

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

AUDIT COMMITTEE MEETING

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

October 9, 2014  
8:30 a.m.

MEMBERS:

LESLIE BINGHAM ESCAREÑO, Chair  
J. MARK McWATTERS, Member  
TOM H. GANN, Member  
M. BETSY SCHWING, Secretary of the Committee

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 on the Audit Committee Meeting Minutes for May 8, 2014	3
Item 2: Presentation and Discussion of the Status of the Internal Audit Activity Including Staffing, Management's Interest in Consulting Engagements and the Annual Report to the State Auditor's Office	4
Item 3: Presentation, Discussion, and Possible Approval of the Fiscal Year 2015 Internal Audit Work Plan	19
Item 4: Presentation and Discussion of the Status of the Fiscal Year 2014 Internal Audit Work Plan	25
Item 5: Presentation and Discussion of Recent Internal Audit Reports:	
a) An Internal Audit of Performance Measures at TDHCA	27
b) An Internal Audit of the Financial Administration Division	28
Item 6: Presentation and Discussion of the Status of External Audits, External Reviews and External Monitoring Activity	29
An Audit Report on Physical Controls at Selected State Agency Data Centers	
Item 7: Presentation and Discussion of the Status of Prior Audit Issues	31
Item 8: Presentation and Discussion of the Status of the Fraud, Waste, and Abuse Hotline and Other Fraud Complaints	32
EXECUTIVE SESSION	none
PUBLIC COMMENT	none
ADJOURN	37

P R O C E E D I N G S

1  
2 MS. BINGHAM ESCAREÑO: Good morning. We'll  
3 call the Audit Committee of the Texas Department of  
4 Housing and Community Affairs to order.

5 We'll just do roll call quickly. Mr. Gann?

6 MR. GANN: Here.

7 MS. BINGHAM ESCAREÑO: And I'm Leslie Bingham  
8 Escareño, I'm here. And Mark McWatters is not here. So  
9 we'll have two present, which constitutes a quorum, so we  
10 will be able to conduct business.

11 Good morning, everybody.

12 Betsy is up here as interim director so she'll  
13 be working with us through the committee agenda today.  
14 Let's go ahead and start with item 1 which is the  
15 presentation, discussion and action on the minutes from  
16 the May 8 meeting. Those minutes are available in our  
17 board book. If you have any recommendations for changes,  
18 otherwise, we'll entertain a motion to approve.

19 MR. GANN: I'll make the motion to approve.

20 MS. BINGHAM ESCAREÑO: Very good. Mr. Gann  
21 moves to approve. I'll second. All in favor?

22 (A chorus of ayes.)

23 MS. BINGHAM ESCAREÑO: Opposed?

24 (No response.)

25 MS. BINGHAM ESCAREÑO: Very good. Motion

1 carries.

2 All right. Item 2 is not an action item but a  
3 report, presentation and discussion of the status of the  
4 Internal Audit activity. Betsy, would you like to give us  
5 that overview?

6 MS. SCHWING: Absolutely.

7 For the record, my name is Betsy Schwing. I'm  
8 the acting Internal Audit director at TDHCA.

9 Since last the Audit Committee met in May of  
10 2014 there have been quite a few changes in the Internal  
11 Audit Division, and I just wanted to bring you up to speed  
12 with some of those.

13 First of all, our staffing has changed quite a  
14 lot. As you know, last time we were here there were four  
15 members of the Internal Audit Division. Since that time,  
16 Sandy Donoho has retired, and she's moved to Tennessee,  
17 and in addition to that, Nicole Kludt has left the agency  
18 to go work at the Department of Assistive and  
19 Rehabilitative Services. Both of those are a tremendous  
20 loss to our Audit Department, so I wanted to keep you up  
21 to date on that.

22 Currently the Audit Department is Derrick  
23 Miller and myself.

24 MS. BINGHAM ESCAREÑO: The cheese stands alone.

25 (General laughter.)

1 MS. SCHWING: Hi, Derrick, and good morning.  
2 We have a vacant director position and a vacant staff  
3 auditor position.

4 And that's one of the things I want to talk  
5 about today during this meeting, and know it will be a  
6 discussion item for the Governing Board meeting. Tim has  
7 a board action request for the Governing Board. He's  
8 recommending to reduce the Internal Audit staff from one  
9 director and three auditors to one director and two  
10 auditors. And I just wanted to talk about that a little  
11 bit because I think it's something that needs to be  
12 discussed in detail.

13 In 2002, according to our HR Department, there  
14 were four FTEs starting in July of 2002. As the division  
15 and the department changed a little bit because of ARRA  
16 and because of the disaster recovery, the staffing went up  
17 to six and that was four full-time equivalent employees  
18 and two temporary employees. And of course, when ARRA  
19 went away and disaster recovery was moved over to the  
20 General Land Office, we no longer needed those two  
21 temporary positions, so they are gone and we went back to  
22 a staff of four people. Then we lost our two staff this  
23 year and it's been quite a challenge, but Derrick and I  
24 are moving on. We've done two audit reports since our  
25 last meeting, and we'll tell you about that a little bit

1 later.

2 This is another important thing to consider  
3 when we're talking about staffing is our annual audit  
4 plan. I put that plan together not knowing what the  
5 makeup was going to be of Internal Audit. I created the  
6 plan calculating different scenarios for available audit  
7 hours. I did it based on two auditors, 2.5, three, 3.5,  
8 and of course, you don't have a half a person but you  
9 might have an auditor who is just there for half a year,  
10 so that's how that scenario worked out.

11 It's difficult to talk about the audit plan  
12 just yet, it will be coming up shortly, but when I  
13 prepared this audit plan, I did it based on three staff  
14 for twelve months, and the way it is right now, we're  
15 already one month into our fiscal year so we've lost out  
16 on about 350 labor hours. I think the staffing is  
17 important to talk about because it is going impact the  
18 work plan which will be presented shortly.

19 Another thing that's new for the Internal Audit  
20 Division is that management has expressed an interest in  
21 consulting engagements, and that's something that we  
22 haven't historically done in the Internal Audit Division  
23 at TDHCA. Of course, the Internal Audit Standards allow  
24 consulting engagements. After all, consulting is in the  
25 definition of internal audit.

1           There are several things to consider when doing  
2 a consulting engagement, and these things need to be set  
3 out up front. For example, when a consulting engagement  
4 is performed, it's important that the auditors do not  
5 impair their objectivity or independence. The auditors do  
6 not assume management responsibilities. The scope,  
7 procedures, expectations and deliverable of the non-audit  
8 service must be agreed upon and documented prior to the  
9 commencement of the engagement. And any deficiencies  
10 noted by the auditors must be reported to management and  
11 the Audit Committee.

12           In addition, if the auditors determine that  
13 management has decided to accept an unacceptable level of  
14 risk, this information must be reported to the Audit  
15 Committee. And also, internal audit summarizes the key  
16 consulting services and non-audit services, the  
17 observations, results and recommendations must be reported  
18 to the State Auditor's Office. Any impairment to an  
19 auditor's independence or objectivity while performing a  
20 consulting service may prevent the auditor from performing  
21 future assurances down the road, but as long as the  
22 engagement is carefully planned to satisfy the standards  
23 and the requirements, the internal auditor can perform the  
24 consulting engagement. So I just wanted to make sure that  
25 was very clear because we haven't done consulting

1 engagements in the past.

2 Another item I want to make you aware of is the  
3 upcoming report to the State Auditor's Office. The Texas  
4 Government Code 2102 requires the Department's internal  
5 auditor to prepare an annual report and submit the report  
6 by November 1 of each year to the Governor, the  
7 Legislative Budget Board, the Sunset Advisory Commission,  
8 the State Auditor, the Department's Governing Board, and  
9 the Department's executive director. So that is coming  
10 up, that will be due on November 1.

11 And that's kind of the update on the Internal  
12 Audit Division. I wanted to make sure that you all were  
13 aware of what's going on there.

14 MS. BINGHAM ESCAREÑO: Great, Betsy. Let's  
15 take just a minute, if it's okay. So that was kind of a  
16 lot to digest but I appreciate Betsy kind of walking us  
17 through where we are. So in the face of having some  
18 change in leadership in the department and also having a  
19 staff member leave, it presents -- and Betsy and I have  
20 kind of discussed this -- this presents kind of a unique  
21 opportunity. On one hand, things are a little disrupted  
22 already and I think Betsy and Derrick continue to do an  
23 excellent job plugging away on what they know their  
24 responsibilities continue to be.

25 But we are kind of presented, also, with an

1 opportunity to kind of look at the department and the  
2 function and the contribution to the agency with fresh  
3 eyes and try to figure out if there's an opportunity to do  
4 things differently or to look at things like consulting  
5 right now. So it's kind of a double-edged sword or pros  
6 and cons: one, we're already in a little bit of a  
7 disruptive time, but two, is it the right time then to  
8 kind of look at what other things we can do. So Betsy has  
9 done a great job of kind of giving the overview.

10 This isn't an action item, but it would  
11 probably be good, since this will be something that the  
12 Board will be looking at today in the Board meeting, to  
13 have any other questions or comments right now. So I  
14 don't know if you have any questions, Tom, or if we'd like  
15 to hear from Tim from management perspective about what  
16 the opportunities are, what we're looking at.

17 MR. GANN: I mean, we're in an obvious  
18 situation, so I don't have any questions on that, but I  
19 would like to hear from Tim to give us some ideas.

20 MS. BINGHAM ESCAREÑO: Good morning.

21 MR. IRVINE: Good morning, Madam Chair and  
22 Betsy. My name is Tim Irvine. I'm the executive director  
23 of the Department.

24 We think that internal audit is incredibly  
25 valuable and incredibly useful, and at the same time, as

1 executive director, I have to balance a lot of concerns.  
2 We are in a straitened situation with respect to available  
3 funding resources. Every place that we can identify  
4 available funding resource and reapply them to things like  
5 more compliance monitors and so forth, those are things  
6 that I really need to be on top of, but I really did not  
7 approach this from that sort of selfish perspective.

8           The way I looked at it was going back to the  
9 early 2000s, internal audit was doing some exceptional  
10 things. There was staffing relative to the introduction  
11 of enterprise-wide risk management with RP-36, followed  
12 shortly thereafter by disaster recovery response and ARRA,  
13 and it is just now that the Department is beginning to  
14 move back into line with normalized funding activity where  
15 it does not have a lot of exceptional programmatic or  
16 other activity going on. And in addition to coming back  
17 into that normalization pattern, it's dealing with  
18 declining funding in some significant sources. For  
19 example, the HOME funds, our largest federal housing  
20 funding source, has gone from \$40 million a year to \$24  
21 million a year, and that has necessitated a lot of  
22 difficult choices with regard to staffing.

23           I think throughout the agency we have dealt  
24 with tough choices on staffing. Three years ago the  
25 executive director had a chief of staff and dedicated

1 administrative assistant and the chief of staff had  
2 dedicated administrative assistant. Today that is me,  
3 period. Other similar kinds of reductions have gone on in  
4 programmatic areas. We've had to tighten our belts. So  
5 that's simply an assessment of the operating environment.

6 With regard to the way that I actually  
7 approached this exercise, I'm kind of back of the envelope  
8 math sort of guy, and I figured, all right, we've got a  
9 certain number of scheduled work hours in a given year, we  
10 get a certain number of state holidays, people typically  
11 take vacation. The Department average vacation taken  
12 during the past fiscal year was 13-1/2 days, a little  
13 under three weeks.

14 So I assumed that an FTE in Audit was going to  
15 work the scheduled hours, take three weeks of vacation,  
16 take all of the state holidays, work no comp time, no  
17 additional overtime, and that when you multiplied those  
18 three FTEs with those dynamics, you came out with a  
19 projection of about 5,500 hours and you've got an audit  
20 plan proposed that's 3,575 hours. It seemed to me that  
21 that was a reasonable cushion. The Internal Audit  
22 Division had a really tough year last year, they had a lot  
23 of unusual circumstances that necessitated some people  
24 working reduced hours. Even at that reduced level, if I  
25 take the average for the entire Audit Division and

1 multiply it by three, I get 4,581 hours worked which is  
2 still close to a thousand hour cushion.

3 So given a cushion that appears to be somewhere  
4 in the range of a thousand to two thousand hours, or half  
5 an FTE to a full FTE, if you want to speak in those terms,  
6 it seemed reasonable to me to recommend taking it down to  
7 three.

8 I also cannot emphasize too strongly this is  
9 simply management input and a recommendation, but I  
10 completely respect that you need to look to our director  
11 of Internal Audit, and it's ultimately a Board decision.  
12 I don't decide how to staff Internal Audit.

13 I also am very open to the possibility that  
14 things change. That's kind of been the way life has  
15 worked out so far. And sometimes when things change, you  
16 do creative things to address those changes. For example,  
17 if an extraordinary audit need popped up, I would  
18 certainly be amenable to the idea of working with Internal  
19 Audit and with the SAO to get the necessary delegation to  
20 use an external audit firm to help address those  
21 extraordinary circumstances.

22 As regards consulting, I think it's very  
23 important for all of us to understand why I am so  
24 interested in consulting. Typically, when you talk to  
25 auditors about consulting engagements, they say: Well,

1 most of the time when we see consulting engagements,  
2 they're at the beginning or creation of a new program,  
3 setting it up, wanting to make sure that you've got the  
4 necessary internal controls and so forth.

5 I can say, pretty much unequivocally, not a day  
6 goes by that we at the executive group do not look at  
7 reinventing some major aspect of what this Department is  
8 doing. When I took this job three years ago, we were  
9 carrying multi-million dollar balances in programs. Those  
10 balances are gone. We've transformed the way that things  
11 like HOME and Housing Trust Fund moves those things. We  
12 have transformed the way that we monitor those things. We  
13 have created a single compliance monitoring function that  
14 oversees all of those activities.

15 Right now, with the assistance of Jeff Pender  
16 and others, we are, frankly, looking at reinventing the  
17 way that we manage data, that we manager records. We're  
18 very concerned about things like HIAA and the need for  
19 confidentiality. We are very concerned about things like  
20 records retention. Especially when you're in a litigation  
21 mode, you don't want to be producing records that you  
22 didn't have to keep.

23 So we are looking at all aspects of this  
24 Department and constantly reinventing it, and I think that  
25 there is more than ample opportunity for some adept

1 insight and participation from an Internal Audit staff to  
2 help us do those the best ways possible.

3 As far as hours are concerned, typically,  
4 auditors have told me that they spend a lot less time  
5 hour-wise on consulting activities than they do on full  
6 scope audit activities. So again, there seemed to me to  
7 be a complementary fit.

8 So that's my story, and I'm glad to try to  
9 answer any questions.

10 MS. BINGHAM ESCAREÑO: So I think what we're  
11 hearing from Internal Audit leadership and management are  
12 nice and aligned, and as we segue into the next action  
13 item, which will be the work plan, it may not be a bad  
14 idea. So Betsy, just finish going over kind of what the  
15 governing guidelines would be for Audit taking a  
16 consulting role, and some of that was a little legalese  
17 sounding. But overall, I think Betsy has done a really  
18 good job of painting the picture, at least for me as the  
19 Audit chair, for what that would look like.

20 So I had a little bit of hard time trying to  
21 figure out how do you decide which of your functions you  
22 look at from a consulting standpoint versus how many go  
23 kind of the traditional audit route. And so do you want  
24 to describe for just a minute what you were telling me  
25 earlier about how that works?

1 MS. SCHWING: Sure. When a consulting  
2 engagement is considered, it's very important for all the  
3 stakeholders to come together to determine what are the  
4 expectations of this engagement. It might be can you  
5 provide some guidance on this process, can you provide  
6 some training on this particular thing, can you provide  
7 facilitation. It depends on what the users want and what  
8 the stakeholders have in mind.

9 Now, when that discussion happens, it's  
10 important for the auditors to consider is accepting this  
11 engagement going to impair my independence or my  
12 objectivity in any way, and that depends on what the  
13 expectations are. If the expectations of Internal Audit  
14 are we want you to design this program for us, we want you  
15 to develop these SOPs for us, we want you to do some  
16 reconciliations for us, absolutely we could not do that.

17 If there are some specific controls that the  
18 client has questions about, whether it's going to be what  
19 kind of controls might be useful in a situation like this,  
20 we can provide information about that, but we absolutely,  
21 positively cannot accept any management responsibilities,  
22 we would not be able to design a system. And I'm just  
23 giving you examples, I'm not saying anybody would want us  
24 to do that but just to put it in perspective, that's kind  
25 of how it goes.

1 MS. BINGHAM ESCAREÑO: I like that. I think  
2 what I'm hearing is so management would come up with some  
3 thoughts on priorities for a consulting engagement, audit  
4 meets with management and goes through and says: What are  
5 you looking to accomplish in this? So let's say  
6 management says, just like Tim mentioned, so you're  
7 constantly evolving so it doesn't necessarily have to be a  
8 new service line or a new subset of something, it could be  
9 something that you've already had in place that you're  
10 just looking for retooling it and you want feedback from  
11 audit in a consulting methodology what they would  
12 recommend. So they're not necessarily developing your  
13 program, writing your policies or anything like that,  
14 they're really truly providing good expert consultative  
15 service on what tools might work and what tools might not.

16 Does that make sense?

17 MR. IRVINE: Absolutely. First of all,  
18 internal audit, by definition, cannot be the subject  
19 matter expert in everything that we do. I'm certainly not  
20 the subject matter expert. The subject matter experts are  
21 the people that run programs and other activities, and  
22 they are the ones that really have the knowledge and are  
23 in the position to design the programs, the SOPs, the  
24 protocols, and so forth.

25 To me, where I see value from internal audit is

1 to look at the way that those things are designed and to  
2 assess, say I think you've covered all of the necessary  
3 risk points, I think that you've identified mitigation  
4 strategies to identify and address those risk points, or I  
5 think that you missed a few, you might want to think about  
6 flanging this up. And then to go a layer deeper and say  
7 once management has developed the way that it would  
8 mitigate that particular identified risk, to form a view  
9 on whether that was a reasonable way to approach it, and  
10 if it's not, to say: Hey, Tim, that's a stupid thing.  
11 And if Tim doesn't respond, say: Hey, Leslie, that's a  
12 stupid thing. I mean, we want that independence and  
13 directness.

14 MS. BINGHAM ESCAREÑO: It sounds like to me a  
15 mechanism will be in place that it won't get too far down  
16 the way. If it doesn't look like the engagement is going  
17 to benefit the agency, then you drop back and punt, either  
18 it goes back into you work through management to do your  
19 development, or you go back to looking at a traditional  
20 model. But what I like, just in hearing kind of how the  
21 Department is looking to answer, meet the needs of  
22 management in terms of looking at consultative services is  
23 very early on there's a meeting on that area, where after  
24 audit hearing what management wants to accomplish, then  
25 audit and management figure out is consultation a good

1 path for this area or is it not. So I think that sounds  
2 good.

3 Any other comments?

4 MS. SCHWING: I did want to mention one thing.

5 It gets kind of murky in a consulting engagement when  
6 words like assess are used because that's very close to  
7 somebody having a misconception that we're providing  
8 assurance services, and of course, those are entirely two  
9 different things.

10 And the other thing to be careful of, when a  
11 consulting engagement is considered, audit would not be  
12 able to, at the beginning of a situation when we're  
13 providing guidance or consulting engagements, to say:  
14 Hey, you're good to go, carry on.

15 We might see that something is well designed,  
16 and if we give an opinion in the beginning, that takes  
17 away our independence and objectivity. So I just wanted to  
18 mention that because sometimes there's confusion when  
19 those words are used.

20 MS. BINGHAM ESCAREÑO: So good.

21 MR. IRVINE: I wasn't looking for formal  
22 assurances or anything like that.

23 MS. BINGHAM ESCAREÑO: There's no seal of  
24 approval that happens on the front-end that you're to get.

25 MR. IRVINE: Well, even an audit isn't a seal

1 of approval, frankly; it's only a seal of approval for  
2 what the scope of the audit covered.

3 MS. BINGHAM ESCAREÑO: Good. I'm glad that's  
4 up for clarification.

5 Thank you, Tim, for your comments and I  
6 appreciate Betsy and the Department looking at how they  
7 can accommodate that. As we move into the next item, one  
8 of the things -- and you'll probably go over it a little  
9 bit more -- as Betsy and the team looked at the work plan,  
10 they tried to kind of keep an open mind around what their  
11 workforce was going to look like, how many FTEs within the  
12 Department they would have to do that. But if there's no  
13 further discussion on item 2, we'll move to item 3.

14 So item 3 is the presentation, discussion and  
15 possible approval of the FY 2015 Internal Audit work plan.

16 Betsy, do you want to review the high level?

17 MS. SCHWING: Absolutely. To develop the work  
18 plan we considered several factors, and most of them are  
19 based on the risk assessment and also the availability of  
20 audit hours.

21 When we did our risk assessment, we talked to  
22 TDHCA leadership, we reviewed agency documents, we tried  
23 to gain an understanding at a high level of the nature of  
24 the auditable area. In addition, we looked at staff  
25 turnover, we looked at prior internal and external audit

1 coverage and the internal control structures as we had  
2 understood them at the time we were doing our risk  
3 assessment.

4 And of course, the place where it got tricky is  
5 when we were taking into consideration the available audit  
6 hours because we have been in transition, and of course,  
7 we agree that definitely the resources need to be  
8 considered periodically to determine are we able to be an  
9 effective Internal Audit Division. So thinking about the  
10 available audit that we have and the risks that could be  
11 occurring in the agency, we developed an audit plan that  
12 includes two large projects, one small project. In  
13 addition to that, because we had an impact on our  
14 resources this past several months, we have a carryover  
15 project that's going to come into FY '15.

16 So based on all that information and the  
17 consideration of what we're going to be able to accomplish  
18 this fiscal year, I developed a draft audit plan that  
19 includes a project involving program income. The  
20 Department receives program income as a result of TCAP,  
21 NSP, the HOME Program and Housing Trust Fund activities.  
22 Program rules may differ in how the program income can be  
23 used. Considerations for this project are that program  
24 income is used as intended and that program income  
25 information is available, accurate and complete. Program

1 income has increased steadily since 2009. In FY '14  
2 program income was over \$19 million. So that's one  
3 potential project to be included in the plan.

4 Another project would be an audit of payroll.  
5 The payroll function affects all Department employees, and  
6 it's a large amount of expenditures. It's about 65  
7 percent of our annual operating budget. I think  
8 expenditures in general are an important item for audit to  
9 look at, but especially payroll because it is such a large  
10 part of our operating budget.

11 And this is very timely and a topic that's  
12 getting a lot of attention in the headlines because there  
13 was recently a Special Investigations Unit investigation  
14 at University of North Texas where they had significant  
15 problems with their payroll process, and as a result, the  
16 State Auditor's Office is going to request the legislature  
17 to direct them to pay back \$85 million to the state  
18 general fund. So that's grabbing a lot of attention, so  
19 it's not just a high risk because it's a large dollar  
20 amount, it's a high risk in general in the audit  
21 community.

22 I also propose an audit of the Department's  
23 record retention process. This is a very timely audit, I  
24 would suggest, because we recently lost a long-term  
25 employee in the records retention area. Mashon has

1 retired after eleven years with the agency. It's always a  
2 nice time to take a picture of what the current condition  
3 is of an area when there is a change in a long-term  
4 employee. Again, records retention impacts everybody in  
5 the division and the Department and our subrecipients as  
6 well, so I think that definitely warrants a look at.

7 And as I mentioned before, the HOME single  
8 family audit will be a carryover, and I expect that will  
9 be about 550 hours.

10 So the proposed audit plan includes not just  
11 the audits I just discussed, it also includes some  
12 responsibilities and requirements that we must perform.  
13 For example, performing an annual quality assurance self-  
14 assessment, we also need to do continuing professional  
15 education. There's the report to the State Auditor's  
16 Office, the annual review and revision of the Internal  
17 Audit Charter. And we track prior audit issues -- that's  
18 required under the Internal Auditing Act and the  
19 standards -- and of course, the annual risk assessment. I  
20 mean, it's not just audits, we have quite a few  
21 responsibilities. On top of that there's management  
22 duties, such as performing employee evaluations, and while  
23 that's just a small little thing, you add them all up. Of  
24 course, now there's only two of us so that shouldn't take  
25 so long, but there's items like that.

1 MS. BINGHAM ESCAREÑO: Betsy, did you mention  
2 the carryover of the HOME audit?

3 MS. SCHWING: Five hundred and fifty hours.  
4 Yes.

5 And there's also the coordination with the  
6 external auditors, the meetings with management, just  
7 keeping up with the contemporary topics in internal  
8 auditing to make sure we're aware of what the new  
9 standards are. As Tim mentioned, there's vacation,  
10 there's fitness and wellness leave, all of that cuts into  
11 our audit hours as well.

12 So when you look at the plan, which is in your  
13 book, I've estimated about 1,900 hours for audits, the 550  
14 hours for the carryover HOME project, the various  
15 responsibilities of internal audit, and that's about 1,100  
16 hours, when you put in the management hours as well. So  
17 it's quite an undertaking.

18 It was a difficult assignment knowing that  
19 we're not aware of what our staffing is going to be, but  
20 like I said, I ran several different scenarios and math, I  
21 figured out the variable costs and the fixed costs, and  
22 thank goodness, I just did an audit of budgeting because I  
23 used a lot of what I had learned there as far as how to  
24 establish a budget that would work for us.

25 So I want to emphasize that this is a dynamic

1 document. It can change based on risks to the agency, it  
2 can change based on management changes, it can change  
3 based on just anything, just anything. I can't even think  
4 of all the ideas that could make this change, but it is a  
5 dynamic environment that we operate in and the audit plan  
6 is a dynamic document. So the presentation here is what I  
7 recommend making use of the best information at the time.

8 MS. BINGHAM ESCAREÑO: Thank you for that  
9 thoughtful overview.

10 This is an action item.

11 MR. GANN: Miss Chairman, I think that I can  
12 see that it is a presentation plus a very active  
13 possibility of change, so I'll move that we approve the  
14 fiscal year 2015 audit plan as presented.

15 MS. BINGHAM ESCAREÑO: Thank you. So we have a  
16 motion to approve as presented. I'll second that motion.  
17 Any discussion, any questions for Betsy, any discussion  
18 from management?

19 MR. PENDER: Madam Chair?

20 MS. BINGHAM ESCAREÑO: Yes.

21 MR. PENDER: Jeff Pender with the Legal  
22 Division.

23 I just want to emphasize that what you're  
24 approving here is the committee's decision to make this  
25 recommendation to the Board. There's really no approval

1 of this proposal at this time.

2 MS. BINGHAM ESCAREÑO: So Mr. Gann, are you  
3 comfortable with your motion being to recommend it to the  
4 Board for approval?

5 MR. GANN: I adjust my motion to recommend.

6 MS. BINGHAM ESCAREÑO: Very good. I also  
7 adjust my second. Any other discussion?

8 (No response.)

9 MS. BINGHAM ESCAREÑO: Very good. All those in  
10 favor, aye.

11 (A chorus of ayes.)

12 MS. BINGHAM ESCAREÑO: Opposed?

13 (No response.)

14 MS. BINGHAM ESCAREÑO: Very good. Motion  
15 carries. Thank you.

16 So then we'll move on to item 4 which is a  
17 report item, presentation and discussion of our current  
18 year internal audit work plan.

19 MS. SCHWING: Okay. As we've mentioned more  
20 than one time during this meeting, things have changed,  
21 and the original audit plan was based on four staff, we  
22 had six audits on the original plan, and one contingency  
23 audit. We've completed six of these audits and released  
24 the audit reports for each of the six. We will discuss  
25 the recently released reports under item 5.

1           The audit of the HOME Division has been  
2 postponed until January of 2015, and there was a lot of  
3 thought that went into that. It was based on the  
4 resources we had available, and also to be in fairness to  
5 the director of the HOME Division, she is expecting and  
6 she is going to expect to be out on leave, and we thought  
7 it would be important for her to be involved in the audit  
8 so we adjusted our timeline on that.

9           We've also completed two of the non-audit  
10 activities on the FY '14 plan. These are the quality  
11 assurance self-assessment review of audit projects  
12 conducted during FY '13 and the annual review and revision  
13 of the Internal Audit Charter. In addition, I've done the  
14 risk assessment for the work plan that we discussed just a  
15 moment ago. So of the plan that you see in your book,  
16 we've got several completed items.

17           Some of our management assistance special  
18 project items are ongoing in nature. For example the  
19 triaging and tracking of fraud, waste and abuse  
20 complaints. Also, the prior audit issues, that's going to  
21 be an ongoing requirement, and just following up on the  
22 fraud and the waste and abuse and the prior audit issues.

23           So just that's just a report item.

24           MS. BINGHAM ESCAREÑO: Mr. Gann, do you have  
25 any questions on any of the open items on the current year

1 report?

2 MR. GANN: I do not.

3 MS. BINGHAM ESCAREÑO: Very good. Thank you  
4 very much for that report. No action is necessary.

5 If the committee is okay, we'll move to item  
6 number 5. It's also a report only, no action required,  
7 just discussion of our most recent audit reports.

8 MS. SCHWING: The most recent audit reports  
9 were an internal audit of the performance measures of  
10 TDHCA and also an internal audit of the Financial  
11 Administration Division. First, we'll speak about the  
12 performance measures at TDHCA.

13 The Department reported reliable results to the  
14 Legislative Budget Board for all five key performance  
15 measures tested. A performance measure result is  
16 considered reliable if it is certified or certified with  
17 qualifications. Two of the measures we tested were  
18 certified with qualification because the methodology used  
19 to calculate the results was not strictly followed. A  
20 measure is certified with qualification when the  
21 calculation of performance deviates from the measure  
22 definition but the deviation is less than 5 percent, and  
23 that's the numbers that are reported to the LBB.

24 Management has already implemented changes to  
25 adhere to the methodologies for these two performance

1 measures, and the other three measures we tested were  
2 certified. No issues were found in the internal controls  
3 over the performance measure process.

4 Are there any questions about this audit?

5 MS. BINGHAM ESCAREÑO: No.

6 MS. SCHWING: Okay. The next audit we  
7 performed was an internal audit of the Financial  
8 Administration Division.

9 The operating budgets developed by the  
10 Financial Administration Division are in alignment with  
11 the anticipated funding and estimated expenditures. With  
12 very few exceptions, the Department records, posts and  
13 deposits housing finance revenue payments accurately and  
14 timely. Of the 34 housing revenue payments we tested, 2,  
15 or 5.9 percent, were not deposited by the third business  
16 day after the date of receipt, as required by the Texas  
17 Comptroller's Office. These two deposits were one day  
18 late and three days late, respectively.

19 I want to mention that the Financial  
20 Administration Division does have a very comprehensive  
21 process in place to track these deposits, and they noted  
22 reasons why this may have occurred. It seemed to be that  
23 it was a training opportunity when they were training a  
24 new employee, but I think it's very important to note that  
25 although they missed the cutoff, it was one day and three

1 days, it wasn't a hundred days or three years or anything  
2 like that. I just wanted to keep that in perspective.

3 We did recommend that the division further  
4 enhance their internal controls by fully documenting  
5 procedures for processing housing finance revenue payments  
6 and those procedures be reviewed and approved by division  
7 management. Management agrees and has set a target date  
8 for implementation by February 1 of 2015.

9 MS. BINGHAM ESCAREÑO: Any questions for Betsy  
10 on the audit of the Financial Administration Division? It  
11 looks like a great audit. Very good.

12 We'll move on to item 6 then, presentation and  
13 discussion of the status of any external audits, reviews  
14 or monitoring activity.

15 MS. SCHWING: Okay. The State Auditor's Office  
16 released a report on physical controls at selected state  
17 agency data centers. That report was released in August  
18 of 2014. And for this particular audit, the SAO was  
19 looking at four agencies, not just TDHCA. They performed  
20 a review of physical controls over the data centers of  
21 TDHCA and I think the Texas Facilities Commission, and the  
22 two other agencies escape my mind at this time.

23 MS. BINGHAM ESCAREÑO: That's all right.

24 MS. SCHWING: Let me flip back to the actual  
25 report, if you'll bear with me for just a minute. Data

1 centers managed by the Department of Public Safety, Texas  
2 Facilities Commission, Texas Commission on Environmental  
3 Quality, and also the Texas legislative Council.

4 Curtis, is that correct? Are you out there?  
5 Okay.

6 When it relates to TDHCA, this is what the SAO  
7 said. They said that TDHCA has processes in place to  
8 manage electronic access to the data centers for their own  
9 employees and contractors. In addition, TDHCA has  
10 adequate environmental controls to protect the data center  
11 from environmental threats, such as fire and floods. They  
12 did have two recommendations for TDHCA, and they are TDHCA  
13 should define the job titles or roles of its personnel who  
14 require access to its data center, and TDHCA should also  
15 implement a process that includes a comprehensive review  
16 of all personnel with access to its data center, including  
17 employees and contractors of other state agencies. And  
18 the Department has implemented both of these  
19 recommendations.

20 MS. BINGHAM ESCAREÑO: Excellent.

21 Any other external auditing or monitoring to  
22 report, or is that the only one?

23 MS. SCHWING: We did have two other situations.  
24 There's actually four external things going on right now.  
25 The SAO audit which is an annual opinion audit that is in

1 process, and they will also be performing some agreed upon  
2 procedures. KPMG is performing an audit of the Community  
3 Services Block Grant for the State of Texas Single Audit.

4 In addition, HUD is doing a monitoring, an in-depth  
5 monitoring of compliance with environmental review  
6 procedures. And then the last monitoring item was onsite  
7 monitoring of the Emergency Shelter Grants Program. TDHCA  
8 received results of the onsite monitoring, they responded  
9 to HUD, all of the issues have been closed.

10 MS. BINGHAM ESCAREÑO: Excellent. Very good.

11 Any other questions or discussion on item 6?  
12 If not, we'll move to report item 7, presentation and  
13 discussion of the status of any prior audit issues.

14 MS. SCHWING: As of September 24 we had 15  
15 current open prior audit issues. Eight of these issues  
16 were recently reported by management as implemented, and I  
17 reflected on the attached list -- which it's in your book,  
18 it's fairly lengthy. These will be verified and closed by  
19 Internal Audit once we have reviewed the supporting  
20 documentation. Seven issues are still pending and are  
21 reflected on the attached list which is in your book, and  
22 Internal Audit will verify and close these issues once  
23 they're reported as implemented.

24 We add new issues to our prior audit issues as  
25 they are identified, and then as items are cleared, they

1 move off the list, so it's constantly changing, it's not  
2 static, the numbers will vary, and of course, we'll keep  
3 you updated on those at each committee meeting.

4 MS. BINGHAM ESCAREÑO: Very good. And if the  
5 Department had any concern about open items that weren't  
6 reaching resolution quickly or had any concerns in  
7 general, you would bring them to the committee.

8 MS. SCHWING: Oh, absolutely. Derrick has been  
9 managing the prior audit issues. He follows up with the  
10 Department's divisions on a regular basis. There's  
11 constant dialogue going on, and if there was something  
12 that we felt was not being resolved in a reasonable amount  
13 of time, we absolutely would bring that to your attention.

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

16 MR. GANN: I don't have.

17 MS. BINGHAM ESCAREÑO: Very good. Then we'll  
18 move on to the last item, item 8, which is the  
19 presentation and discussion of any status on any fraud,  
20 waste and abuse hotline or other fraud complaint issues.

21 MS. SCHWING: The fraud hotline has been very  
22 busy, I must say. Last year we had 79 complaints just  
23 coming through our hotline. This year we have received  
24 131 complaints of fraud, waste and abuse. Complaints  
25 received have increased 65 percent, about, so that's quite

1 significant. Of the 131 fraud complaints that we  
2 received, 123 of those were received through the hotline,  
3 18 of those were related to the Department's programs or  
4 staff, 15 of those were tax credits, one was multifamily,  
5 one was CEAP, and one was a personnel issue.

6 Ninety-eight of those calls were not related to  
7 the Department's programs or staff, and those callers were  
8 referred to the appropriate agency for assistance. For  
9 example, if it would be a public housing authority in  
10 their area, we would provide them with contact information  
11 to get in touch with that public housing authority.

12 Seven of the callers did not provide sufficient  
13 information to determine the purpose of the complaint, and  
14 there's nothing we can do there, we don't know what their  
15 problem might be, what the concern is, what the allegation  
16 would be.

17 We received eight complaints through other  
18 sources. Six were related to the Department's programs:  
19 two were related to HOME, one related to CEAP and/or WAP,  
20 one related to CEAP and CSBG, one related to compliance,  
21 and one related to tax credits. And what's tricky about  
22 classifying them is the complainant doesn't think of the  
23 programs like we think of them, whether it's WAP or CEAP  
24 or whatever, they just have an allegation they bring  
25 forward so it's very difficult to put it in a box of this

1 is what it relates to.

2 The sources for these six complaints were TDHCA  
3 staff, two were from the public, and one was from a  
4 contract administrator. So in all, of the 131 complaints  
5 that we received, 107 were not under the Department's  
6 jurisdiction.

7 I do want to point out that even if a complaint  
8 is not under the Department's jurisdiction, it does take  
9 time to do the intake, to triage it, to find out what's  
10 going on, to determine if it is related to one of our  
11 programs and to respond accordingly. So even though  
12 they're not under our jurisdiction, they still take time  
13 to triage and address.

14 The 24 complaints that did involved TDHCA were  
15 resolved as follows: 18 were investigated and closed,  
16 five were referred to the SAO and/or another oversight  
17 agency, and one is pending. The one that is pending was  
18 received in August of 2014, so that's still kind of new to  
19 be able to figure it out. So that's all I have on that.

20 MR. GANN: I have a question. I was curious to  
21 know -- that's a real significant increase, I wanted to  
22 know maybe why you think that happened and what caused it  
23 maybe. And also, the biggest part of the increase is  
24 apparently in the complaints that weren't related to our  
25 Department.

1 MS. SCHWING: Right.

2 MR. GANN: So I mean, I wonder what's causing  
3 all that.

4 MS. SCHWING: Sometimes it's caused by just  
5 getting the word out there about our fraud hotline, when  
6 people realize there's an avenue that they can bring their  
7 allegations to. I think we've done a better job of just  
8 advertising the hotline is there, and as a result we've  
9 had more calls. And I think that's important, it's not  
10 just in our agency, it's really nationwide where people  
11 realize if I'm not comfortable with something, there is an  
12 avenue where I can take it and report it.

13 Some of our cognizant agencies are very vocal  
14 about promoting the use of fraud, waste and abuse hotlines  
15 and that those complaints come forward. For example, we  
16 had a meeting with some folks from the Housing and Urban  
17 Development Office for Inspector General yesterday and  
18 they just wanted to remind us that they're available to  
19 help us in any way when we receive allegations and to make  
20 sure that we have effective communication between us and  
21 them when situations do come about. But I think the  
22 increase is mostly better advertisement of the hotline,  
23 not just at TDHCA but nationwide.

24 MS. BINGHAM ESCAREÑO: Any other questions?

25 (No response.)

1 MS. BINGHAM ESCAREÑO: So I think that  
2 concludes all of the agenda items that were on our agenda.

3 Just in closing, just wanted to recognize Betsy and her  
4 awesome team of one, Derrick, for continuing to shoulder  
5 the responsibility. Also, from a committee standpoint,  
6 we're very appreciative of the ongoing dialogue that's  
7 occurred over the last weeks or months regarding kind of  
8 the current state of affairs in audit and our  
9 opportunities to continue to work together.

10 As a Board, we are responsible, we are stewards  
11 of the State's resources, and we have to be judicious and  
12 thoughtful about how we carry out the responsibilities of  
13 the agency, so I think there will probably be a little bit  
14 more discussion about this at the Board meeting shortly,  
15 but I think this was a great preparation for those  
16 discussions, and I think the information that Betsy and  
17 Tim provided will help us make the best decisions for the  
18 agency and for the State.

19 So if there are no further issues, I will  
20 entertain a motion to adjourn.

21 MR. GANN: I so move.

22 MS. BINGHAM ESCAREÑO: I'll second. All those  
23 in favor, aye.

24 (A chorus of ayes.)

25 MS. BINGHAM ESCAREÑO: Opposed?

1 (No response.)

2 MS. BINGHAM ESCAREÑO: Meeting adjourned.

3 Thank you.

4 (Whereupon, at 9:18 a.m., the meeting was  
5 concluded.)

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MEETING OF: TDHCA Audit Committee

LOCATION: Austin, Texas

DATE: October 9, 2014

I do hereby certify that the foregoing pages, numbers 1 through 38, 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.

\_\_\_\_\_  
(Transcriber) 10/15/2014  
(Date)

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