

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 RESÉNDIZ, Member
LEO VASQUEZ, Member

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P R O C E E D I N G S

1
2 MS. THOMASON: Good morning, and welcome to the
3 September 7 meeting of the TDHCA Audit and Finance
4 Committee.

5 I'm going to take roll. Paul Braden?

6 MR. BRADEN: Here.

7 MS. THOMASON: Asusena Reséndiz?

8 MS. RESÉNDIZ: Present.

9 MS. THOMASON: I'm Sharon Thomason, I'm here.

10 Leo Vasquez?

11 MR. VASQUEZ: Here.

12 MS. THOMASON: We have four.

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

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

23 MR. VASQUEZ: So moved.

24 MS. THOMASON: Can I have a second?

25 MR. BRADEN: Second.

1 MS. THOMASON: All in favor?

2 (A chorus of ayes.)

3 MS. THOMASON: Any opposed?

4 (No response.)

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

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

8 MR. SCOTT: Yes, ma'am.

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

19 The new audit projects for 2018 are fund
20 tracking for the HOME Program, and this rated high on the
21 risk assessment because of complex and changing HUD rules
22 for how to account for the inflow and outflow of funds.
23 The second project is the Neighborhood Stabilization
24 Program, and that program, they're in the process of
25 closing out contracts so that's part of why that made it

1 high on the risk assessment. The third project is the
2 Loan Servicing Division, and that rated high because of
3 transaction volume and the amounts of funds that are
4 processed, and there are also complexities in the loan
5 servicing such as eligibility on the front-end and
6 handling of delinquent payments at the back-end. The
7 fourth item was the Emergency Solutions Grant, the ESG,
8 and that rated high on the risk assessment primarily
9 because of staff turnover; ESG is a program to help people
10 in transitional housing situations. So those are the
11 audit projects.

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

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

20 MR. BRADEN: So moved.

21 MS. THOMASON: Do I have a second?

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

24 Just out of curiosity, when was the last time
25 the scoring matrix was updated?

1 MR. SCOTT: We tweaked it a little bit this
2 year. It hasn't undergone a full overhaul since I
3 started. When I prepare the risk assessment, I send it
4 out to management and I ask for like any factors that may
5 have changed, like legislative interests. We take into
6 account what happened during the legislative process, what
7 staff was questioned on during the legislative process, so
8 that was used to tweak the risk assessment this year, but
9 it hasn't undergone a major overhaul.

10 MR. VASQUEZ: Just curious.

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

14 (A chorus of ayes.)

15 MS. THOMASON: Any opposed?

16 (No response.)

17 MS. THOMASON: So that item passes.

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

21 MR. SCOTT: The Information Systems audit was a
22 base audit, and it can be used as a reference document for
23 management and also for Internal Audit when conducting
24 future audits. From an audit point of view, we were
25 looking at overall IS systems. The Internal Auditing Act

1 states that the program of internal auditing should cover
2 the agency's main financial and IS systems, as well as the
3 major programs. This audit included the major areas of
4 IS operations which are network administration,
5 programming and security. As noted in the audit report,
6 security testing is also provided by the Department of
7 Information Resources and by the contractor Gartner.

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

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

21 The funding and staffing section, section D of
22 the audit report, is pretty straightforward. TDHCA
23 receives a direct appropriation for its IS activities.
24 For the compliance section of the audit section D, we
25 included Exhibit A in the back of the audit report which

1 designates the responsibilities of DIR and TDHCA. We
2 reviewed TDHCA's compliance with the Texas Administrative
3 Code, or TAC.

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

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

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

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

17 (No response.)

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

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

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

1 before.

2 MR. VASQUEZ: Okay.

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

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

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

23 MR. SCOTT: Yes. We contracted with a company,
24 Postlethwaite & Neterrville, P&N, from Houston to conduct
25 the peer review, and so far we've had several good

1 conference calls with them, and they've been reviewing
2 documentation that we've been uploading to a portal that
3 we set up. The storm in Houston set them back a little
4 bit on their work, but they should be able to get back to
5 it, and as of yesterday they were back at work reviewing
6 documents.

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

9 MS. THOMASON: Questions?

10 (No response.)

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

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

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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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