑO: By a third party.

MR. SCOTT: Yes.

MS. BINGHAM ESCAREÑO: Very good. Great. And then there, the third party has -- follows the established policies and guidelines relative to conducting peer review?

MR. SCOTT: Yes. There are, the peer review reports that come out basically follow exactly the Red Book.

And so they go through. They talk about independence. They talk about the audit charter which we did a while back. They talk about the scopes of the audits; make sure we cover IT, for example.
Make sure we cover information or financial systems. Make sure we cover the programs. And then they interview management. They will interview the Board members. And then they will issue the report.

MS. BINGHAM ESCAREÑO: Excellent. So then those items, the follow-up audit report, the annual audit plan, the annual report on internal audit and the peer review, you will time those throughout 2017? You will find times throughout the year to get those done?

MR. SCOTT: Yes. Yes, ma'am. This is the audit plan, the one we are doing today. The annual report is basically, that is just a listing of the audits that we have completed and the ones we carried over.

And depending on what the state auditor wants, as far as content. Sometimes they ask you for like status of the finding, or various other things.

MS. BINGHAM ESCAREÑO: Good.

MR. SCOTT: That is just kind of a routine report. The peer review takes time. And so --

MS. BINGHAM ESCAREÑO: And then the follow-ups.

MR. SCOTT: And then the follow-ups.

MS. BINGHAM ESCAREÑO: Okay.

MR. GANN: Mr. Chairman, I am curious to know what kind of timeline on the peer review section, since we seem to be a little behind, somewhere.
MR. SCOTT: Well --

MR. GANN: Or you can't be specific at this juncture.

MR. SCOTT: Well, as far as the first step, the self-evaluation, I have hired a new staff member, by the way. Ms. Neda Sanjar.

MS. SANJAR: Good morning.

MR. SCOTT: She is a Certified Internal Auditor. And she has extensive experience in banking. And the first thing I told her to do was start working on that peer review stuff.

So you know, so we will do that. And then what I would like to do is, do the self-assessment, and then present that. And see if there is any questions. And I mean, and then put up the procurement.

MR. GANN: Do you think, what I am really trying to figure out is, are you going to be like midyear, three-quarter year, or end-of-the-year? I mean, I realize there is three steps to it, which makes it harder.

MR. SCOTT: Yes.

MR. GANN: I am just curious, though.

MR. SCOTT: Well, as we discussed, you know, the question of whether we are behind is kind of you know, that is kind of a matter of interpretation. The Red Book requires it every five years. And we do Red Book audits,
basically.

The Yellow Book requires it every three years. And we don't deal with audit. So if -- I guess, my intention would be to kind of see what the downtime for the Agency is.

Because as I said, it is going to be a pretty -- it is going to be pretty time intensive. Because they are going to have to interview everybody at the Agency, they have to interview the Board.

They have to look at all our stuff. So it is kind of like -- it kind of ties our hands for the time that they are doing it.

MS. BINGHAM ESCAREÑO: So but it sounds like -- so we have an allocation of staff resources to prepare for this self-assessment, which you said is the first step. Right?

MR. SCOTT: Yes.

MS. BINGHAM ESCAREÑO: Then we will review the self-assessment, make sure that it is, you know, inclusive and accurate and represents, you know, the functions of the Agency. And then we will procure a third party to do that?

And then once -- it sounds like to me -- once you secure that third party, then that assessment or that audit takes a life of its own? Not unlike any other third
party or external audit process that we go through. And I would assume, and Tim is standing up here.

But I would assume that management is accustomed to, even though like you said, the vast majority of our year is a pretty breakneck pace in terms of the work that needs to be done. That we are accustomed to third party or external entities needing access to our time and our records to conduct appropriate audits.

MR. IRVINE: Well, in the past, when we have undergone peer review, we have used the -- what is it, the SAIAF approach.

MR. SCOTT: SAIAF.

MR. IRVINE: And basically what that involves is other Internal Auditors at other state agencies who sort of --

MS. BINGHAM ESCAREÑO: Swap out.

MR. IRVINE: Swap out. And we have never undergone a peer review using, you know, a third party private audit firm. And this will be a first for us. I personally like this sort of, you know, not even an interest in state government, but sheer total objectivity.

MS. BINGHAM ESCAREÑO: Sure.

MR. IRVINE: It is attractive to me.

MS. BINGHAM ESCAREÑO: Great. Okay.

MR. SCOTT: And actually, in the Red Book, it
says that one of the options -- they have various options for how to do the peer review. One of the options is to have, you know, have it done completely by the third party.

And then another option is to do a thorough self-assessment and have that validated by the third party. So the -- and then the SAIAF process, they kind of do both. They make you do a full self-assessment. And then they do a full review of that. Or, they do their own interviews and so forth.

So but yes. We will get a -- I guess when we prepare for the procurement, we can outline you know, what the --

MR. GANN: I can see. What I was really getting to, I would like to see -- by the next meeting, or the second meeting from now, we ought to know where we are going with it, and what time it will be back, though.

MR. SCOTT: Yes.

MS. BINGHAM ESCAREÑO: Okay. Yes. Good.

MR. GANN: That is what I wanted to know. That is my point.

MS. BINGHAM ESCAREÑO: I think that is a good recommendation. So that way, by the next Audit Committee meeting, or if there is a Board meeting prior to an audit and we want to get just an update on when we anticipate
the self-assessment to be finished, or --

MR. SCOTT: Yes. I hope to have the self-assessment done by the next Board meeting, or by the next Audit Committee meeting.

MS. BINGHAM ESCAREÑO: Good. I agree with Tim, too. I like the idea of the third party, especially if we haven't used that process before.

And then it will give us -- you know, then we will have a good idea of was there some value-add in using a third party, or does it make more sense to go back to the SAIAF, that the state has you know, offered also. I like the idea. Maybe we will get some good value add out of the third party.

MR. SCOTT: Yes. And I should just say, I have had peer reviews done by both external and by the SAIAF group. And both times, they had good suggestions. So I learned about it from both of them.

MS. BINGHAM ESCAREÑO: Great. Very good. Okay. Do you want to go over administrative?

MR. SCOTT: Let's see. The --

MS. BINGHAM ESCAREÑO: Are we --

MR. SCOTT: So now we are at the point where we are going to ask. So we have talked about the audits, and then the administrative reports, and then the peer review. So at this point, I would like to ask the Committee to
approve the Audit Plan to recommend it to the full Board.

MS. BINGHAM ESCAREÑO: Thank you very much.

Mr. Gann?

MR. GANN: I will take that responsibility.

For fiscal year 2017, I recommend that we present it to the Board for their approval. I so move.

MS. BINGHAM ESCAREÑO: Very good. I will second the motion. We are all in favor and none opposed?

MR. GANN: Aye.

MR. SCOTT: Okay. Thank you very much.

MS. BINGHAM ESCAREÑO: Let's see. Do we have any other report items for today?

MR. SCOTT: We have the Fair Housing.

MS. BINGHAM ESCAREÑO: Very good. Let's go over the audit of the Fair Housing.

MR. SCOTT: Okay. This audit was selected based on several factors, including complexity of operations. Legislative interests, and the interest expressed by the Board and other oversight entities.

TDHCA has a role in administering the Fair Housing Act and it has staff and resources devoted to that function. So we conducted the audit of TDHCA Fair Housing activities. It is kind of a long-winded way of saying, we audit it as if it -- like it is a program, even though maybe it is not officially a program.
So we audited the Fair Housing program within TDHCA. There is a Federal Fair Housing Act and a Texas Fair Housing Act. Enforcement of the Acts is the responsibility of the Texas Workforce Commission, TWC.

TDHCA has some compliance responsibilities for Fair Housing, and it has a major role in what is called Affirmatively Furthering Fair Housing, AFFH. The Fair Housing Act's anti-discrimination provisions are primarily enforced by TWC.

And the federal government also may conduct activities such as posing as a home seeker to test whether housing agents ask discriminatory questions. Whether they withhold information about housing or otherwise have discriminatory practices.

TDHCA has compliance responsibilities with regard to having subrecipients and contractors we do business with who provide housing services through TDHCA attest that they comply with the Fair Housing rules. We tested a scientifically chosen random sample of contracts as to whether they contained the proper attestations. All but three did.

However, the three were for the Annie Young Barrier Removal Program, and they were not subject to that specific provision, but because of the sampling methodology, the three contracts could not be preaudited.
prior to the selection of the sample.

In addition to the compliance responsibilities that TDHCA has, it also has responsibilities for the AFFH or the Affirmatively Furthering Fair Housing. And the Fair Housing activities or program include outreach and education, as well as an advisory function within TDHCA as to what effects various initiatives will have on AFFH.

The Agency has a Fair Housing data management and reporting team that works on a variety of Fair Housing projects. There is a requirement for an analysis of impediments to Fair Housing, and an analysis of Fair Housing tool.

And we found that the Fair Housing activities are well managed. We had recommendations related to documenting policies and procedures and developing a schedule for making Fair Housing training available to TDHCA staff on a periodic basis.

There was some training done last year, or earlier this year. And it was very well received. Everybody liked it. So we think doing that on an ongoing basis would be a good thing. So I will stop there to see if there is any questions about the --

MS. BINGHAM ESCAREÑO: Mr. Gann, any questions?

MR. GANN: I know there were some issues with some of this in the past. And I just want to bring it up.
There is about a five-year -- I might want to ask you this, Mr. Director. There is a five-year program that we go through, every five years, I believe.

MR. IRVINE: Right.

MR. GANN: And it seems like it has been about that time. Are we in the process to being in the right position there? Because I think that was something that slipped by due to a few hurricanes or something.

MR. IRVINE: Yes, sir. Historically, the analysis of impediments to Fair Housing choice was performed in connection with the Consolidated Plan every five years.

And for a period in the mid-2000s, there was a lot of talk at the HUD level about the promulgation of new regulations. The analysis-of-impediments requirement actually wasn't under a regulation. It was under HUD policy.

Eventually, HUD did release the new analysis of Fair Housing requirement, as part of a regulation. And the regulation involves a new-HUD created tool. And we have a plan that is going to be more fully developed as that regulation rolls out, and as the tools get finalized and adopted.

And we anticipate that in the next year or so we will really ramp up to undertake that analysis of Fair
Housing, and meet HUD's timing requirements. Right now, we are operating under the analysis of impediments to Fair Housing choice. And we believe we are in compliance.

I would also point out that AFFH is not just a TDHCA requirement; it is a State of Texas requirement. And we serve in a pretty important coordinating role. Suzanne Hemphill, who heads that activity up, presides over periodic, usually quarterly meetings with the other agencies that administer HUD funds.

That is the General Land Office which administers CDBG disaster recovery activities. The Department of Agriculture which also administers the regular CDBG program, and the State Health Services, which administers the Housing Opportunities for Persons With AIDS or HOPWA program.

MR. GANN: I just didn't want us to miss that deadline.

MR. IRVINE: Yes.

MR. GANN: Because you had plenty of things going on in your world.

MR. IRVINE: We do. We do.

MR. GANN: I just was going to bring that up. I appreciate your comment.

MR. IRVINE: And I will say that as we gear up for the analysis of Fair Housing, even though HUD has
provided or is going to provide when it finalizes them, tools and data sets and so forth to help with that activity, it is going to be a gigantic activity. It is going to involve a lot of granular interaction with Texans in all 268,000 square miles. Big stuff.

MR. GANN: Yes. Thank you.

MS. BINGHAM ESCAREÑO: Any other questions regarding the Fair Housing audit?

(No response.)

MS. BINGHAM ESCAREÑO: The memo, the report memo that goes out, that was part of our Board package. Great format. Went over all of the areas, the comments. It was very useful. Very easy to consume.

MR. SCOTT: Thank you very much.

MS. BINGHAM ESCAREÑO: All right. Report item on external audit activity?

MR. SCOTT: The next one is recent internal audit --

MS. BINGHAM ESCAREÑO: Internal audit.

MS. HEMPHILL: Mark, could I clarify something really quickly?

MR. SCOTT: I am sorry?

MS. HEMPHILL: Could I clarify something?

MR. SCOTT: Sure.

MS. HEMPHILL: Suzanne Hemphill, Fair Housing
project manager. I wanted to clarify on the audit, if you
were accepting staff recommendations and management's
comments, just so we know how to move forward for the next
year.

MS. BINGHAM ESCAREÑO: All right. Thank you.
Thanks for the clarification.

MR. SCOTT: I am sorry -- accepting? What?

MS. HEMPHILL: If you are accepting
management's comments for the recommendations. Just to
clarify?

MR. SCOTT: Yes.

MS. HEMPHILL: Okay.

MR. SCOTT: Yes.

MS. HEMPHILL: Thanks.

MS. BINGHAM ESCAREÑO: So would we like to make
that an action item for the Committee to accept it, or is
it implied? Okay. Very good. We accept it. I mean, the
report is in the packet. Mr. Gann had no further
questions.

MR. SCOTT: Yes. I guess I perhaps neglected
to ask for an implementation date and schedule. But I can
put that in the follow-up report.

MS. BINGHAM ESCAREÑO: Very good. Good. We
will note that. All right. Report item 2, the Internal
Audit and consulting activity update.
MR. SCOTT: Okay. Yes. First of all, as I mentioned, I just hired Ms. Neda Sanjar. Neda is a Certified Internal Auditor, has extensive experience in the banking industry. And, Neda, if you want to stand up real quick so everybody can see you.

MS. SANJAR: (Complying.)

MS. BINGHAM ESCAREÑO: Hi, Neda. Welcome to the team. Nice to have you here.

MR. SCOTT: So we will have that going. Okay. And we are finishing up the audit of the Compliance Division. And this audit covers the multifamily developments and the compliance monitoring that is done during what is called the compliance period after tax credits are awarded and the buildings are put into service.

I meet regularly with the other side of the Compliance Division which is the subrecipient monitoring section. And we have a consulting arrangement that is done in accordance with the TDHCA Internal Audit charter, and it is also in accordance with the Internal Auditing standard.

MS. BINGHAM ESCAREÑO: Great. How is that going?

MR. SCOTT: It is going really well. We meet probably once a week, or every other week. We go over the
various audits that come in, that are done by certified public accounting firms of our subrecipients. And we discuss the ones that have findings, or the ones that have issues. And we proceed in that way.

So based on that, I think that that section of the audit of the -- the subrecipient monitoring is also audited by KPMG. So for that reason, the audit, it is getting ready to come out, is focused on the other side of the Compliance Division.

MS. BINGHAM ESCAREÑO: Great. Very good. And you will wrap that up by the end of the year?

MR. SCOTT: Yes. Hopefully by the end of the month. Because I want to put it on the annual report that I just mentioned as complete.

MS. BINGHAM ESCAREÑO: Great. Very good.

Thank you very much. Any questions on internal activity?

(No response.)

MS. BINGHAM ESCAREÑO: Great. Last report item is the recent external audit activity, Mark.

MR. SCOTT: Okay. Yes. The statewide audit is done every year. And they are almost always out here, either KPMG or the state auditor. And KPMG this year audited the LIHEAP program, which is the housing energy assistance program.
And they audited it as a major program, which means that the dollar amount of the program required them to audit it. And I have talked to the KPMG people.

And at this point, I don't think they have any significant findings, either one -- and I don't think the state auditor is going to have any. Or at least, they haven't notified me of any findings or significant findings on the financial portion of that statewide audit.

So and then the Department of Energy, the federal agency sent out a monitoring. Or they did some monitoring of the LIHEAP program. And they also went out to one of the subrecipients to view the implementation of the program.

And they are really quick when they do their reviews. And when we had the exit conference, they were very positive about how TDHCA runs the program. They especially mentioned the communication among the divisions as a best practice.

And out in the field, they looked at a lot of things. They looked at issues like whether the installation was -- the insulation was installed properly in various homes. So that was very positive.

And that concludes my presentation. I will be happy to answer any questions that may be.

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

MR. GANN: No questions.

MS. BINGHAM ESCAREÑO: I don't think I have, either. So KPMG and the DOE, they should wrap up fairly soon? You haven't receive formal reports from either, but you expect that the work of those two --

MR. SCOTT: That is correct.

MS. BINGHAM ESCAREÑO: Okay. Very good.

MR. IRVINE: And I would just like to clarify.

The LIHEAP program is administered by Health and Human Services. It is a very large dollar program.

And it has two major activities. One is, utility bill assistance. The other is weatherization.

The DOE program is just a weatherization program.

MS. BINGHAM ESCAREÑO: Just for the -- okay. Very good. Thank you for the clarification. Very good.

If there are no other questions, I think is the agenda for today. I will entertain a motion to adjourn.

MR. GANN: I so move.

MS. BINGHAM ESCAREÑO: And I will second.

Meeting adjourned. Thank you guys, very much.

(Whereupon, at 8:34 a.m., the meeting was concluded.)
CERTIFICATE

MEETING OF:     TDHCA Audit Committee
LOCATION:      Austin, Texas
DATE:      October 13, 2016

I do hereby certify that the foregoing pages, numbers 1 through 32, 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.

/s/ Carol Bourgeois 10/18/2016
(Transcriber) (Date)

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