

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

AUDIT AND FINANCE COMMITTEE MEETING

John H. Reagan Building
Room JHR 140
1400 Congress Avenue
Austin, Texas 78701

March 10, 2022
9:05 a.m.

MEMBERS:

AJAY THOMAS, Chair
PAUL A. BRADEN, Member
SHARON THOMASON, Member (absent)
LEO VASQUEZ, Member

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P R O C E E D I N G S

1
2 MR. THOMAS: Good morning, and welcome to the
3 March 10, 2022, meeting of the Audit and Finance Committee
4 of the Governing Board of the Texas Department of Housing
5 and Community Affairs. Appreciate everybody being here
6 today.

7 Let's go ahead and take roll this morning of the
8 committee members that are present.

9 Myself, committee chair, Ajay Thomas, is
10 present.

11 Committee Member Vasquez?

12 MR. VASQUEZ: Present, and on time.

13 MR. THOMAS: I knew you would be.

14 Committee Member Braden?

15 MR. BRADEN: Here.

16 MR. THOMAS: And Committee Member Ms. Thomason
17 told me she would not be present today. We do have a full
18 quorum, so we'll be able to go ahead and get started.

19 We have two action items and three report items
20 on today's agenda. The first action item is the approval
21 of the minutes for the December 9, 2021, meeting of the
22 Audit and Finance Committee.

23 In that meeting Mr. Mark Scott, the director of
24 Internal Audit, presented the Internal Audit annual work
25 plan for fiscal year 2022 as an action item for

1 recommendation to the full Board for approval. The plan
2 was voted for recommendation to approve after discussion
3 with committee members.

4 Mr. Scott also presented seven report items,
5 including Internal Audit reports and Internal Audit
6 administrative activities.

7 Committee members, the minutes are in your
8 packets. At this point, if there are no questions, may I
9 have a motion to approve the minutes from the December 10,
10 2021, Audit and Finance Committee meeting?

11 MR. BRADEN: Move to approve.

12 MR. VASQUEZ: Second.

13 MR. THOMAS: I appreciate that. We've got a
14 motion from Mr. Braden and a second by Committee Member
15 Vasquez. All in favor of the motion say aye.

16 (A chorus of ayes.)

17 MR. THOMAS: Any opposed?

18 (No response.)

19 MR. THOMAS: Hearing none, the motion passes.
20 Thank you.

21 Our next action item for today is the
22 presentation, discussion, and possible recommendation of
23 approval of the full Board of the State Auditor's Office
24 audit of the TDHCA financial statements for fiscal year
25 2021.

1 Ms. Lauren Futch, with the SAO's office, is here
2 to present this item to us.

3 Ms. Futch, welcome.

4 MS. FUTCH: Good morning, Chairman and members.

5 My name is Lauren Futch, and I'm a project manager with
6 the State Auditor's Office. This morning I'll be
7 discussing the results of our most recent financial audits
8 at the Department.

9 We issued two unmodified opinions, one for the
10 Department's basic financial statements for fiscal year
11 2021 and one for the Department's Revenue Bond Program
12 financial statements for fiscal year 2021.

13 We determined that these financial statements
14 were materially correct and reported in accordance with
15 Generally Accepted Accounting Principles, or GAAP. In
16 other words, we determined that the statements as issued
17 were not misleading to the reader of the statements. We
18 also concluded that the Department computation of
19 unencumbered fund balances complies with Texas Government
20 Code Section 2306.204 and 2306.205.

21 Additionally, we issued an opinion on the
22 Department's compliance with the Public Funds Investment
23 Act for the fiscal year ended August 31, 2021. The results
24 of that work determined that the Department materially
25 complied with the Public Funds Investment Act.

1 I would also like to briefly mention a
2 communication that you all received at the end of our audit
3 on December 20, 2021. It was a document titled "Required
4 Communication with Those Charged with Governance." That
5 document states that we did not identify any misstatements
6 that required correction and that we did not encounter any
7 disagreements with management during the audit.

8 Prior to the fiscal year 2021 financial
9 statement audit work, we also issued an unmodified opinion
10 on the Department's fiscal year 2020 financial data
11 schedule in relation to the fiscal year 2020 basic
12 financial statements.

13 Additionally, we performed agreed-upon
14 procedures and determined that the electronic submission of
15 information related to the financial data schedule to the
16 U.S. Department of Housing and Urban Development Real
17 Estate Assessment Center system agreed with the related
18 hard copy documents.

19 Lastly, I would like to thank Mr. Cervantes and
20 everyone in Financial Administration, Joe, Christina, and
21 Larry in the IT group, Mr. Scott in Internal Audit for
22 their assistance and cooperation throughout the audit.

23 This concludes my statement, and I'm happy to
24 address any comments or questions you have.

25 MR. THOMAS: Thank you, Ms. Futch.

1 Do any of the committee members have any
2 questions regarding the SAO's reports?

3 MR. VASQUEZ: No. Great. Thanks for y'all's
4 effort on that.

5 MR. THOMAS: Excellent. No questions; excellent
6 report, Ms. Futch.

7 At this point may I have a motion to approve
8 recommendation to the full Board of the State Auditor's
9 Office report?

10 MR. VASQUEZ: I'd move to approve the report to
11 the full Board.

12 MR. THOMAS: I have a motion by Committee Member
13 Vasquez. May I have a second?

14 MR. BRADEN: Second.

15 MR. THOMAS: Second by Mr. Braden. All in
16 favor?

17 (A chorus of ayes.)

18 MR. THOMAS: Any opposed?

19 (No response.)

20 MR. THOMAS: Hearing none, motion passes. Thank
21 you.

22 Moving to our report items, the first report
23 item is the presentation and discussion of the internal
24 audit of the Information Technology general controls at
25 TDHCA, and it will be presented by Mr. Scott. Mr. Scott

1 will present the report and offer to answer questions at
2 the end of his presentation.

3 Mr. Scott.

4 MR. SCOTT: Good morning. Thank you, Chairman.

5 The IT general controls rated high on the risk
6 assessment and was included in the approved fiscal year
7 2022 audit work plan, as the Internal Auditing Act requires
8 periodic audits of an agency's information systems. IT
9 general controls are controls that apply to all systems,
10 components, processes and data for a given information
11 technology environment.

12 The objectives of IT-GC, general controls, are
13 to ensure the proper development and implementation of
14 applications, as well as the integrity of programs, data
15 files and computer operations.

16 The most common general controls include logical
17 access controls over infrastructure, applications and data,
18 system development life cycle controls, program change
19 management controls, data center physical security
20 controls, system and data backup and recovery controls,
21 computer operation controls.

22 The internal TDHCA Information Systems Division
23 staff deliver TDHCA and Manufactured Housing technology
24 with support from the Department of Information Resources,
25 DIR. IA, Internal Audit, reviewed the IT general controls

1 in place at TDHCA and found its processes require
2 improvement to meet the ongoing strategic and operational
3 goals and objectives of the agency.

4 The findings and observations were primarily
5 within categories of physical security, information
6 security, IT governance, and change management. Management
7 has agreed to our recommendations and provided anticipated
8 dates for addressing those issues. The details of the
9 findings and the recommendations are in the report.

10 IA also recognizes the unusual nature of the
11 period under audit. Starting in March of 2020, when the
12 pandemic was recognized as a national and state disaster,
13 ISD has focused primarily on pandemic-related technology
14 resource support, which probably contributed to our having
15 these findings in the audit report. Our audit report
16 outlines control issues in various areas, physical
17 security, information security, governance, and there's a
18 long list of findings in the report that we can go over.

19 And we also identified some significant
20 accomplishments of the IT Department: They completed over
21 21,000 support tickets for fiscal year 2021; they did a
22 great job of creating and supporting the remote work
23 environment; they put in multiple security enhancements,
24 like multi-factor authentication; they had to implement new
25 program support for the Rent Relief programs; they put in

1 legacy upgrades; they've done business continuity
2 activities; and they've automated many programs.

3 So I understand that the IT people are here, and
4 I think Mr. Vasquez may have questions, so at this point
5 I'll stop for questions if there may be any.

6 MR. THOMAS: Members, questions?

7 MR. BRADEN: One question I have, so did this
8 look into cybersecurity?

9 MR. SCOTT: Yes, we looked at cybersecurity. I
10 personally went over and looked at the installations; I
11 reviewed the firewalls. Most of the cybersecurity I think
12 is covered by DIR, but yes, it does cover that.

13 MR. BRADEN: Okay. Excellent.

14 MR. THOMAS: The chair recognizes Mr. Vasquez.

15 MR. VASQUEZ: As I mentioned when I reviewed the
16 report, is there a delineation as to -- a clear delineation
17 as to duties between the Department IT personnel, DIR and
18 even the Facilities Commission as far as all these
19 different physical security?

20 MR. SCOTT: Yeah, I know the one you're
21 referring to. I think David may be coming up here.
22 There's one issue that needs to be fixed by one of those
23 parties.

24 MR. CERVANTES: Good morning, Chairman Thomas,
25 Mr. Vasquez, Mr. Braden.

1 To your question, Mr. Vasquez --

2 MR. THOMAS: Excuse me. Could you identify
3 yourself, please, for the record?

4 MR. CERVANTES: Yes, sir. My name is David
5 Cervantes. I'm the director of Administration and chief
6 financial officer for the Department.

7 MR. THOMAS: Thank you, Mr. Cervantes.

8 MR. CERVANTES: And included in my group, Mr.
9 Larry Murcadel, who is my director of information systems,
10 is here as well this morning.

11 But big picture, there is delineation and what I
12 would say is that the Department of Information Resources
13 probably is the umbrella or the statewide enterprise
14 oversight group over, you know, IT policy for the state as
15 a whole, so there's a lot of coordination and interaction
16 between agencies and DIR.

17 But you know, for example, every time we go to
18 session DIR is one group that we're always submitting
19 information to ahead of time to ensure that it's going to
20 meet statewide objectives. So there is delineation but in
21 a sense oversight in respect to DIR.

22 And then in terms of the Facilities Commission,
23 it's a little different situation. Obviously their
24 oversight is over building management. As you well know,
25 we are in a state-owned building, so in our particular

1 case, you know, they are the lead for assisting us with
2 building management, and that includes facilities, and like
3 in the report there's reference to the room that was noted
4 as being open and that type of thing.

5 And I mean, I can tell you historically we have
6 made attempts to communicate with the Facilities Commission
7 and DIR in terms of that room, but we've had some
8 challenges to have them address exactly the reasons why
9 that room remains open.

10 We have brought it to their attention numerous
11 times, but again, you know, I don't know if it's
12 temperature control in that room because they have other
13 types of equipment in there. But to Mark's point and Ms.
14 Nelson and the report, we recognize that our equipment is
15 also in there, so I think our next step on that is to do
16 some outreach with them and documentation, at minimum, on
17 our efforts to try to secure it better in the future.

18 MR. SCOTT: That is a sticking point is the
19 ventilation, but there should be a way to get the
20 ventilation in, and also to be able to secure the room.

21 MR. CERVANTES: Agreed.

22 MR. BRADEN: When you say that's the
23 ventilation, we're talking about putting some type of lock
24 on that room. Right?

25 MR. SCOTT: Yes, but the problem is that when

1 the door is shut, the room gets too hot. That's why I say
2 it's kind of a Facilities Commission thing.

3 MR. BRADEN: It's not just that the door is
4 unlocked; it's open.

5 MR. SCOTT: It's wide open.

6 MR. CERVANTES: It literally is open, and I
7 toured it yesterday, so I know it. And even when you look
8 at the door, it has some warning signs on it because of
9 suppression type of situations. And when you look inside,
10 you see that there's channeling of air in there, you know,
11 certain lines that they have running into the room.

12 And when you see the panels, you do see our
13 equipment, we have it staged in there. But nonetheless,
14 the reason they have it open, I think, is the ventilation,
15 and again, the pros and cons as to how they want to manage
16 it, I'm not totally aware of all of the circumstances that
17 they may be trying to manage there.

18 MR. BRADEN: Clearly not ideal for our purposes.

19 MR. CERVANTES: Not ideal. And I mean, Larry
20 would know better than I, but the thought that crossed my
21 mind just even in the last couple of days is whether we
22 should relocate that equipment, if it's even possible, you
23 know, to place it in one of our secure areas or something.

24 If that's a possibility, I haven't even ventured with
25 Larry and his crew.

1 It's functioning, so whether to tamper with it
2 and move it and that kind of thing is another story. But
3 that's kind of the situation that we're trying to work our
4 way through.

5 MR. VASQUEZ: I obviously haven't seen it
6 physically, but can we install a locking screen door or
7 just bars, I mean, to keep it open?

8 MR. CERVANTES: That's a good thought. We
9 certainly will follow up, and we'll work towards that end.
10 Yeah, I think that's a good idea; maybe we can do
11 something like that.

12 MR. VASQUEZ: I have a follow-up question, Mr.
13 Chairman, if that's okay.

14 MR. THOMAS: Yes, absolutely.

15 MR. VASQUEZ: So does DIR -- as the umbrella
16 tech oversight, do they do any kind of audits of our
17 security systems and such periodically, or not?

18 MR. CERVANTES: We partner up with DIR, and you
19 know, even as noted in the report, we'll work with them to
20 do penetration testing work.

21 MR. VASQUEZ: How often does that happen, does
22 that kind of testing occur?

23 MR. CERVANTES: Well, our objective is to do it
24 once a year.

25 MR. VASQUEZ: How often does it occur?

1 MR. CERVANTES: How often does it occur?

2 MR. VASQUEZ: That testing, how often does it
3 actually happen?

4 MR. CERVANTES: It's happened every year with
5 the exception of probably this round right here. And as we
6 noted in the response, even though we didn't perform
7 penetration testing in terms of the core systems that we're
8 operating right now and the servers and everything that we
9 have functioning right now, you know, there were some high
10 profile areas, such as the Rent Relief applications that we
11 were administering through the new COVID program, so we did
12 do some work in there.

13 And right offhand, I'm losing sight of the
14 second initiative that we put in place as well, but there
15 were at least two activities that we performed even though
16 the yearly penetration testing, working side by side with
17 DIR, was not done this last cycle.

18 And of course, we're looking to try to regroup
19 and set the course again so that we can get back on our
20 yearly cycle at this point.

21 MR. THOMAS: Any other questions from members
22 for Mr. Scott or Mr. Cervantes?

23 (No response.)

24 MR. THOMAS: Hearing none, thank you, Mr.
25 Cervantes.

1 MR. VASQUEZ: Thanks, David.

2 MR. THOMAS: Much appreciated.

3 Moving on.

4 MR. WILKINSON: Chairman, I have a comment, if
5 you don't mind.

6 MR. THOMAS: Yes, sir.

7 MR. WILKINSON: I'd like to thank Mark and Susie
8 for a thorough look at our IT group, and I'd like to thank
9 Larry and our IT team. It's been a tough couple of years
10 for them. We were like, all right, we're going to go
11 remote: You need to figure it out within a few weeks, and
12 then they had their scheduled upgrades to legacy programs
13 in addition to, oh, here's an extra few billion dollars.
14 And yes, we did use a vendor for some of that, but yes,
15 there was plenty of applications in-house that they were
16 having to develop at the same time.

17 So I think this is an opportunity where we're
18 heading into what I think will be a good revenue session,
19 and we don't need to ask for GR, we just need to ask for
20 some capital budget authority, maybe a few FTEs, kind of
21 bulk up the IT Department, and we'll make some serious
22 improvements.

23 MR. THOMAS: Thanks, Bobby. I think that's a
24 point well taken. IT departments all over the country have
25 been stressed during this COVID period, and our staff is

1 one of the best, so I appreciate all the hard work by
2 everybody internally to get us going in the right
3 direction.

4 Moving on, the next report item we have on the
5 agenda is presentation and discussion of internal audit of
6 the previous participation review function, and once again,
7 that report will be presented by Mr. Scott.

8 Mark.

9 MR. SCOTT: Thank you, Chairman.

10 The previous participation review function was
11 identified during the fiscal year 2022 risk assessment and
12 rated high on the risk assessment due to lack of recent
13 audits of the function and its important role in ensuring
14 compliance with program specific rules and regulations as
15 it relates to awarding contracts to subrecipients and
16 contractors.

17 The PPR function's role is to conduct a review
18 of the administrator subrecipients and all affiliated and
19 responsible parties of the developers, owners or
20 subrecipients that have applied for a new contract,
21 requested a transfer or are subject to the renewal of an
22 existing contract.

23 The PPR review includes identifying any previous
24 participation of the entity with TDHCA and any compliance
25 performance with the state and federal laws that govern the

1 programs at TDHCA. The results of the findings of the PPR,
2 if there are any, are then provided to the Executive Award
3 Review Advisory Committee, known as EARAC, for their review
4 and recommendation to the Board.

5 Based on our review, they're doing a really good
6 job with this PPR, and the function is operating
7 effectively in ensuring compliance with appropriate rules
8 and regulations in awarding new contracts, renewing
9 existing contracts, or processing requests for transfers
10 that are related to the programs and funds under TDHCA's
11 purview.

12 We had a suggestion for efficiency related to
13 how the files are kept, and the program agreed to our
14 observation, and they're implementing new processes.
15 They're updating the spreadsheet that identifies where the
16 files are maintained on the share drive, and so basically
17 that was an audit where we found they're doing a really
18 good job, so I'll answer any questions related to that.

19 MR. THOMAS: Thank you, Mr. Scott.

20 Any questions from members regarding this
21 particular report?

22 MR. VASQUEZ: I sort of have a general question.

23 MR. THOMAS: Mr. Vasquez.

24 MR. VASQUEZ: So the one item that sort of
25 jumped out at me is that all these contracts and funds are

1 being tracked on a spreadsheet?

2 MR. SCOTT: Well, the files are kept in various
3 sections of the network drives, and so I guess Neda, if
4 she's willing to come up and talk she could give more
5 details, or if Ernest is here. Do you want to elaborate on
6 that?

7 MR. VASQUEZ: And my question is kind of is
8 there sort of a contract management database that could be
9 used as opposed to a spreadsheet?

10 MS. SANJAR: Good morning. I'm Neda Sanjar with
11 Internal Audit.

12 In my review I noticed that the tracking
13 spreadsheet is used for all incoming requests for the
14 previous participation review to be conducted, and that was
15 our finding that there could be a better, more efficient
16 way of tracking all the supporting documentation that is
17 received and reviewed for later follow-up or anything like
18 that.

19 These are, of course, the contracts that are for
20 the subrecipients and for new awards, renewing awards or
21 transferring awards. I remember in the last meeting your
22 question was in relation to the consulting and other kinds
23 of contracts. They are not part of this previous
24 participation review process.

25 MR. SCOTT: So as far as the question, there is

1 no database; we do use a spreadsheet.

2 MS. SANJAR: Yeah, there is no database.

3 MR. CABELLO: Good morning. My name is Homero
4 Cabello, deputy executive director of Program Oversight and
5 Controls.

6 The information is pulled from our database,
7 from our compliance database to see if they're in
8 compliance with our programs, so if they have any
9 unresolved monitoring findings or they're not in compliance
10 with the program rules, that data is pulled from the
11 database and put onto the spreadsheet so they can track
12 them and go through the process to see if they can be
13 cleared for an award. So the spreadsheet is more of a
14 working spreadsheet but it's pulled from our database.

15 MR. VASQUEZ: Okay. So there's multiple
16 databases, and the spreadsheet we refer to is just sort of
17 a central repository.

18 MR. CABELLO: Right. It's just used to process,
19 because they gather information from loan servicing, from
20 compliance, from accounting, so they use this spreadsheet
21 to make sure that they can provide the clearance that is
22 needed for the award. But it's pulled from various systems
23 that we have throughout the agency.

24 MR. VASQUEZ: Does this spreadsheet generate any
25 kind of report, sort of like a dashboard of what's coming

1 up, what's overdue, what's over budget?

2 MR. CABELLO: Well, the way the PPR process
3 works, so an applicant will submit for an award, and then
4 the program areas will then extrapolate the information,
5 they will gather information from the applicants that are
6 submitting. We could do a dashboard report, but it's on an
7 individual basis on applications that are received and then
8 the data is pulled from various sources.

9 MR. VASQUEZ: Okay. Well, it seems to be
10 working; I guess, just doesn't sound as optimal as one
11 would think.

12 MR. SCOTT: That's why we said it was a
13 suggestion.

14 MR. VASQUEZ: Ain't broke, don't fix it.

15 MR. WILKINSON: Actually, Chairman, we have
16 other probably more critical areas on Excel that's
17 something we're looking to remedy this next session as much
18 as we can to get some more serious data solutions.

19 Cody and the 9 percent program, for instance,
20 they use a lot of Excel, and it's a legacy issue that we're
21 going to fix over time.

22 MR. VASQUEZ: Great.

23 MR. THOMAS: Homero, thanks for the
24 clarification.

25 Any other questions for Mr. Scott regarding the

1 participation review?

2 (No response.)

3 MR. THOMAS: Hearing none, we'll move on to the
4 last item on the agenda. Spoiler, Mr. Scott is going to
5 present this to us as well. This is a report on the status
6 of the internal and external audit activities.

7 Mr. Scott.

8 MR. SCOTT: Thank you, Chairman.

9 Okay. So the recent external audits, I'll start
10 with that first, it includes the one that was just
11 presented on the financial statements. Later this month
12 there's going to be issued the statewide audit, of which
13 TDHCA is a component.

14 This audit focuses on federal financial
15 assistance received by state agencies. There are two
16 findings of note, one regarding IT general controls
17 primarily related to user access review, change management
18 and vendor management, and then there's a finding related
19 to TDHCA regarding subrecipient versus vendor designation
20 in the rental assistance program.

21 Also related to that rental assistance program,
22 the SAO is working on various fraud allegations. Some of
23 those we refer to them, and some of them they get
24 themselves.

25 So far on the internal audit plan we have

1 finished the Previous Participation review and the audit of
2 IT General Controls. The next audits we plan to conduct
3 are the Texas Homeownership Program, and then we're going
4 to do the audit of the various inspection programs which
5 includes the TDHCA tax credit properties.

6 We'll look at the physical inspection of those,
7 we'll look at the housing of the migrant labor that is
8 performed under an MOU with us by Manufactured Housing, and
9 then we also have to do follow-up on the SAO's report from
10 a couple of years ago on the Manufactured Housing
11 inspections.

12 So that concludes my presentation on internal
13 and external audit activities. I'll be happy to answer any
14 questions.

15 MR. THOMAS: Thank you, Mr. Scott.

16 Members, any questions for Mr. Scott on this
17 particular report?

18 (No response.)

19 MR. THOMAS: Hearing none, thank you. Good job
20 on all the reports, Mr. Scott.

21 MR. SCOTT: Thank you.

22 MR. THOMAS: That brings us to the end of
23 today's committee agenda, so that will conclude today's
24 meeting officially. Thank you, everybody, for joining us
25 this morning. The meeting is officially adjourned at 9:33

1 a.m. Central Time.

2 (Whereupon, at 9:33 a.m., the meeting was
3 adjourned.)

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C E R T I F I C A T E

MEETING OF: TDHCA Board Audit & Finance Committee

LOCATION: Austin, Texas

DATE: March 10, 2022

I do hereby certify that the foregoing pages,
numbers 1 through 2425, 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.

DATE: March 16, 2022

(Transcriber)

On the Record Reporting
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