

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

AUDIT COMMITTEE MEETING

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

July 28, 2016
8:00 a.m.

MEMBERS:

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

I N D E X

<u>AGENDA ITEM</u>	<u>PAGE</u>
CALL TO ORDER, ROLL CALL, CERTIFICATION OF QUORUM	3
ITEM 1: Presentation, Discussion, and Possible Action to Approve the Audit Committee Minutes Summary for April 28, 2016	3
REPORT ITEMS:	
1. PRESENTATION AND DISCUSSION OF THE INTERNAL AUDIT SOURCES AND USES REVIEW	4
2. DISCUSSION OF INTERNAL AUDITS AND CONSULTING ACTIVITY	12
3. DISCUSSION OF RECENT EXTERNAL AUDIT ACTIVITY	19
PUBLIC COMMENT ON MATTERS OTHER THAN ITEMS FOR WHICH THERE WERE POSTED AGENDA ITEMS.	none
EXECUTIVE SESSION	none
ADJOURN	20

P R O C E E D I N G S

1
2 MS. BINGHAM ESCAREÑO: Good morning. Nice to
3 see everybody. This is the Audit Committee of the Texas
4 Department of Housing and Community Affairs. We have --
5 let me take roll call first.

6 So I'm here. So nice to have Mr. Chisum back.

7 MR. CHISUM: I'm here. Thank you.

8 MS. BINGHAM ESCAREÑO: And Mr. Gann.

9 MR. GANN: Here.

10 MS. BINGHAM ESCAREÑO: So we're all present and
11 we can do business. We actually just have one agenda item
12 for action; the rest of them are report items. If you
13 gentlemen had a chance to look at the minutes, let me know
14 if you recommend any changes. Otherwise we'll entertain a
15 motion for approval.

16 MR. CHISUM: So moved.

17 MR. GANN: Second.

18 MS. BINGHAM ESCAREÑO: Okay. Mr. Chisum makes
19 the motion; Mr. Gann seconds. All in favor aye.

20 (A chorus of ayes.)

21 MS. BINGHAM ESCAREÑO: Opposed?

22 (No response.)

23 MS. BINGHAM ESCAREÑO: Motion carries.

24 Good morning, Mark. So we have three report
25 items on this morning. One of them is just a kind of

1 presentation and discussion of our sources and uses.

2 MR. SCOTT: Yes, ma'am.

3 MS. BINGHAM ESCAREÑO: Would you like to start
4 with that report item --

5 MR. SCOTT: Yes.

6 MS. BINGHAM ESCAREÑO: -- this morning?

7 MR. SCOTT: The Internal Auditing Act requires
8 periodic audits of a state agency's financial and
9 accounting systems and controls. And I like to do this
10 overview audit, which I call sources and uses, once per
11 biennium to show and analyze how the Agency's money is
12 received and spent.

13 It kind of connects the dots between various
14 external reports where financial information is cited.
15 This audit can also be used as a base for future audits.
16 It's the first time it has been done at TDHCA, and so with
17 each go around it should become more informative. I've
18 done these at other agencies, and the boards have always
19 indicated that they found the sources and uses audit to be
20 a good reference tool as well as an audit.

21 TDHCA has a complex financial structure which
22 is necessary to promote a wide variety of activities. The
23 Agency's financial statements and the SAO opinions on
24 various funds are posted onto the Agency's website. Their
25 reports on the basic financial statements are about 104

1 pages long, and they're in a format that can be hard to
2 read. They're kind of written for accountants, bankers,
3 and other financial users.

4 The Internal Audit Report is for the purpose of
5 internal analysis and information. On pages 2 and 3 of
6 the Report I have the budget amounts that are included in
7 the TDHCA portion of the state's appropriations bill.
8 This is often referred to as a bill pattern.

9 On the LBB website, which has the state's
10 annual budgets, the TDHCA budget is included in Article 7,
11 Business and Economic Development. The General
12 Appropriations Act and information available through the
13 Legislative Budget Board uses the term "funds available"
14 with respect to TDHCA's finances.

15 The GAA appropriates approximately \$243 million
16 per year to TDHCA, and the bill pattern includes a
17 statement that the amount represents 27 percent of what is
18 available to TDHCA. So if you gross that up, as
19 accountants say, it may sound as if TDHCA will spend
20 approximately \$900 million per year, but that's not the
21 case.

22 The note in the calculation in the GAA refers
23 to amounts that are in the Housing Trust Fund that will be
24 expended over a much longer period. I just wanted to
25 point that out so someone won't think the Agency spends

1 four times what is appropriated.

2 (General laughter.)

3 MR. SCOTT: The actual amount of funds TDHCA
4 spent or passed through in 2015 was approximately \$312
5 million. It is averaged approximately \$344.5 million per
6 year over the past three years.

7 The Agency spent less on energy assistance in
8 2015 than in the prior years running out the ARRA money.
9 Also in 2013 the Agency expended \$4.2 million on
10 Neighborhood Stabilization Program and did not have NSP
11 expenditures in the subsequent years.

12 So the difference in the total Agency
13 expenditures versus the Agency's appropriations is the
14 money that is expended from the funds held outside the
15 Treasury. The majority of the appropriated funds are
16 federal funds out of what is called the Community Affairs
17 Funds Number 127, which includes the Energy Assistance
18 Funds.

19 The amount from the state's general revenue
20 fund is about \$13 million. About \$19.5 million is
21 appropriated receipts, which includes items like
22 monitoring fees.

23 I'll pause for a second to see if there's any
24 questions so far.

25 MS. BINGHAM ESCAREÑO: Any questions?

1 (No response.)

2 MS. BINGHAM ESCAREÑO: Thanks, Mark.

3 MR. SCOTT: Section B of the Audit Report --
4 Section B of the Internal Audit Report includes a
5 reconciliation of the amounts referenced in the Agency's
6 bill pattern and the information in the Agency's LAR.

7 The bulk of the money kept outside the state
8 treasury is in mortgage-backed securities. The rest is in
9 cash or cash equivalents. And again, the SAO audits those
10 funds.

11 Section C of the Audit Report just describes
12 the Housing Trust Fund is kept outside the state Treasury
13 and placed with the Texas Treasury Safekeeping Trust
14 Company.

15 Section D of the Audit Report, indirect cost
16 and administration: The Agency's administration is funded
17 by a direct line item in the appropriations and by charges
18 of an indirect rate to federal agencies. The approved
19 indirect cost rate is 44.4 percent, and the total charged
20 to federal sources is around \$1.7 million per year.

21 When we did the payroll audit last year, the
22 annual salaries of TDHCA, including Manufactured Housing,
23 were approximately \$18.5 million per year. Some of the
24 salaries are appropriately charged as direct costs to
25 federal programs.

1 We tested the indirect cost allocations and
2 they were correctly calculated. Just as a note, to
3 directly charge staff time, et cetera, to federal sources
4 can required a larger record-keeping burden.

5 Section F of the Audit Report is the Lower
6 Income Housing Tax Credits. And a large part of the
7 housing activities are financed by tax credits by means of
8 which the Agency creates the multifamily housing which is
9 so often discussed at the board meetings.

10 The tax credits kind of jumpstart the process.

11 When a tax credit is awarded, the result will be the
12 issuance of an IRS Tax Form 8609. These are used by
13 developers to offset their tax liability. TDHCA receives
14 some fee income to defray the administrative costs of
15 handling the tax credit program.

16 Section G was on reconciliation. We cross-
17 checked the various sources of information both internally
18 and externally reported to make sure they either matched
19 or could be reconciled. We had minor observations on
20 budget information related to interagency contract with
21 the Agriculture Department and to the payroll-related
22 costs.

23 And Exhibit A just provides more detail on the
24 Agency's goals and strategies. The information is from
25 the LAR and the Agency's bill pattern. And that concludes

1 my discussion of the Sources and Uses Audit.

2 MS. BINGHAM ESCAREÑO: Okay. Any questions
3 from the committee members?

4 MR. CHISUM: Well done.

5 MR. GANN: Well done.

6 MR. SCOTT: Thank you very much.

7 MS. BINGHAM ESCAREÑO: Great. So, Mark, so
8 other than just the minor observations under
9 reconciliations, there weren't any other really material
10 internal findings?

11 MR. SCOTT: Yes, ma'am, that's correct.

12 MS. BINGHAM ESCAREÑO: Okay. Very good. Come
13 on up, Tim. So I was just going to make an observation.
14 We were sharing before the committee meeting started that
15 when Tim and I and Mr. Ozer were talking with Mark as a
16 candidate for the director position, one of the things
17 that really appealed to us was the recommendation to do a
18 Sources and Audit -- a Sources and Uses Audit.

19 And at the time it just sounded like a good
20 kind of fiscally responsible thing to do. And so I don't
21 know if this is a primary outcome or secondary outcome,
22 but the fact that now we have this kind of well-thought-
23 out explanation of what we have all learned, you know,
24 through trial and error really complicated kind of funding
25 process in our -- and really diverse. Right?

1 It was a nice way to have it succinctly but
2 thoroughly kind of explained and assessed, and I think
3 it's everything that we thought it would be and definitely
4 a good thing to have. And I think either in this report
5 or at some point in our talking, we talked about it's
6 something that you'd like to do biennially?

7 MR. SCOTT: That's correct.

8 MS. BINGHAM ESCAREÑO: Okay. Very good.

9 Mr. Irvine?

10 MR. IRVINE: Tim Irvine, TDHCA staff. I think
11 it's a phenomenally important audit. I think as you
12 exercise your responsibility, there's a tendency to focus
13 so much on the responsibility as it rolls down to the
14 program subrecipients and awardees. But we still have
15 tremendous responsibility to account for the dollars we
16 use ourselves.

17 And federal funding sources especially and
18 state funding sources, too, look to make sure that, you
19 know, for example, when you're charging salary to a
20 particular grant that you can document and support it.
21 These are the kinds of things for which we ding
22 subrecipients when we go and monitor them, you know. You
23 charged that to CEAP and it shouldn't have been charged to
24 CEAP. Pay us back.

25 And, you know, to the extent that we are not

1 keeping these things very carefully properly aligned and
2 documented, there is repayment risk. So I think it's
3 something that just really needs a lot of attention and I
4 think that this is an important part if you're carrying
5 out your oversight responsibilities and me carrying out
6 mine.

7 MS. BINGHAM ESCAREÑO: Uh-huh.

8 MR. IRVINE: I also think that in terms of
9 comfort level when you're dealing with the folks in the
10 pink building as they go through the appropriations
11 process and oversee our programs, these are programs that
12 are extremely hard to understand. It's not simply, Here's
13 a certain amount of general revenue; go spend it for this
14 particular purpose.

15 It's, you know, here are 15 to 20 different
16 sources of state and federal funds. Use them in an
17 extremely interwoven and interconnected way to serve
18 eligible Texans, and that's a very hard story to tell.
19 And I think an audit like this really helps us to tell
20 that in an objective and transparent manner.

21 MS. BINGHAM ESCAREÑO: Yeah.

22 MR. IRVINE: Thank you.

23 MS. BINGHAM ESCAREÑO: Thank you. So if there
24 are no further discussion on Item 2 -- thanks very much --
25 Mark, we'll move on to Item 3 on the agenda.

1 MR. SCOTT: Okay, Item 3 is Discussion of
2 Recent Internal Audit and Consulting Activities. On the
3 Audit Plan, I'm in the process of hiring a new auditor to
4 fill a vacancy.

5 We have two audits in progress that will be
6 presented at the October Audit Committee; those are the
7 Fair Housing Audit and the Compliance Division Audit. The
8 other two audits on the plan, the Federal Tax Credit Audit
9 and the Audit of Multifamily Finance Division, may be
10 carried over into 2017, but I'll try to get them done this
11 year.

12 Also, at the -- at the upcoming October Audit
13 Committee, I'll present an Audit Plan for approval. The
14 Texas Internal Auditing Act requires a periodic peer
15 review of internal audit, and the internal auditing
16 standards define the period as at least once every five
17 years.

18 The last peer review of internal audit was
19 completed in January of 2013. The peer review tested
20 Internal Audit Standards 1000 through 2600 all from the
21 Red Book, which is for internal audits. So not only do we
22 do Red Book audits, we also in the past have done Red Book
23 peer reviews.

24 The Red Book standards apply to internal
25 audits, while the Yellow Book standards apply to external

1 audits. The Red Book requirement for a peer review is at
2 least once every five years, and we are in compliance with
3 that timeline.

4 I talked to Tim Irvine about this, and we're
5 going to put the peer review on the Audit Plan in October
6 and also budget for it. And prior to the peer review I
7 will also write up a self-assessment of compliance with
8 Internal Audit Standards 1000 through 2600, which will map
9 to everything in the peer review reports.

10 On the consulting, I continue to meet regularly
11 with compliance staff to consult on the A-133 audits in
12 accordance with our consulting agreement and with -- and
13 in accordance with the Internal Audit Charter. And that
14 concludes my presentation on the Internal Audit
15 Activities.

16 MS. BINGHAM ESCAREÑO: Great. Any questions
17 from the committee members --

18 MR. GANN: No.

19 MS. BINGHAM ESCAREÑO: -- about the report? So
20 Audit Plan, so you've got a tiny but herculean staff --

21 MR. SCOTT: Right.

22 MS. BINGHAM ESCAREÑO: -- that you guys are
23 going to try to knock out everything on the plan this
24 year. But you're letting the committee know that you're
25 short on manpower a little bit and you guys will do the

1 best you can and keep us posted on status?

2 MR. SCOTT: Yes. ma'am, that's correct.

3 MS. BINGHAM ESCAREÑO: Okay. And then on peer
4 review, no questions on peer review. So we're not
5 actually due -- we're not at our five-year mark yet, but
6 you guys believe it's something that we can incorporate
7 into next year, and you'll work with the Executive
8 Director on that.

9 MR. SCOTT: Yes. ma'am, that's correct.

10 MS. BINGHAM ESCAREÑO: Great. Mr. Irvine.

11 MR. IRVINE: Tim Irvine, TDHCA staff returning
12 to the microphone. We did receive -- you actually
13 received, directly to all board members, a letter from
14 someone outside the Agency raising concerns about whether
15 we were in compliance with our peer review requirements.

16 And I want to be crystal clear and completely
17 transparent. The instant I learned of that issue, Mark
18 and general counsel and I immediately went over and just
19 sat down with our audit manager at SAO and said, Here's
20 the issue, you know; what do you think, talked it through.

21 And I don't think there were any specific
22 concerns raised, and the general observation was, well,
23 the best way to address that is get a peer review.

24 MS. BINGHAM ESCAREÑO: Right. Uh-huh.

25 MR. IRVINE: And there are basically two ways

1 you can approach a peer review. One, there are members of
2 various internal audit staffs around agencies, and they
3 often provide peer reviews for each other.

4 The problem with that and especially for a
5 staff that's as slammed as ours is that it's a tit for
6 tat. If you receive someone else's peer review, then
7 you've got to contribute your man-hours to go out and do a
8 peer review.

9 Also I think that frankly, just from a pure
10 let's get the maximum benefit from the peer review
11 process, we would be well served to engage, you know,
12 somebody that's not in the state auditing world to just
13 come in and see what they think.

14 MS. BINGHAM ESCAREÑO: Great. Okay, good.

15 MR. SCOTT: Yeah, and I'm always open for input
16 so whatever the peer review says, I'll be open to it.

17 MR. CHISUM: Tim's conversation raised a
18 question in my mind about the additional staff.

19 MR. IRVINE: Yeah.

20 MR. CHISUM: And our staff is doing a fabulous
21 job and thank you, Mark. My question is can we -- to get
22 what you want done in this year, would it be a
23 consideration to go outside and find the expertise that we
24 need to help do what you need done to get it done this
25 year if that's what you want to do?

1 MR. SCOTT: I mean, I'm open to anything. I
2 don't think that that would necessarily expedite the
3 situation, because we'd have to go through the procurement
4 and all that, and then we'd have to get them up to speed
5 on things that we are learning as we do other audits.
6 We're learning about the audits we're going to do next.

7 MR. CHISUM: Okay.

8 MR. SCOTT: For example, we're doing the
9 Compliance Audit and that tells us a lot about Fair
10 Housing, because Compliance tests Fair Housing. So I
11 appreciate the offer, but I don't know if it would
12 necessarily speed things up.

13 MR. CHISUM: Okay. And then the second part of
14 that question is, okay, that being the case and we go
15 through the process of hiring an additional employee and
16 we've got quite a load -- you do -- to get these things
17 done, once we get those things done, will there be
18 responsibilities remaining for that new employee to
19 continue?

20 MR. SCOTT: Oh, yes, because, yeah, we'll have
21 to have another audit plan next year.

22 MR. CHISUM: Okay.

23 MR. SCOTT: So.

24 MR. CHISUM: So really we're shorthanded right
25 now that --

1 MR. SCOTT: That's correct, but we'll work
2 through that.

3 MR. CHISUM: Okay, thank you.

4 MS. BINGHAM ESCAREÑO: Thank you, Mr. Chisum.
5 So -- and then you can do this, we'll probably get
6 together as a committee again in October --

7 MR. SCOTT: Okay.

8 MS. BINGHAM ESCAREÑO: -- or somewhere around
9 there. Right? And maybe you'll give us an update at that
10 time on how we're looking to what our -- you know, the
11 completion of our plan and whether or not you think
12 anything will carry over into the coming year.

13 MR. SCOTT: That's correct. And actually the
14 Internal Audit Act, it says you have to have an annual
15 plan. We do ours based on the fiscal year, but there's
16 nothing that specifies I don't think that you have to do a
17 fiscal year audit plan, and carrying over an audit is
18 never looked at negatively --

19 MS. BINGHAM ESCAREÑO: Sure. Okay.

20 MR. SCOTT: -- by the oversight agencies.

21 MS. BINGHAM ESCAREÑO: Great.

22 MR. CHISUM: So that being -- Ms. Chairman --

23 MS. BINGHAM ESCAREÑO: Yes.

24 MR. CHISUM: That being said then, everything
25 that needs to be done by statute or what other

1 responsibilities we have for the audits, we'll be able to
2 accomplish that. We're in line with our responsibilities
3 of reporting.

4 MR. SCOTT: That's correct because the audit --
5 the Internal Audit Act says you have to prepare an audit
6 plan based on a risk assessment, which we did. You have
7 to conduct the audits, which we did. You have to issue
8 reports on the audit, which we did. We have to report
9 annually on the completion of the audit plan, and then you
10 have to document any deviations from the audit plan.

11 So in our case we haven't deviated from the
12 audit plan at all, because we haven't taken anything off.

13 We just rolled something forward --

14 MR. CHISUM: Thank you.

15 MR. SCOTT: -- so that would put us in
16 compliance.

17 MR. CHISUM: Good.

18 MS. BINGHAM ESCAREÑO: Thank you, Mr. Chisum.

19 MR. CHISUM: Thank you, Ms. Chair.

20 MS. BINGHAM ESCAREÑO: Thanks, Mark. So Mark,
21 if there's no further discussion on the Internal Audits
22 and Consulting Activity, we'll move on the final item
23 which is the third report item, Discussion of Recent
24 External Audit Activity.

25 MR. SCOTT: Okay. Yeah, as we've discussed at

1 several meetings, the external audits of TDHCA are
2 conducted by the SAO and KPMG, and they follow the Yellow
3 Book. The Yellow Book incorporates AICPA standards of
4 testing, statistical sampling, confidence intervals for
5 opining on account balances, opinions on financial
6 statements, et cetera, that don't really apply to internal
7 auditing work.

8 The SAO is getting ready to start their
9 Financial Statement Audit of TDHCA, which they do every
10 year. And KPMG has finished the field work on their audit
11 of the Energy Assistance Program, and thus far, they've
12 not notified us of any findings.

13 Also something I report on are the reviews that
14 federal agency monitoring staff do at TDHCA. And these
15 are not technically considered audits, but we do provide
16 them to KPMG and SAO. And HUD just did a review of the
17 Community Development Grant Program and issued a very
18 favorable report.

19 And that concludes my presentation on external
20 audits, and I'll be happy to answer any questions.

21 MS. BINGHAM ESCAREÑO: Do committee members
22 have any questions regarding External Audit Activity?

23 MR. CHISUM: No.

24 MR. GANN: No, ma'am.

25 MS. BINGHAM ESCAREÑO: Nor do I. Thank you

1 very much, Mark.

2 MR. SCOTT: Thank you.

3 MR. CHISUM: Thank you, Mark.

4 MS. BINGHAM ESCAREÑO: Before we adjourn, is
5 there -- are there any additional comments from staff,
6 management, committee?

7 (No response.)

8 MS. BINGHAM ESCAREÑO: Great. Then we'll look
9 forward to getting together again sometime around October?

10 MR. IRVINE: Yes.

11 MS. BINGHAM ESCAREÑO: Good. Entertain a
12 motion for adjournment.

13 MR. GANN: So moved.

14 MR. CHISUM: Second.

15 MS. BINGHAM ESCAREÑO: All in favor?

16 (A chorus of ayes.)

17 MS. BINGHAM ESCAREÑO: Thank you very much.

18 Thank you, guys.

19 (Whereupon, at 8:23 a.m., the meeting was
20 adjourned.)

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23

C E R T I F I C A T E

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

I do hereby certify that the foregoing pages,
numbers 1 through 21, inclusive, are the true, accurate,
and complete transcript prepared from the verbal recording
made by electronic recording by Nancy H. King before the
Teacher Retirement System of Texas.

(Transcriber) 8/2/2016
(Date)

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