

AUDIT COMMITTEE MEETING

November 12, 2015

Leslie Bingham-Escareño, Chair



**TEXAS DEPARTMENT OF
HOUSING & COMMUNITY AFFAIRS**
Building Homes. Strengthening Communities.

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
AUDIT COMMITTEE MEETING**

**AGENDA
9:00 AM
NOVEMBER 12, 2015**

**JOHN H. REAGAN BUILDING
ROOM JHR 140, 105 W. 15TH STREET
AUSTIN, TEXAS**

**CALL TO ORDER, ROLL CALL,
CERTIFICATION OF QUORUM**

Leslie Bingham-Escareño
Chair

The Audit Committee of the Governing Board of the Texas Department of Housing and Community Affairs will meet to consider and may act on any of the following:

ITEM 1: Presentation, Discussion, and Possible Action to Approve the Audit Committee Minutes Summary for July 30, 2015

Mark Scott
Director of Internal Audit

ITEM 2: Presentation, Discussion and Possible Action to Approve the Fiscal Year 2016 Internal Audit Work Plan.

Mark Scott
Director of Internal Audit

REPORT ITEMS:

Mark Scott
Director of Internal Audit

- 1. DISCUSSION OF RECENT EXTERNAL AUDIT ACTIVITY**
- 2. DISCUSSION OF INTERNAL AUDITS AND CONSULTING ACTIVITY**
- 3. UPDATE ON THE FRAUD, WASTE AND ABUSE STATISTICS**

PUBLIC COMMENT ON MATTERS OTHER THAN ITEMS FOR WHICH THERE WERE POSTED AGENDA ITEMS.

EXECUTIVE SESSION

The Committee may go into Executive Session (close its meeting to the public) on any agenda item if appropriate and authorized by the Open Meetings Act, Texas Government Code, Chapter 551 and under Texas Government Code, §2306.039.

1. Pursuant to Texas Government Code, §551.074 the Audit Committee may go into Executive Session for the purposes of discussing personnel matters including to deliberate the appointment, employment, evaluation, reassignment, duties, discipline, or dismissal of a public officer or employee.
2. Pursuant to Texas Government Code, §551.071(1) the Committee may go into executive session to seek the advice of its attorney about pending or contemplated litigation or a settlement offer.
3. Pursuant to Texas Government Code, §551.071(2) the Committee may go into executive session for the purpose of seeking the advice of its attorney about a matter in which the duty of the attorney to the governmental body under the Texas Disciplinary Rules of Professional Conduct of the State Bar of Texas clearly conflicts with Texas Government Code, Chapter 551.

4. Pursuant to Texas Government Code, §2306.039(c) the Committee may go into executive session to receive reports from the Department's internal auditor, fraud prevention coordinator, or ethics advisor regarding issues related to fraud, waste or abuse.

OPEN SESSION

If there is an Executive Session, the Committee will reconvene in Open Session and may take action on any items taken up in Executive Session. Except as specifically authorized by applicable law, the Audit Committee may not take any actions in Executive Session.

ADJOURN

To access this agenda and details on each agenda item in the board book, please visit our website at www.tdhca.state.tx.us or contact Mark Scott, TDHCA Internal Audit Director, 221 East 11th Street Austin, Texas 78701-2410, 512.475-3813 and request the information.

Individuals who require the auxiliary aids, services or sign language interpreters for this meeting should contact Gina Esteves, ADA Responsible Employee, at 512-475-3943 or Relay Texas at 1-800-735-2989 at least two (2) days before the meeting so that appropriate arrangements can be made.

Non-English speaking individuals who require interpreters for this meeting should contact Annette Cornier 512-475-3803 at least three (3) days before the meeting so that appropriate arrangements can be made.

Personas que hablan español y requieren un intérprete, favor de llamar a Annette Cornier al siguiente número 512-475-3803 por lo menos tres días antes de la junta para hacer los preparativos apropiados

1

AUDIT COMMITTEE ACTION REQUEST

INTERNAL AUDIT DIVISION

NOVEMBER 12, 2015

Presentation, Discussion and Possible Action on Audit Committee Meeting Minutes Summary for July 30, 2015.

RECOMMENDED ACTION

RESOLVED, that the Audit Committee Meeting Minutes Summary for July 30, 2015 are hereby approved as presented.

MINUTES OF THE AUDIT COMMITTEE
OF THE GOVERNING BOARD OF THE
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

On Thursday, July 30, 2015, at 8:30 a.m. the meeting of the Audit Committee (the “Committee”) of the Governing Board (the “Board”) of the Texas Department of Housing and Community Affairs (the “Department”) was held in the John H. Reagan Building Room JHR 140 at 105 W. 15th Street, Austin, Texas. Tom Gann presided over the meeting and Mark Scott served as secretary. Two members of the Committee were in attendance: Tom Gann, and Tolbert Chisum, which constituted a quorum.

Upon motion of Tolbert Chisum, duly seconded by Tom Gann, the minutes of the April 16, 2015, meeting of the Committee were adopted as presented.

Mr. Mark Scott provided an update on audit activity and described the status of the Internal Audit Work Plan. He requested to omit the Single Family HOME audit, because KPMG is doing an audit of the HOME program as part of the Statewide Single Audit. The HOME audit was replaced by a consulting project related to the evaluation of internal controls and assurance functions at TDHCA, which had been requested by the Board Chair and the Audit Committee Chair.

Upon motion of Tolbert Chisum, duly seconded by Tom Gann, the updated Fiscal Year 2015 Internal Audit Work Plan was approved as presented.

Mark Scott discussed the management letter related to internal controls and assurance functions.

Mark Scott provided an update on external audits, reviews or monitoring activities.

Mark Scott provided an update on reports of suspected fraud, waste, and abuse. The report of the numbers was in an updated chart format. Mr. Gann expressed his appreciation of the new chart format, which he said is informative.

There being no further business to come before the Committee, the meeting was adjourned at 8:45 a.m.

_____ Tom Gann, Vice-Chair

_____ Mark Scott, Audit Committee Secretary

2

AUDIT COMMITTEE ACTION REQUEST

INTERNAL AUDIT DIVISION

NOVEMBER 12, 2015

Presentation, Discussion and Possible Approval of the Fiscal Year 2016 Internal Audit Work Plan

RECOMMENDED ACTION

WHEREAS, the Texas Government Code § 2306.73 (b), the Texas Internal Auditing Act and audit standards require the Department's Governing Board to approve an annual audit work plan that outlines the internal audit projects planned for the fiscal year;

NOW, therefore, it is hereby

RESOLVED, the internal audit work plan for Fiscal Year 2015 is approved as presented.

BACKGROUND

The annual internal audit work plan is required by the Texas Government Code § 2306.73 (b), the Texas Internal Auditing Act (Texas Government Code Chapter 2102) and by the International Standards for the Professional Practice of Internal Auditing (Standards). The plan is prepared by the internal auditor based on an agency-wide risk assessment as well as input from the Department's Governing Board and executive management. The plan identifies the individual audits to be conducted during Fiscal Year 2016. The plan also outlines other planned activities that will be performed by the Internal Audit Division.

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

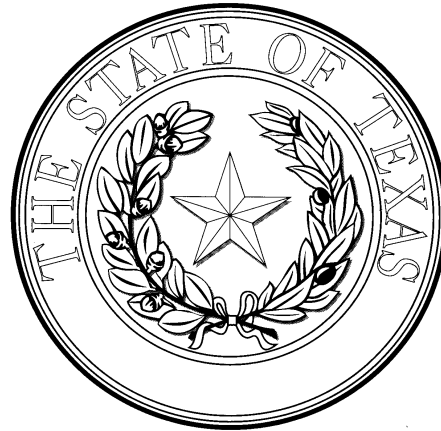
GOVERNING BOARD

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Juan S. Muñoz, PhD, Vice Chair
Leslie Bingham-Escareño
T. Tolbert Chisum
Tom H. Gann
J.B. Goodwin

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Chief Financial Officer
Patricia Murphy
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Deputy Executive Director
Asset Analysis and Management
Brooke Boston
Deputy Executive Director
Fair Housing, Data Management
and Reporting



Fiscal Year 2016 Annual Audit Plan
For Approval by TDHCA Board

November 12, 2015

Office of Internal Audit, P.O. Box 13941
Austin, TX 78711-3941

Fiscal Year 2016 Annual Audit Plan

Internal Audit Director

Mark E. Scott, CPA, CIA, CISA, MBA

Audit Team

M. Betsy Schwing, CPA, CGMA, CFE

Barbara K. Evans

For additional copies, please request "FY 2016 Annual Audit Plan".



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

www.tdhca.state.tx.us

Greg Abbott
GOVERNOR

BOARD MEMBERS

J. Paul Oxer, *Chair*
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Leslie Bingham-Escareño
T. Tolbert Chisum
Tom H. Gann
J.B. Goodwin

Texas Department of Housing and Community Affairs Office of Internal Audit Audit Plan for Fiscal Year 2016

Statutory and Professional Standards Requirement

The Texas Internal Auditing Act (Texas Government Code, §2102.005) requires state agencies to conduct a program of internal auditing. The *International Standards for the Professional Practice of Internal Auditing (IA Standards)* define Internal Auditing as an “independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.”

The Texas Government Code and the *IA Standards* require internal auditors to develop an annual audit plan, using risk assessment techniques, that identifies individual audits to be conducted during the year. The Code requires that the plan be approved by the state agency's governing board or by its administrator, if the agency has no governing board.

The program of internal auditing is carried out by the Office of Internal Audit (OIA) which serves at the direction of the Governing Board. The OIA has prepared this audit plan for consideration and approval by the Governing Board.

Development of the Annual Audit Plan

The Fiscal Year 2016 plan is designed to cover areas of highest risk to the State and the agency; however, it does not cover all risks. TDHCA management should utilize internal controls and other appropriate methodologies to mitigate residual risks not covered by the audit plan.

The annual audit plan was developed using a risk based methodology which included:

- Obtaining management's and the Governing Board's perspectives through surveys and discussions with.
- Consulting with the State Auditor's Office and other oversight bodies.



- Reviewing prior TDHCA meeting minutes, audit report findings and recommendations, and budgetary information.
- Evaluating information about key agency business areas, processes, and systems.
- Considering input from internal audit staff.
- Utilizing a matrix whereby identified auditable units were ranked according to standard risk factors.

The auditor hours available for projects in this plan were computed based on 2,088 total hours per staff member in the 2016 fiscal work year. These hours were reduced by allowances for vacation, holiday, professional development, sick leave, a temporary vacancy, and an allocation for administrative activities required to manage the program of internal auditing.

Projects for Fiscal Year 2016 Annual Audit Plan

We have identified the following projects for inclusion in the 2016 Annual Audit Plan. The project numbers are for identification purposes and may not correspond to the order in which the projects are performed. Also included below is a brief description of functions to be reviewed.

New Audit Projects:

1. Fair Housing

Fair Housing is a section of the Fair Housing, Data Management and Reporting Division of TDHCA. The Federal Fair Housing Act refers to Title VIII of the Civil Rights Act of 1968. This act, in addition to the Texas Fair Housing Act protects the right to rent an apartment, buy a home, obtain a mortgage, or purchase homeowners insurance free from discrimination based on: race, color, national origin, religion, sex, familial status, and disability.

The organizational unit of Fair Housing was selected for audit based on importance to the agency's mission and public interest, among other factors.

2. Real Estate Analysis

Real Estate Analysis is a section of the Asset Analysis and Management Division of TDHCA. The section provides the TDHCA Governing Board and staff with comprehensive analytical reports necessary to make well informed decisions for funding of affordable housing developments.

The Real Estate Analysis section rated high on the risk assessment because it has not undergone audit and because its operations are complex.

3. Compliance Monitoring

The Compliance Division ensures housing program compliance and financial compliance with federal and state regulatory mandates through established oversight and monitoring procedures. Activities include onsite monitoring visits and desk reviews.

The Compliance Division's objectives are achieved through four sections within the division: Contract Monitoring, Compliance Monitoring, Physical Inspections, and Community Affairs Monitoring.

The Compliance Monitoring section is responsible for long-term compliance with the various housing programs administered by the TDHCA. Compliance monitors in this section review necessary records to assure adherence to program requirements and terms of the deed restrictions on multifamily affordable housing properties. Compliance monitors regularly conduct site inspections to verify that the income of tenants and rents charged for housing are at or below limits established by programs such as the Housing Tax Credit, Exchange, Tax Credit Assistance Program (TCAP), HOME, Tax Exempt Bond, HTF, NSP, and Preservation programs. Monitors perform on-site and desk monitoring reviews and collect Annual Owner's Compliance Reports as required under Chapter 2306 of the Texas Government Code. Compliance Monitoring is also responsible for fair housing issues, property compliance training, and public information requests.

The Compliance section rated high on the risk assessment because of its large staff and budget, client impact, and the complexity of its operations.

4. Multifamily Finance Division

This division is responsible for administering and monitoring the Department's Multifamily Mortgage Revenue Bond issues. The Multifamily Finance Division manages all multifamily bond underwriting, analysis, and inducements for the Housing Tax Credit Program, the Multifamily Bond Program, and the Multifamily Direct Loan Program.

This organizational unit ranked high on the risk assessment because of the size of its operating budget, complexity of transactions, and the interest expressed by the legislature, governing board, and management.

5. Federal Housing Tax Credit Program

The TDHCA Housing Tax Credit (HTC) Program is one of the primary means of directing private capital toward the development and preservation of affordable rental housing for low-income households. Tax credits are awarded to eligible participants and provide a source of equity to offset a portion of their federal tax liability in exchange for the production or preservation of affordable rental housing. Investors in qualified affordable multifamily residential developments can use the HTCs as a dollar-for-dollar reduction of federal income tax liability. The value associated with the HTCs allows housing to be leased to qualified families at below market rate rents. There are two types of Tax Credits: Competitive (9%) and Non-Competitive (4%).

The 9% Housing Tax Credit is highly competitive and awarded based on a Regional Allocation Formula (RAF) with additional set asides for developments at risk of losing affordability and subsidy, developments financed through USDA, and those with nonprofit owners. Applications are scored and ranked within their region or set-aside and in accordance with rules and laws outlined in the Qualified Allocation Plan (QAP).

The Non-Competitive (4%) Housing Tax Credit program is coupled with the Multifamily Bond Program when the bonds finance at least 50% of the cost of the land and buildings in the Development. There are a variety of bond issuers in the State from which to select, with some limitations on the location of the development.

This program was selected for audit because of the high level of interest from the development community and intensive competition for the resources that the program provides.

6. Allocation of time for Governing Board and Management Requests

At the time the audit plan is developed, not all audit concerns are known or anticipated. This allocation of time enables the OIA to address concerns that come up during the course of the year.

Carry Over Projects:

Program Income

The Program Income audit will be completed in 2016. The objectives of this audit include the identification of program income and the reconciliations between the organizational units' accounting for program income to the amounts received and recoded by the finance division.

Sources and Uses of Funds

This project covers fiscal operations and other areas of the agency. In addition to providing assurance that TDHCA funds are expended in accordance with legislative intent, this audit project may add utility in that it can bring to light issues that are not directly related to the audit.

Follow-Up Audit Projects:

Federal HOME Program: Follow-up on any issue reported by the current external audit of the program will be completed in 2016.

Payroll Audit (15-004): Follow-up on implementation of the OIA recommendation is scheduled for December 2015. Notification, by the financial services manager, that the OIA recommendation has been implemented was received on September 24, 2015.

Loan Processing Audit (13-1056): Follow-up on implementation of the OIA recommendation is scheduled for December 2015. Notification, by the program services manager, that the OIA recommendation has been implemented was received on September 30, 2015.

Administrative and Statutory Projects:

- Review of TDHCA compliance with appropriation riders and other requirements of the Government Code
- Annual Audit Plan and reporting
- Annual tracking of the implementation status of prior audit recommendations

Consulting Projects and External Audit Coordination

Pursuant to the TDHCA internal audit charter, the OIA performs consulting activities for the agency. For fiscal year 2016, OIA is providing consulting services related to the new Grant Guidance in 2 CFR 200.

OIA also coordinates and advises on external audit activities.

Mark Scott, CPA, CIA, CISA, MBA
Internal Audit Director, TDHCA

REPORT ITEMS

R1

AUDIT COMMITTEE REPORT ITEM

INTERNAL AUDIT DIVISION

NOVEMBER 12, 2015

DISCUSSION OF RECENT EXTERNAL AUDIT ACTIVITY

ORAL PRESENTATION

R2

AUDIT COMMITTEE REPORT ITEM

INTERNAL AUDIT DIVISION

NOVEMBER 12, 2015

DISCUSSION OF INTERNAL AUDITS AND CONSULTING ACTIVITY

ORAL PRESENTATION

R3

AUDIT COMMITTEE REPORT ITEM

INTERNAL AUDIT DIVISION

November 12, 2015

**The Internal Audit Division received
257 complaints of fraud, waste or abuse in Fiscal Year 2015
(as of 8/31/2015)**

228 complaints were received through our Fraud, Waste and Abuse Hotline	17 were related to the Department's programs or staff:	211 (93%) of the allegations were not related to the Department's programs or staff or there was not sufficient information to determine if the allegation related to a Department program or division.
	Tax Credit or Multifamily – 11 HOME – 4 Manufactured Housing – 1 Personnel - 1	
29 complaints were received from other sources	14 were related to the Department's programs:	15 (52%) of the allegations were not related to the Department's programs or staff or there was not sufficient information to determine if the allegation related to a Department program or division.
	Tax Credits - 5 Neighborhood Stabilization Program - 2 Section 8 - 2 HOME - 2 Manufactured Housing - 1 Community Affairs - 1 CSBG - 1	

When possible, complainants were directed to the appropriate entity for assistance, e.g., law enforcement or the respective public housing authority.