TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

AUDIT AND FINANCE COMMITTEE MEETING

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

September 7, 2017
8:00 a.m.

MEMBERS:

SUSAN THOMASON, Chair
PAUL A. BRADEN, Member
ASUSENA RESENDIZ, Member
LEO VASQUEZ, Member
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MS. THOMASON: Good morning, and welcome to the September 7 meeting of the TDHCA Audit and Finance Committee.

I'm going to take roll. Paul Braden?

MR. BRADEN: Here.

MS. THOMASON: Asusena Reséndiz?

MS. RESÉNDIZ: Present.

MS. THOMASON: I'm Sharon Thomason, I'm here. Leo Vasquez?

MR. VASQUEZ: Here.

MS. THOMASON: We have four.

Item 1 today is the approval of the minutes from the June 29 meeting. The last meeting our new members of the committee were introduced, and the director of Internal Audit, Mark Scott, went over the internal audit of the Low Income Housing Tax Credit Program, executive staff from the Finance Division presented the annual budget.

The minutes were included in your books. Can I have a motion to approve the minutes from the June Audit and Finance Committee?

MR. VASQUEZ: So moved.

MS. THOMASON: Can I have a second?

MR. BRADEN: Second.
MS. THOMASON: All in favor?

(A chorus of ayes.)

MS. THOMASON: Any opposed?

(No response.)

MS. THOMASON: All right. Then we'll move on.

Our second action item is the presentation of the Internal Work Plan. Mark, will you present that for us?

MR. SCOTT: Yes, ma'am.

The Texas Internal Auditing Act and Internal Auditing Standards require that state agencies prepare an annual audit plan based on a risk assessment. The 2018 audit plan was prepared utilizing a standard risk matrix that defines auditable units and ranks the units according to risk attributes. On this audit plan we have one carryover project from the 2017 audit plan, and that is Bond Finance. In the past two years we did the large audits, like sources and uses, the various phases of the Tax Credit Program and Information Services.

The new audit projects for 2018 are fund tracking for the HOME Program, and this rated high on the risk assessment because of complex and changing HUD rules for how to account for the inflow and outflow of funds. The second project is the Neighborhood Stabilization Program, and that program, they're in the process of closing out contracts so that's part of why that made it
high on the risk assessment. The third project is the Loan Servicing Division, and that rated high because of transaction volume and the amounts of funds that are processed, and there are also complexities in the loan servicing such as eligibility on the front-end and handling of delinquent payments at the back-end. The fourth item was the Emergency Solutions Grant, the ESG, and that rated high on the risk assessment primarily because of staff turnover; ESG is a program to help people in transitional housing situations. So those are the audit projects.

We also have on the audit plan time allocated for consulting projects, administrative projects, and finishing up the peer review. So with that, I would like to ask the committee to recommend approval of the 2018 internal audit plan to the full Board.

MS. THOMASON: Okay. We'll take a vote on that. Do I have a motion for the committee to recommend approval for the full Board of the internal audit plan?

MR. BRADEN: So moved.

MS. THOMASON: Do I have a second?

MR. VASQUEZ: Second. I have a question, though.

Just out of curiosity, when was the last time the scoring matrix was updated?
MR. SCOTT: We tweaked it a little bit this year. It hasn't undergone a full overhaul since I started. When I prepare the risk assessment, I send it out to management and I ask for like any factors that may have changed, like legislative interests. We take into account what happened during the legislative process, what staff was questioned on during the legislative process, so that was used to tweak the risk assessment this year, but it hasn't undergone a major overhaul.

MR. VASQUEZ: Just curious.

MS. THOMASON: We have a motion and a second to recommend approval to the full Board of the 2018 internal audit plan. All in favor?

(A chorus of ayes.)

MS. THOMASON: Any opposed?

(No response.)

MS. THOMASON: So that item passes.

We have some report items and our first report item is the audit of the Information Systems, and Mark will present that.

MR. SCOTT: The Information Systems audit was a base audit, and it can be used as a reference document for management and also for Internal Audit when conducting future audits. From an audit point of view, we were looking at overall IS systems. The Internal Auditing Act
states that the program of internal auditing should cover the agency's main financial and IS systems, as well as the major programs. This audit included the major areas of IS operations which are network administration, programming and security. As noted in the audit report, security testing is also provided by the Department of Information Resources and by the contractor Gartner.

The way the internal audit report is laid out follows audit standards and we have governance right after the introduction. We have a recommendation in the governance section, which is section B of the audit report. When developing applications, it would be better to "build in" security by testing it in the course of development, rather than by relying so heavily on later patching. Management agreed with this recommendation.

Section C of the report describes the components of Information Systems. Usually users are considered the weakest link and we had a recommendation for increased training for users. Management agreed with that recommendation.

The funding and staffing section, section D of the audit report, is pretty straightforward. TDHCA receives a direct appropriation for its IS activities. For the compliance section of the audit section D, we included Exhibit A in the back of the audit report which
designates the responsibilities of DIR and TDHCA. We reviewed TDHCA's compliance with the Texas Administrative Code, or TAC.

For the programming section, section F, we prepared Exhibit B which shows the numerous software programs used by TDHCA and the administrative areas that they serve. This exhibit will be a good reference tool for us for later audits.

And section G is the security section of the audit, and we found that TDHCA is in pretty good shape overall as far as the security controls, and the audit recommendations will enhance them.

So I'll stop to see if there's any questions or comments on the audit report.

MS. THOMASON: Does anybody have any questions, comments?

(No response.)

MS. THOMASON: The next item is the status of the 2017 audit plan, and Mark will go over that with us.

MR. SCOTT: Okay. The 2017 audit plan, that was prepared the same way with the risk assessment.

And by the way, Mr. Vasquez, I said that it hadn't been overhauled. The process we use for doing the audit matrix, I started that when I came here, so in a way it was overhauled because they were using some other way
before.

MR. VASQUEZ: Okay.

MR. SCOTT: So the IS audit was one of the large ones on the 2017 audit plan. In 2017 we completed the audit of Compliance Monitoring, the audit of the Tax Credit Program, the audit of IS, which were all large scope audits. And we are currently working on the Contract for Deed Conversion Program audit, and that should be quick work.

On the external audits, we've had two recent audits, they were both very positive external audits. One was the Comptroller's post-payment audit, and that's where they basically just look at how the agency processes payroll and payments to vendors. And the other audit was the HUD audit of compliance with the Davis-Bacon Act, and what that is it's making sure -- just to be brief, making sure that the contractors are paid in accordance with proper standards. And then the statewide audit is basically constantly going on. That's with KPMG and the State Auditor's Office, and those are going fine too.

MS. THOMASON: The final item will be the status of the peer review.

MR. SCOTT: Yes. We contracted with a company, Postlethwaite & Neterrville, P&N, from Houston to conduct the peer review, and so far we've had several good
conference calls with them, and they've been reviewing documentation that we've been uploading to a portal that we set up. The storm in Houston set them back a little bit on their work, but they should be able to get back to it, and as of yesterday they were back at work reviewing documents.

So that concludes my presentation, and I'll be happy to answer any questions there may be.

MS. THOMASON: Questions?

(No response.)

MS. THOMASON: No other items for this meeting for the Audit and Finance Committee. If there are no other questions or comments, then this meeting is concluded at 8:11.

(Whereupon, at 8:11 a.m., the meeting was adjourned.)
CERTIFICATE

MEETING OF: TDHCA Board Audit & Finance Committee
LOCATION: Austin, Texas
DATE: September 7, 2017

I do hereby certify that the foregoing pages, numbers 1 through 11, 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.

9/12/2017
(Transcriber) (Date)

On the Record Reporting
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