

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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<u>AGENDA ITEM</u>	<u>PAGE</u>
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a) Gartner Report on Information Systems	
b) HUD Review of Section 8 Housing	
c) KPMG - Audit of Single Family HOME program	
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2. Presentation and Discussion of the Status of the Fraud, Waste, and Abuse Hotline and Other Fraud Complaints.	11
a) Update on renewal of contract with Networks (Netclaims)	
b) Update on the process of updating the TDHCA website	
c) Update on complaints of fraud, waste or abuse in Fiscal Year 2015.	
PUBLIC COMMENT ON MATTERS OTHER THAN ITEMS FOR WHICH THERE WERE POSTED AGENDA ITEMS.	none
EXECUTIVE SESSION	none
ADJOURN	13

P R O C E E D I N G S

1
2 MR. GANN: Good morning to all of you. Most of
3 you are familiar faces. This is going to be the Texas
4 Department of Housing and Community Affairs Audit
5 Committee meeting. We started at 8:30, and we're in the
6 John Reagan Building in Room 140.

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

9 MR. CHISUM: Present.

10 MR. GANN: Ms. Bingham?

11 (No response.)

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

15 MR. SCOTT: Thank you.

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

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

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

25 (A chorus of ayes.)

1 MR. GANN: Any opposed?

2 (No response.)

3 MR. GANN: It's unanimous.

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

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

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

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

22 MR. GANN: No sense in doing it twice.

23 MR. SCOTT: Yes, sir.

24 MR. GANN: I appreciate you adding another
25 audit to our side or attempt to.

1 Do we have any further discussion on item
2 number 2?

3 (No response.)

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

6 MR. CHISUM: I make that motion.

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

9 (A chorus of ayes.)

10 MR. GANN: Any opposed?

11 (No response.)

12 MR. GANN: There are none.

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

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

1 periodic audits of the programs are done by Internal
2 Audit, the State Auditors Office and federal audit groups.

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

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

10 MR. CHISUM: No, sir.

11 MR. GANN: No.

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

18 The loan programs are monitored by TDHCA staff
19 and the SAO does an annual audit of the trust funds. And
20 at the agency, the administrative functions, like human
21 resources, accounting and information technology, IT, are
22 audited by Internal Audit and various external audit
23 groups. An IT review was just conducted by Gartner, Inc.

24 Internal Audit did a payroll audit just a few months ago,
25 and the SAO audited the trust fund financial statements

1 back in December, just for some examples of how the
2 administrative programs are audited.

3 Any questions on that?

4 MR. GANN: No questions from me.

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

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

13 MR. CHISUM: Okay.

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

16 MR. CHISUM: Yes. Thank you.

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

25 The letter also discusses in general the

1 organizational placement of functions at the agency. Some
2 positions and functions are required by statute, while
3 some are organized based on best practices or other
4 considerations.

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

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

11 MR. SCOTT: Yes, sir.

12 So that concludes my presentation on the
13 management letter.

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

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

21 As I mentioned, the group Gartner, they work in
22 conjunction with the Department of Information Resources
23 which is kind of the equivalent of the State Auditor's
24 Office for IT things. They are not working for them in
25 this case, they were doing this project for us. And the

1 topic of IT security came up briefly when the agency
2 budget was presented last month, so I wanted to at least
3 mention this. Previous to that, the agency had hired
4 Gartner, Inc., an IT consulting company, and they reviewed
5 IT security and other IT issues at TDHCA. It's generally
6 against protocol to discuss IT security in detail,
7 however, I can say they took a very systematic approach
8 and provided some good recommendations.

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

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

1 have some amount of time to respond to it.

2 Then the KPMG, as I mentioned, they're doing an
3 audit of the Single Family HOME program, and just as a
4 reminder, KPMG, they're pretty much always auditing the
5 state. They work for the State Auditor's Office and they
6 do the federal compliance component of the whole state.
7 And I talk about A-133 audits a lot in respect to our
8 subrecipients; that is basically the A-133 audit for the
9 whole State of Texas. And the State Auditor's Office does
10 the financial statement portion of the statewide audit and
11 they contract with KPMG to do the federal compliance part.

12 And each year KPMG chooses different programs, and they
13 call them major programs, to audit, and a few months ago
14 they notified us that this year they would be auditing the
15 HOME program. And so far on that we've had a few meetings
16 and they're going to get started with the program testing
17 in September, and they already started looking at IT
18 controls.

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

23 And at this point there's no other external
24 audit activity going on. I did mention last month that I
25 was going to start on the A-133 audits that we get of our

1 subrecipients. I was going to implement a program where
2 we work with the State Board of Public Accountancy to make
3 sure that the audits we get are adequate, and that has
4 begun.

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

9 MR. SCOTT: I'm sorry?

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

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

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

21 MR. SCOTT: I was finished with that part.

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

24 MR. SCOTT: The other thing was the fraud,
25 waste and abuse hotline, and I was just going to say that

1 we continue to administer that. And by the way, this
2 hotline was originally set up, as I recall, at all the
3 agencies and it was in response to RP-36 and that's an
4 executive order. And the way they name those, by the way,
5 that stands for Rick Perry 36. So it sounds official, but
6 that's what it is, RP-36 is Rick Perry's 36th executive
7 order. And I think there's some stuff in the statutes
8 saying that we have to have a complaint line or something.

9 That came up the other day, somebody asked why do we have
10 to have this, so that's the answer.

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

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

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

23 Do we have any other comments on that last
24 report?

25 MR. CHISUM: No, sir.

1 MR. GANN: How about anything else we've
2 discussed today?

3 MR. CHISUM: No, sir.

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

7 (No response.)

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

11 MR. CHISUM: So move.

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

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

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C E R T I F I C A T E

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
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ERRATA PAGE

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<u>PAGE</u>	<u>LINE</u>	<u>CHANGE</u>	<u>REASON FOR CHANGE</u>	<u>MADE BY</u>
5	22	how to who	typographical error	ACornier