

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

AUDIT COMMITTEE MEETING

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

October 13, 2016
8:00 a.m.

MEMBERS:

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

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P R O C E E D I N G S

1
2 MS. BINGHAM ESCAREÑO: Good morning. So this
3 is the Audit Committee of the Texas Department of Housing
4 and Community Affairs, our October 13 meeting. Good
5 morning.

6 We will call roll. I am here.

7 Tolbert Chisum is absent today.

8 And Mr. Gann?

9 MR. GANN: Here.

10 MS. BINGHAM ESCAREÑO: Here. Very good. So
11 for the purposes of doing business as a committee, to
12 still represent a committee quorum, so you guys are going
13 to hear Mr. Gann make motions and me second everything.
14 We will be pretty predictable.

15 There is actually not a whole lot of action
16 items on the agenda this morning. But there are some
17 important reports.

18 So we will go ahead and get started with the
19 agenda. The first item is possible action on the
20 Committee minutes from the July 28 meeting. If we will
21 take a look at those, and I will entertain a motion.

22 MR. GANN: I don't hear any additions or
23 corrections. They were sent out to us, so I have already
24 read them.

25 MS. BINGHAM ESCAREÑO: Very good.

1 MR. GANN: So I will make a motion to approve
2 the minutes of the last meeting.

3 MS. BINGHAM ESCAREÑO: Good. Mr. Gann moves
4 acceptance. I will second. All those in favor, aye?

5 (A chorus of ayes.)

6 MS. BINGHAM ESCAREÑO: Opposed?

7 (No response.)

8 MS. BINGHAM ESCAREÑO: The motion carries.
9 Thank you very much. Item 2 is presentation, discussion
10 and possible action to approve the FY 2017 Internal Audit
11 work plan. Good morning, Mark.

12 MR. SCOTT: Good morning. I am Mark Scott, the
13 Director of Internal Audit. I am going to go over the
14 proposed 2017 Internal Audit plan. Then I am going to
15 discuss the other items on the audit agenda.

16 The way the Audit Plan was prepared was with
17 the risk assessment methodology. The Texas Internal
18 Auditing Act requires that an Annual Audit Plan be
19 prepared using risk assessment techniques.

20 The Audit Plan was prepared based on risk
21 assessment done in the standard matrix format. The
22 auditable units that were listed and risk ranked included
23 organizational area, programs, and administrative
24 functions.

25 The auditable units were ranked according to a

1 list of risk attributes that includes such things as
2 program size, risk of fraud, and the last time a unit was
3 audited. We also obtained input from management on an
4 ongoing basis.

5 But the new audit projects for 2017 are
6 Information Services. And the Internal Auditing Act
7 requires periodic audits of an agency's information
8 systems. We will assess the various IS functions, such as
9 programming, help desk, network security, and project
10 management.

11 There has been some IS assessment work done
12 last year by an external firm. But this will be the first
13 comprehensive internal audit.

14 The second new project will be the audit of the
15 bond finance program. And this is a complex program that
16 has not had a recent internal audit.

17 This audit will follow well from the audit we
18 did of sources and uses that was presented at the July
19 Audit Committee. The Bond Finance program seeks to
20 provide loans with below market interest rates.

21 And then the third new project would be the
22 home contract for deed conversion program. And this is a
23 program that helps people convert from a contract for deed
24 situation to something more like a standard mortgage.

25 A contract for deed is basically owner

1 financing. And there may be concern that the contract for
2 deed did not provide the same protections as a standard
3 mortgage. This audit was selected because of the
4 potential for fraud, and because it has not been
5 previously audited.

6 Then there were carryover projects from 2016.
7 And last year, when I presented the 2016 Audit Plan, I
8 noted the two audits were somewhat interrelated.

9 The Multifamily Finance Division ranked high as
10 an organizational unit, while the tax credit program rated
11 high as a program. And both of these have a high level of
12 interest from the development community and intensive
13 competition for resources that the programs provide, as
14 evident from the discussions at most of the Board
15 meetings.

16 And this year, I am proposing to combine the
17 two audits. That is what is listed as a carryover project
18 on the Audit Plan.

19 We also had on last year's plan, an audit of
20 the Compliance Division. And we are almost complete with
21 that audit. We should have that issued by the end of the
22 month. So I will pause for a second, to see if there is
23 any questions on the new audit projects.

24 MS. BINGHAM ESCAREÑO: Great. Okay. So
25 thanks, Mark. So let's go back to -- so we are

1 comfortable with the risk assessment methodology. It is
2 working in terms of identifying priorities and risk areas.

3 So there is three that are scheduled. Information
4 Services, any questions about Information Services as
5 appropriate?

6 MR. GANN: No.

7 MS. BINGHAM ESCAREÑO: Any questions or
8 comments from management about it?

9 (No response.)

10 MS. BINGHAM ESCAREÑO: Okay. Bond Finance,
11 obviously, a good opportunity there for audit. Any
12 questions there?

13 (No response.)

14 MS. BINGHAM ESCAREÑO: Any comments from
15 management about a bond finance audit?

16 MS. BINGHAM ESCAREÑO: Good morning.

17 MR. IRVINE: Tim Irvine, Executive Director.
18 Just a question to the auditor, actually. With regard to
19 the Bond Finance Audit, will that also encompass the other
20 non-bond programs that they create and operate such as the
21 TBA program?

22 MR. SCOTT: I haven't really decided that yet.

23 So once we scope the audit, if it looks like that is
24 something that is a good area for audit, you know --

25 MR. IRVINE: Okay.

1 MR. SCOTT: -- I will discuss it with you in
2 the meantime, but --

3 MR. IRVINE: Well, I ask it candidly, because
4 frankly, one of the best values that management derives
5 from the audit process is the dialogue with Internal Audit
6 as they are scoping their audit. Because when you ask a
7 question, that is what triggers the thought, ah hah. That
8 might be an issue we need to look at.

9 MR. SCOTT: Okay. Great. Okay.

10 MS. BINGHAM ESCAREÑO: So the preference would
11 be to just -- for management to stay engaged in the
12 scoping portion.

13 MR. IRVINE: Absolutely.

14 MS. BINGHAM ESCAREÑO: Very good. Okay.
15 Great. Thank you. And then the last one is the contract
16 for deed conversion part of HOME, also sounds appropriate.

17 MR. GANN: Yes. It really does.

18 MS. BINGHAM ESCAREÑO: Okay. Very good. Tim.

19 MR. IRVINE: It is Tim again. The contract for
20 deed thing, one thing I think needs to be made pretty
21 clear is that while contracts for deed, in and of
22 themselves are certainly subject to all kinds of abuse,
23 there have been some pretty significant changes in the
24 law, in recent years.

25 And quite honestly, one of the most effective

1 ways to convert a contract for deed to a straight up
2 mortgage is through a process that doesn't even involve
3 funding. So I think that although we have a legislative
4 mandate to offer that program, I think it is moving to a
5 different approach.

6 MS. BINGHAM ESCAREÑO: Okay.

7 MR. GANN: This is one item, Ms. Chairman, that
8 the laws have changed significantly. And they are trying
9 to keep this type of financing to a minimum. And those
10 rules reflect all of that.

11 MS. BINGHAM ESCAREÑO: Good. All right. So
12 carryover. Just very quickly. I had some questions about
13 carryover, just to clarify. So the tax credit and the
14 Multifamily Finance were two that were on the 2016 plan.

15 We are recommending, you had been kind of
16 giving us updates that you had finished the Compliance
17 Audit, but that the Multifamily Finance and the tax credit
18 probably would not be finished in '16, and would need to
19 carry over into '17. And you are recommending combining
20 those, because of their similarities, or their alignment?

21 MR. SCOTT: Yes, ma'am. The way we do the risk
22 assessment methodology, we have to list out. In order to
23 capture everything, we have to list out the agency by your
24 organizational units, how it is set up internally, as far
25 as divisions.

1 And then we also have to list out the programs
2 or activities. So when we did the risk assessment, both
3 the Housing Tax Credit and the Multifamily Division ranked
4 high on the list. But since that division does that
5 program, they can be done at the same time.

6 MS. BINGHAM ESCAREÑO: I have got you. Very
7 good. Mr. Gann, any questions about that?

8 MR. GANN: No questions.

9 MS. BINGHAM ESCAREÑO: Any other comments from
10 management about that? Does that make sense?

11 MR. IRVINE: Yes. I think that makes a lot of
12 sense. I mean, many, many affordable housing developments
13 have multiple layers of financing in them, often involving
14 tax credits, private activity bonds, HOME funds, TCAP loan
15 repayment funds, and frankly, soon they will likely
16 include National Housing Trust Fund as an additional layer
17 of financing.

18 And they are all very closely interrelated. We
19 do have a single multifamily set of rules that governs the
20 attributes of these programs, to try to conform them to
21 the greatest extent possible. We also will be bringing
22 for adoption rules that will embody the loan policy
23 discussions that we have been having for extended periods.

24 We finally have a multifamily direct loan rule.
25 And it will have a lot of policy criteria in it. And

1 this will be a good chance to scrub those policies up
2 front, and make sure that we caught everything we needed
3 to catch.

4 MS. BINGHAM ESCAREÑO: Great. Very good. Are
5 there -- Mark, are there any efficiencies in labor or
6 resources when you do combine them? Or is it just a
7 matter of --

8 MR. SCOTT: Yes, ma'am. There are. So yes.
9 On the one hand, it is more efficient to combine them.
10 But then just to make sure that the risk assessment is
11 complete, and that we consider everything, when we
12 actually do -- when we lay out the risk assessment. We
13 list them out separately.

14 MS. BINGHAM ESCAREÑO: Great. The same with
15 management, maybe? In other words, you are kind of
16 getting both of them done at the same time?

17 MR. IRVINE: Yes. Efficiency is critical to
18 management in this process. I mean, frankly, the
19 Multifamily Finance activities never cease. But during
20 the allocation season, which basically runs from January
21 through the end of July, people are racking up literally
22 hundreds of comp hours.

23 MS. BINGHAM ESCAREÑO: Yes. I have got you.
24 Very good. Good. Thank you. Should we -- let's see. Do
25 you want to go ahead and go over the rest of it, before we

1 take action?

2 MR. GANN: Yes.

3 MR. SCOTT: So on the Audit Plan, as far as
4 allocation of resources, I always allocate some time for
5 management and Board requests. Because during the course
6 of the year, things come up that need to be looked at.

7 And so we can accommodate requests from
8 management and the Board. During the course of fiscal
9 year 2016, Internal Audit assisted management with
10 subrecipient monitoring and also the coordination of
11 external audits.

12 And then the last section of the Audit Plan is
13 the administrative reports. We scheduled time to do the
14 follow-up audit report, the annual audit plan, annual
15 report on Internal Audit and also the peer review.

16 The peer review, that, the way I have it listed
17 out on the Audit Plan is kind of those three projects.
18 Because the first thing that you have to do is do a self-
19 assessment.

20 And so we will do the self-assessment. We will
21 probably, you know, maybe make some kind of management
22 letter out of it.

23 MS. BINGHAM ESCAREÑO: Mark. Can I ask you
24 just real quickly.

25 MR. SCOTT: Yes.

1 MS. BINGHAM ESCAREÑO: So who is the you that
2 does the self-assessment? What entity is responsible?

3 MR. SCOTT: We do the self-assessment
4 internally.

5 MS. BINGHAM ESCAREÑO: Internally.

6 MR. SCOTT: And so you have -- in fact, you
7 can't get a peer reviewer to come out unless you have done
8 a self-assessment.

9 MS. BINGHAM ESCAREÑO: Great. Okay.

10 MR. SCOTT: So we will do that. And then we
11 will go through the process of procuring the peer review.
12 And then they will come out and do the peer review.

13 And when they do the peer review, they do a lot
14 of interviewing. So that will take up some time. So the
15 scheduling of that will have to be worked around.

16 MS. BINGHAM ESCAREÑO: Great. Mark, are there
17 guidelines that already exist for the peer review process?

18 So as an agency, we move through that process using those
19 guidelines?

20 When is anybody -- I guess my question is, when
21 is anyone external of the Agency engaged in the peer
22 review process? Or is it all driven by established policy
23 and guidelines through the State?

24 MR. SCOTT: Well, okay. In the State, they
25 have two processes. One is, you can go through what they

1 call the SAIAF peer review. That is a state internal
2 audit forum.

3 And they -- but to do that, you have to do
4 other people's peer reviews, which takes a lot of time.
5 And they sent me a point list the other day.

6 And this agency, for some reason, is like --
7 seven points negative, six or seven for whatever reason.
8 Because we didn't do enough peer reviews, or we had too
9 many peer reviews or something.

10 But anyway, so to catch up would be a task.
11 And it is kind of more efficient to have it done by an
12 external party.

13 MS. BINGHAM ESCAREÑO: By a third party.

14 MR. SCOTT: Yes.

15 MS. BINGHAM ESCAREÑO: Very good. Great. And
16 then there, the third party has -- follows the established
17 policies and guidelines relative to conducting peer
18 review?

19 MR. SCOTT: Yes. There are, the peer review
20 reports that come out basically follow exactly the Red
21 Book.

22 And so they go through. They talk about
23 independence. They talk about the audit charter which we
24 did a while back. They talk about the scopes of the
25 audits; make sure we cover IT, for example.

1 Make sure we cover information or financial
2 systems. Make sure we cover the programs. And then they
3 interview management. They will interview the Board
4 members. And then they will issue the report.

5 MS. BINGHAM ESCAREÑO: Excellent. So then
6 those items, the follow-up audit report, the annual audit
7 plan, the annual report on internal audit and the peer
8 review, you will time those throughout 2017? You will
9 find times throughout the year to get those done?

10 MR. SCOTT: Yes. Yes, ma'am. This is the
11 audit plan, the one we are doing today. The annual report
12 is basically, that is just a listing of the audits that we
13 have completed and the ones we carried over.

14 And depending on what the state auditor wants,
15 as far as content. Sometimes they ask you for like status
16 of the finding, or various other things.

17 MS. BINGHAM ESCAREÑO: Good.

18 MR. SCOTT: That is just kind of a routine
19 report. The peer review takes time. And so --

20 MS. BINGHAM ESCAREÑO: And then the follow-ups.

21 MR. SCOTT: And then the follow-ups.

22 MS. BINGHAM ESCAREÑO: Okay.

23 MR. GANN: Mr. Chairman, I am curious to know
24 what kind of timeline on the peer review section, since we
25 seem to be a little behind, somewhere.

1 MR. SCOTT: Well --

2 MR. GANN: Or you can't be specific at this
3 juncture.

4 MR. SCOTT: Well, as far as the first step, the
5 self-evaluation, I have hired a new staff member, by the
6 way. Ms. Neda Sanjar.

7 MS. SANJAR: Good morning.

8 MR. SCOTT: She is a Certified Internal
9 Auditor. And she has extensive experience in banking.
10 And the first thing I told her to do was start working on
11 that peer review stuff.

12 So you know, so we will do that. And then what
13 I would like to do is, do the self-assessment, and then
14 present that. And see if there is any questions. And I
15 mean, and then put up the procurement.

16 MR. GANN: Do you think, what I am really
17 trying to figure out is, are you going to be like midyear,
18 three-quarter year, or end-of-the-year? I mean, I realize
19 there is three steps to it, which makes it harder.

20 MR. SCOTT: Yes.

21 MR. GANN: I am just curious, though.

22 MR. SCOTT: Well, as we discussed, you know,
23 the question of whether we are behind is kind of you know,
24 that is kind of a matter of interpretation. The Red Book
25 requires it every five years. And we do Red Book audits,

1 basically.

2 The Yellow Book requires it every three years.

3 And we don't deal with audit. So if -- I guess, my
4 intention would be to kind of see what the downtime for
5 the Agency is.

6 Because as I said, it is going to be a
7 pretty -- it is going to be pretty time intensive.

8 Because they are going to have to interview everybody at
9 the Agency, they have to interview the Board.

10 They have to look at all our stuff. So it is
11 kind of like -- it kind of ties our hands for the time
12 that they are doing it.

13 MS. BINGHAM ESCAREÑO: So but it sounds like --
14 so we have an allocation of staff resources to prepare for
15 this self-assessment, which you said is the first step.
16 Right?

17 MR. SCOTT: Yes.

18 MS. BINGHAM ESCAREÑO: Then we will review the
19 self-assessment, make sure that it is, you know, inclusive
20 and accurate and represents, you know, the functions of
21 the Agency. And then we will procure a third party to do
22 that?

23 And then once -- it sounds like to me -- once
24 you secure that third party, then that assessment or that
25 audit takes a life of its own? Not unlike any other third

1 party or external audit process that we go through. And I
2 would assume, and Tim is standing up here.

3 But I would assume that management is
4 accustomed to, even though like you said, the vast
5 majority of our year is a pretty breakneck pace in terms
6 of the work that needs to be done. That we are accustomed
7 to third party or external entities needing access to our
8 time and our records to conduct appropriate audits.

9 MR. IRVINE: Well, in the past, when we have
10 undergone peer review, we have used the -- what is it, the
11 SAIAF approach.

12 MR. SCOTT: SAIAF.

13 MR. IRVINE: And basically what that involves
14 is other Internal Auditors at other state agencies who
15 sort of --

16 MS. BINGHAM ESCAREÑO: Swap out.

17 MR. IRVINE: Swap out. And we have never
18 undergone a peer review using, you know, a third party
19 private audit firm. And this will be a first for us. I
20 personally like this sort of, you know, not even an
21 interest in state government, but sheer total objectivity.

22 MS. BINGHAM ESCAREÑO: Sure.

23 MR. IRVINE: It is attractive to me.

24 MS. BINGHAM ESCAREÑO: Great. Okay.

25 MR. SCOTT: And actually, in the Red Book, it

1 says that one of the options -- they have various options
2 for how to do the peer review. One of the options is to
3 have, you know, have it done completely by the third
4 party.

5 And then another option is to do a thorough
6 self-assessment and have that validated by the third
7 party. So the -- and then the SAI AF process, they kind of
8 do both. They make you do a full self-assessment. And
9 then they do a full review of that. Or, they do their own
10 interviews and so forth.

11 So but yes. We will get a -- I guess when we
12 prepare for the procurement, we can outline you know, what
13 the --

14 MR. GANN: I can see. What I was really
15 getting to, I would like to see -- by the next meeting, or
16 the second meeting from now, we ought to know where we are
17 going with it, and what time it will be back, though.

18 MR. SCOTT: Yes.

19 MS. BINGHAM ESCAREÑO: Okay. Yes. Good.

20 MR. GANN: That is what I wanted to know. That
21 is my point.

22 MS. BINGHAM ESCAREÑO: I think that is a good
23 recommendation. So that way, by the next Audit Committee
24 meeting, or if there is a Board meeting prior to an audit
25 and we want to get just an update on when we anticipate

1 the self-assessment to be finished, or --

2 MR. SCOTT: Yes. I hope to have the self-
3 assessment done by the next Board meeting, or by the next
4 Audit Committee meeting.

5 MS. BINGHAM ESCAREÑO: Good. I agree with Tim,
6 too. I like the idea of the third party, especially if we
7 haven't used that process before.

8 And then it will give us -- you know, then we
9 will have a good idea of was there some value-add in using
10 a third party, or does it make more sense to go back to
11 the SAIAF, that the state has you know, offered also. I
12 like the idea. Maybe we will get some good value add out
13 of the third party.

14 MR. SCOTT: Yes. And I should just say, I have
15 had peer reviews done by both external and by the SAIAF
16 group. And both times, they had good suggestions. So I
17 learned about it from both of them.

18 MS. BINGHAM ESCAREÑO: Great. Very good.
19 Okay. Do you want to go over administrative?

20 MR. SCOTT: Let's see. The --

21 MS. BINGHAM ESCAREÑO: Are we --

22 MR. SCOTT: So now we are at the point where we
23 are going to ask. So we have talked about the audits, and
24 then the administrative reports, and then the peer review.
25 So at this point, I would like to ask the Committee to

1 approve the Audit Plan to recommend it to the full Board.

2 MS. BINGHAM ESCAREÑO: Thank you very much.

3 Mr. Gann?

4 MR. GANN: I will take that responsibility.

5 For fiscal year 2017, I recommend that we present it to
6 the Board for their approval. I so move.

7 MS. BINGHAM ESCAREÑO: Very good. I will
8 second the motion. We are all in favor and none opposed?

9 MR. GANN: Aye.

10 MR. SCOTT: Okay. Thank you very much.

11 MS. BINGHAM ESCAREÑO: Let's see. Do we have
12 any other report items for today?

13 MR. SCOTT: We have the Fair Housing.

14 MS. BINGHAM ESCAREÑO: Very good. Let's go
15 over the audit of the Fair Housing.

16 MR. SCOTT: Okay. This audit was selected
17 based on several factors, including complexity of
18 operations. Legislative interests, and the interest
19 expressed by the Board and other oversight entities.

20 TDHCA has a role in administering the Fair
21 Housing Act and it has staff and resources devoted to that
22 function. So we conducted the audit of TDHCA Fair Housing
23 activities. It is kind of a long-winded way of saying, we
24 audit it as if it -- like it is a program, even though
25 maybe it is not officially a program.

1 So we audited the Fair Housing program within
2 TDHCA. There is a Federal Fair Housing Act and a Texas
3 Fair Housing Act. Enforcement of the Acts is the
4 responsibility of the Texas Workforce Commission, TWC.

5 TDHCA has some compliance responsibilities for
6 Fair Housing, and it has a major role in what is called
7 Affirmatively Furthering Fair Housing, AFFH. The Fair
8 Housing Act's anti-discrimination provisions are primarily
9 enforced by TWC.

10 And the federal government also may conduct
11 activities such as posing as a home seeker to test whether
12 housing agents ask discriminatory questions. Whether they
13 withhold information about housing or otherwise have
14 discriminatory practices.

15 TDHCA has compliance responsibilities with
16 regard to having subrecipients and contractors we do
17 business with who provide housing services through TDHCA
18 attest that they comply with the Fair Housing rules. We
19 tested a scientifically chosen random sample of contracts
20 as to whether they contained the proper attestations. All
21 but three did.

22 However, the three were for the Annie Young
23 Barrier Removal Program, and they were not subject to that
24 specific provision, but because of the sampling
25 methodology, the three contracts could not be preaudited

1 prior to the selection of the sample.

2 In addition to the compliance responsibilities
3 that TDHCA has, it also has responsibilities for the AFFH
4 or the Affirmatively Furthering Fair Housing. And the
5 Fair Housing activities or program include outreach and
6 education, as well as an advisory function within TDHCA as
7 to what effects various initiatives will have on AFFH.

8 The Agency has a Fair Housing data management
9 and reporting team that works on a variety of Fair Housing
10 projects. There is a requirement for an analysis of
11 impediments to Fair Housing, and an analysis of Fair
12 Housing tool.

13 And we found that the Fair Housing activities
14 are well managed. We had recommendations related to
15 documenting policies and procedures and developing a
16 schedule for making Fair Housing training available to
17 TDHCA staff on a periodic basis.

18 There was some training done last year, or
19 earlier this year. And it was very well received.
20 Everybody liked it. So we think doing that on an ongoing
21 basis would be a good thing. So I will stop there to see
22 if there is any questions about the --

23 MS. BINGHAM ESCAREÑO: Mr. Gann, any questions?

24 MR. GANN: I know there were some issues with
25 some of this in the past. And I just want to bring it up.

1 There is about a five-year -- I might want to ask you
2 this, Mr. Director. There is a five-year program that we
3 go through, every five years, I believe.

4 MR. IRVINE: Right.

5 MR. GANN: And it seems like it has been about
6 that time. Are we in the process to being in the right
7 position there? Because I think that was something that
8 slipped by due to a few hurricanes or something.

9 MR. IRVINE: Yes, sir. Historically, the
10 analysis of impediments to Fair Housing choice was
11 performed in connection with the Consolidated Plan every
12 five years.

13 And for a period in the mid-2000s, there was a
14 lot of talk at the HUD level about the promulgation of new
15 regulations. The analysis-of-impediments requirement
16 actually wasn't under a regulation. It was under HUD
17 policy.

18 Eventually, HUD did release the new analysis of
19 Fair Housing requirement, as part of a regulation. And
20 the regulation involves a new-HUD created tool. And we
21 have a plan that is going to be more fully developed as
22 that regulation rolls out, and as the tools get finalized
23 and adopted.

24 And we anticipate that in the next year or so
25 we will really ramp up to undertake that analysis of Fair

1 Housing, and meet HUD's timing requirements. Right now,
2 we are operating under the analysis of impediments to Fair
3 Housing choice. And we believe we are in compliance.

4 I would also point out that AFFH is not just a
5 TDHCA requirement; it is a State of Texas requirement.
6 And we serve in a pretty important coordinating role.
7 Suzanne Hemphill, who heads that activity up, presides
8 over periodic, usually quarterly meetings with the other
9 agencies that administer HUD funds.

10 That is the General Land Office which
11 administers CDBG disaster recovery activities. The
12 Department of Agriculture which also administers the
13 regular CDBG program, and the State Health Services, which
14 administers the Housing Opportunities for Persons With
15 AIDS or HOPWA program.

16 MR. GANN: I just didn't want us to miss that
17 deadline.

18 MR. IRVINE: Yes.

19 MR. GANN: Because you had plenty of things
20 going on in your world.

21 MR. IRVINE: We do. We do.

22 MR. GANN: I just was going to bring that up.
23 I appreciate your comment.

24 MR. IRVINE: And I will say that as we gear up
25 for the analysis of Fair Housing, even though HUD has

1 provided or is going to provide when it finalizes them,
2 tools and data sets and so forth to help with that
3 activity, it is going to be a gigantic activity. It is
4 going to involve a lot of granular interaction with Texans
5 in all 268,000 square miles. Big stuff.

6 MR. GANN: Yes. Thank you.

7 MS. BINGHAM ESCAREÑO: Any other questions
8 regarding the Fair Housing audit?

9 (No response.)

10 MS. BINGHAM ESCAREÑO: The memo, the report
11 memo that goes out, that was part of our Board package.
12 Great format. Went over all of the areas, the comments.
13 It was very useful. Very easy to consume.

14 MR. SCOTT: Thank you very much.

15 MS. BINGHAM ESCAREÑO: All right. Report item
16 on external audit activity?

17 MR. SCOTT: The next one is recent internal
18 audit --

19 MS. BINGHAM ESCAREÑO: Internal audit.

20 MS. HEMPHILL: Mark, could I clarify something
21 really quickly?

22 MR. SCOTT: I am sorry?

23 MS. HEMPHILL: Could I clarify something?

24 MR. SCOTT: Sure.

25 MS. HEMPHILL: Suzanne Hemphill, Fair Housing

1 project manager. I wanted to clarify on the audit, if you
2 were accepting staff recommendations and management's
3 comments, just so we know how to move forward for the next
4 year.

5 MS. BINGHAM ESCAREÑO: All right. Thank you.
6 Thanks for the clarification.

7 MR. SCOTT: I am sorry -- accepting? What?

8 MS. HEMPHILL: If you are accepting
9 management's comments for the recommendations. Just to
10 clarify?

11 MR. SCOTT: Yes.

12 MS. HEMPHILL: Okay.

13 MR. SCOTT: Yes.

14 MS. HEMPHILL: Thanks.

15 MS. BINGHAM ESCAREÑO: So would we like to make
16 that an action item for the Committee to accept it, or is
17 it implied? Okay. Very good. We accept it. I mean, the
18 report is in the packet. Mr. Gann had no further
19 questions.

20 MR. SCOTT: Yes. I guess I perhaps neglected
21 to ask for an implementation date and schedule. But I can
22 put that in the follow-up report.

23 MS. BINGHAM ESCAREÑO: Very good. Good. We
24 will note that. All right. Report item 2, the Internal
25 Audit and consulting activity update.

1 MR. SCOTT: Okay. Yes. First of all, as I
2 mentioned, I just hired Ms. Neda Sanjar. Neda is a
3 Certified Internal Auditor, has extensive experience in
4 the banking industry. And, Neda, if you want to stand up
5 real quick so everybody can see you.

6 MS. SANJAR: (Complying.)

7 MS. BINGHAM ESCAREÑO: Hi, Neda. Welcome to
8 the team. Nice to have you here.

9 MR. SCOTT: So we will have that going. Okay.
10 And we are finishing up the audit of the Compliance
11 Division. And this audit covers the multifamily
12 developments and the compliance monitoring that is done
13 during what is called the compliance period after tax
14 credits are awarded and the buildings are put into
15 service.

16 I meet regularly with the other side of the
17 Compliance Division which is the subrecipient monitoring
18 section. And we have a consulting arrangement that is
19 done in accordance with the TDHCA Internal Audit charter,
20 and it is also in accordance with the Internal Auditing
21 standard.

22 MS. BINGHAM ESCAREÑO: Great. How is that
23 going?

24 MR. SCOTT: It is going really well. We meet
25 probably once a week, or every other week. We go over the

1 various audits that come in, that are done by certified
2 public accounting firms of our subrecipients. And we
3 discuss the ones that have findings, or the ones that have
4 issues. And we proceed in that way.

5 So based on that, I think that that section of
6 the audit of the -- the subrecipient monitoring is also
7 audited by KPMG. So for that reason, the audit, it is
8 getting ready to come out, is focused on the other side of
9 the Compliance Division.

10 MS. BINGHAM ESCAREÑO: Great. Very good. And
11 you will wrap that up by the end of the year?

12 MR. SCOTT: Yes. Hopefully by the end of the
13 month. Because I want to put it on the annual report that
14 I just mentioned as complete.

15 MS. BINGHAM ESCAREÑO: Great. Very good.
16 Thank you very much. Any questions on internal activity?

17
18 (No response.)

19 MS. BINGHAM ESCAREÑO: Great. Last report item
20 is the recent external audit activity, Mark.

21 MR. SCOTT: Okay. Yes. The statewide audit is
22 done every year. And they are almost always out here,
23 either KPMG or the state auditor. And KPMG this year
24 audited the LIHEAP program, which is the housing energy
25 assistance program.

1 And they audited it as a major program, which
2 means that the dollar amount of the program required them
3 to audit it, And I have talked to the KPMG people.

4 And at this point, I don't think they have any
5 significant findings, either one -- and I don't think the
6 state auditor is going to have any. Or at least, they
7 haven't notified me of any findings or significant
8 findings on the financial portion of that statewide audit.

9 So and then the Department of Energy, the
10 federal agency sent out a monitoring. Or they did some
11 monitoring of the LIHEAP program. And they also went out
12 to one of the subrecipients to view the implementation of
13 the program.

14 And they are really quick when they do their
15 reviews. And when we had the exit conference, they were
16 very positive about how TDHCA runs the program. They
17 especially mentioned the communication among the divisions
18 as a best practice.

19 And out in the field, they looked at a lot of
20 things. They looked at issues like whether the
21 installation was -- the insulation was installed properly
22 in various homes. So that was very positive.

23 And that concludes my presentation. I will be
24 happy to answer any questions that may be.

25 MS. BINGHAM ESCAREÑO: Great. Mr. Gann, do you

1 have any questions?

2 MR. GANN: No questions.

3 MS. BINGHAM ESCAREÑO: I don't think I have,
4 either. So KPMG and the DOE, they should wrap up fairly
5 soon? You haven't receive formal reports from either, but
6 you expect that the work of those two --

7 MR. SCOTT: That is correct.

8 MS. BINGHAM ESCAREÑO: Okay. Very good.

9 MR. IRVINE: And I would just like to clarify.
10 The LIHEAP program is administered by Health and Human
11 Services. It is a very large dollar program.

12 And it has two major activities. One is,
13 utility bill assistance. The other is weatherization.
14 The DOE program is just a weatherization program.

15 MS. BINGHAM ESCAREÑO: Just for the -- okay.
16 Very good. Thank you for the clarification. Very good.
17 If there are no other questions, I think is the agenda for
18 today. I will entertain a motion to adjourn.

19 MR. GANN: I so move.

20 MS. BINGHAM ESCAREÑO: And I will second.
21 Meeting adjourned. Thank you guys, very much.

22 (Whereupon, at 8:34 a.m., the meeting was
23 concluded.)

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MEETING OF: TDHCA Audit Committee

LOCATION: Austin, Texas

DATE: October 13, 2016

I do hereby certify that the foregoing pages, numbers 1 through 32, 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.

/s/ Carol Bourgeois 10/18/2016
(Transcriber) (Date)

On the Record Reporting
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