

# AUDIT COMMITTEE MEETING

## October 9, 2014



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

**Leslie Bingham-Escareño, Chair**  
Tom H. Gann, Member  
J. Mark McWatters, Member  
M. Betsy Schwing, Secretary of the Committee

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

**AGENDA**

**8:30 a.m.  
October 9, 2014  
John H. Reagan Building  
Room JHR 140, 105 W 15<sup>th</sup> 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 possibly act on the following:

**AGENDA ITEMS**

- Item 1: Presentation, Discussion, and Possible Action on the Audit Committee Meeting Minutes for May 8, 2014
- 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
- Item 3: Presentation, Discussion, and Possible Approval of the Fiscal Year 2015 Internal Audit Work Plan
- Item 4: Presentation and Discussion of the Status of the Fiscal Year 2014 Internal Audit Work Plan
- Item 5: Presentation and Discussion of Recent Internal Audit Reports:
  - a) An Internal Audit of Performance Measures at TDHCA
  - b) An Internal Audit of the Financial Administration Division
- Item 6: Presentation and Discussion of the Status of External Audits, External Reviews and External Monitoring Activity  
An Audit Report on Physical Controls at Selected State Agency Data Centers
- Item 7: Presentation and Discussion of the Status of Prior Audit Issues
- Item 8: Presentation and Discussion of the Status of the Fraud, Waste, and Abuse Hotline and Other Fraud Complaints

**M. Betsy Schwing,  
Acting Director of  
Internal Audit**

**EXECUTIVE SESSION**

**Leslie Bingham-Escareño  
Chair**

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.

**PUBLIC COMMENT ON MATTERS OTHER THAN ITEMS FOR WHICH THERE WERE POSTED AGENDA ITEMS. PUBLIC COMMENT MAY INCLUDE REQUESTS THAT THE COMMITTEE PLACE SPECIFIC MATTERS ON FUTURE AGENDAS FOR CONSIDERATION.**

### **OPEN SESSION**

If there is an Executive Session, the Committee will reconvene in Open Session. Except as specifically authorized by applicable law, the Board 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](http://www.tdhca.state.tx.us) or contact Michael Lyttle 512-475-4542, TDHCA, 221 East 11th Street Austin, Texas 78701-2410, 512-475-3916 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 three (3) days before the meeting so that appropriate arrangements can be made.

Non-English speaking individuals who require interpreters for this meeting should contact Jorge Reyes, 512-475-4577 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 Jorge Reyes al siguiente número 512- 475-4577 por lo menos tres días antes de la junta para hacer los preparativos apropiados.

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**AUDIT COMMITTEE ACTION REQUEST**

**BOARD SECRETARY**

**OCTOBER 9, 2014**

Presentation, Discussion, and Possible Action on the Audit Committee Meeting Minutes Summary for May 8, 2014.

**RECOMMENDED ACTION**

**RESOLVED**, that the Audit Committee Meeting Minutes Summary for May 8, 2014 are hereby approved as presented.

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

**8:00 a.m.  
May 8, 2014  
John H. Reagan Building  
Room JHR 140, 105 W 15<sup>th</sup> Street,  
Austin, Texas**

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

The Audit Committee of the Governing Board of the Texas Department of Housing and Community Affairs was called to order by Chair, Leslie Bingham-Escareño at 8:03 a.m. on May 08, 2014. It was held at the John H. Reagan Building, Room JHR 140, 105 W. 15<sup>th</sup> Street, Austin, TX. Roll call certified a quorum was present.

**Members Present:**

Leslie Bingham-Escareño, Chair  
J. Mark McWatters, Member  
Tom Gann, Member

The Audit Committee of the Governing Board of the Texas Department of Housing and Community Affairs met to consider and possibly act on the following:

**ACTION ITEMS**

- Item 1 Presentation, Discussion, and Possible Action on the Audit Committee Meeting Minutes for January 23, 2014  
**Motion by Tom Gann to approve the Audit Committee Minutes for January 23, 2014; duly seconded by J. Mark McWatters; motion passed.**
  
- Item 2 Presentation and Discussion on the Status of the FY 2014 Internal Audit Work Plan  
**Report only. No action required.**
  
- Item 3 Presentation and Discussion of Recent Internal Audit Reports  
**Report only. No action required.**
  
- Item 4 Presentation and Discussion of the Status of External Audits  
**Report only. No action required.**
  
- Item 5 Presentation and Discussion of Recent External Audit Reports  
**Report only. No action required.**
  
- Item 5 Presentation and Discussion of the Status of Prior Audit Issues  
**Report only. No action required.**
  
- Item 6 Presentation and Discussion of the Status of the Fraud, Waste, and Abuse Hotline and Other Fraud Complaints  
**Report only. No action required.**

**EXECUTIVE SESSION**

**No executive session was held.**

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.

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.

1. 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.
2. 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.
3. 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.

**PUBLIC COMMENT ON MATTERS OTHER THAN ITEMS FOR WHICH THERE WERE POSTED AGENDA ITEMS. PUBLIC COMMENT MAY INCLUDE REQUESTS THAT THE COMMITTEE PLACE SPECIFIC MATTERS ON FUTURE AGENDAS FOR CONSIDERATION.**

**No public comment was received.**

### **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 Board may not take any actions in Executive Session.

### **ADJOURN**

**Motion by Tom Gann to adjourn; duly seconded by J. Mark McWatters, motion passed unanimously. Since there was no other business to come before the board, Chair Bingham-Escareño adjourned at 8:26 a.m. on May 08, 2014.**

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**Prepared by Sandy Donoho, Board Secretary**

*For a full transcript of this meeting, please visit the TDHCA website at [www.tdhca.state.tx.us](http://www.tdhca.state.tx.us)*

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**AUDIT COMMITTEE REPORT ITEM**

**INTERNAL AUDIT DIVISION**

**OCTOBER 9, 2014**

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.

**REPORT ITEM**

The Internal Audit Division has undergone a number of changes since the last audit committee meeting in May 2014.

**Staffing**

The Internal Audit Director retired after 27 years with the State of Texas. A senior auditor resigned to accept a position at another state agency. The Internal Audit Division is now comprised of Derrick Miller and Betsy Schwing. The Department is in the recruitment process to identify a Director of Internal Audit.

**Management's Interest in Consulting Engagements**

The Department's Executive Director has expressed an interest in the Internal Audit Division taking on a more consultative approach in the engagements they perform. Consulting services, as defined by the Institute of Internal Auditors in the *International Professional Practices Framework*, 2013 Edition, are

“advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation, and training”.

The internal auditing standards and Internal Auditing Act require that consulting engagements are performed with care to ensure that:

- the auditors do not impair their objectivity or independence,
- the auditors do not assume management responsibilities,
- the scope, procedures, expectations and deliverable of the non-audit service must be agreed upon and documented prior to commencement of the engagement,
- any deficiencies noted by the auditors must be reported to management and the audit committee,
- if the auditors determine that management has decided to accept an unacceptable level of risk, this information must be reported to the audit committee, and
- Internal Audit summarize the key consulting services and non-audit service observations, results, and recommendations (if applicable) in the annual report to the State Auditor's Office.

Any impairment to an auditor's independence or objectivity while performing consulting services may prevent the auditor from performing future assurance services in the same area. As long as the engagement is carefully planned to satisfy the standards and requirements, the internal auditor can perform the consulting engagement.

Annual Report to the State Auditor's Office

The Texas Government Code Chapter 2102 requires the Department's internal auditor prepare an annual report and submit the report before November 1<sup>st</sup> of each year to the Governor, the Legislative Budget Board, the Sunset Advisory Commission, the State Auditor, the Department's Governing Board and the Department's Executive Director. In accordance with Texas Government Code, Section 2102.009 the annual report for Fiscal Year 2014 is due November 1, 2014. The annual report must include the Fiscal Year 2015 audit work plan approved by the Department's Governing Board.

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**AUDIT COMMITTEE ACTION REQUEST**  
**INTERNAL AUDIT DIVISION**  
**OCTOBER 9, 2014**

Presentation, Discussion and Possible Approval of the Fiscal Year 2015 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 2015. The plan also outlines other planned activities that will be performed by the Internal Audit Division.

Texas Department of Housing and Community Affairs  
Internal Audit Division  
Fiscal Year 2015 DRAFT Audit Plan<sup>1</sup>

Activity/Program/Division	Estimated Hours	Comments
<b>FY2015 Proposed Audit Projects (estimated hours 1,925)</b>		
Program Income	900	The specific project objective(s) and scope will be determined by the detailed assessment of relative risks identified during the project planning process.
Payroll	800	
Record Retention Process	175	
Management Requests or Special Projects	50	
<b>FY2014 Carry Over Project (estimated hours 550)</b>		
HOME Program - Single Family	550	The specific project objective(s) and scope will be determined by the detailed assessment of relative risks identified during the project planning process.
<b>Internal Audit Requirements and Responsibilities (estimated hours 1,100)</b>		
Administration of the Fraud Hotline, Tracking, Follow Up and Disposition of Fraud Complaints	260	Internal Audit is responsible for the Fraud Hotline and reviewing allegations of fraud, waste and abuse
Prior Audit Issues Tracking, Follow-Up and Disposition	240	Required by the Audit Standards
Annual Risk Assessment and Audit Plan Development	180	Required by the Audit Standards and the Texas Internal Auditing Act
Continuing Professional Education and Staff Development	180	Required by the Audit Standards
Quality Assurance Self-Assessment Review	80	Required by the Audit Standards
Coordination with External Auditors and Oversight Agencies	80	Ongoing requirement
Preparation and Submission of the Annual Internal Audit Report	60	Required by the Texas Internal Auditing Act
Annual Review and Revision of Internal Audit Charter	20	Required by the Audit Standards

<sup>1</sup> The audit plan is a dynamic document that may change during the fiscal year as circumstances change. Requests from management, changes in audit resources and changes in the agency's organization or operations could result in changes to the plan. Significant changes will be presented to management, the Audit Committee and the Governing Board for review and approval.

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**AUDIT COMMITTEE REPORT ITEM**

**INTERNAL AUDIT DIVISION**

**OCTOBER 9, 2014**

Presentation and Discussion of the Status of the Fiscal Year 2014 Internal Audit Work Plan.

**REPORT ITEM**

The Internal Audit Work Plan for Fiscal Year 2014 was approved by the Department's Audit Committee and by the Governing Board on September 13, 2013. This presentation outlines the current status of the plan.

**BACKGROUND**

Six audits are on the Fiscal Year 2014 work plan as well as one contingency audit. We have completed six of these audits and released the audit reports for each of the six. We will discuss the recently released internal audit reports under agenda item #5.

The audit of the HOME Division has been postponed until January 2015. The HOME Division audit is our carry-over project from the FY 2014 audit plan.

We also completed two of the non-audit activities on the plan. These are the Quality Assurance Self-Assessment Review of audit projects conducted during Fiscal Year 2013 and the Annual Review and Revision of the Internal Audit Charter. The remaining non-audit project to complete is the preparation of the Fiscal Year 2015 audit plan, which will be completed upon approval of the audit plan. All other non-audit projects in the Fiscal Year 2014 audit plan are ongoing by nature.

**Department of Housing and Community Affairs  
Internal Audit Division – Fiscal Year 2014 Internal Audit Plan  
as of October 9, 2014**

<b>Program Area/Division</b>	<b>Audit</b>	<b>Hours (4620)</b>	<b>Comments</b>
Single Family	HOME Program	800	Postponed until January 2015
Mfg. Housing	Titling Process	900	Completed
Community Affairs	Low Income Home Energy Assistance Program (LIHEAP)	900	Completed
Agency-wide	Ethics Program	180	Completed
Financial Administration	Financial Administration	800	Completed
Housing Trust Fund	Amy Young Barrier Removal Program	500	Completed
Agency-wide	Performance Measures	540	Completed
<b>Program Area/Division</b>	<b>Management Assistance/ Special Projects</b>	<b>Hours (750)</b>	<b>Comments</b>
Internal Audit	Quality Assurance Self-Assessment Review of Fiscal Year 2013 projects	120	Completed
Internal Audit	Conduct Annual Risk Assessment and Prepare Fiscal Year 2015 Audit Plan	160	Risk Assessment is complete. Fiscal Year 2015 Audit Plan has been drafted. It will be presented for consideration at the October 9 <sup>th</sup> Audit Committee Meeting.
Internal Audit	Annual Review and Revision of Internal Audit Charter	20	Completed
Internal Audit	Preparation and Submission of the Fiscal Year 2014 Annual Internal Audit Report	40	Required by the Texas Internal Auditing Act, Due Each November
Internal Audit	Coordinate with External Auditors	60	Ongoing Requirement
All Divisions	Follow-up on the Status of Prior Audit Issues	100	Ongoing - Required by Audit Standards
All Divisions	Tracking the Status of Prior Audit Issues	50	Ongoing - Required by Audit Standards
All Divisions	Tracking, Follow-up and Disposal of Fraud Complaints	200	Ongoing - Internal Audit is Responsible for the Fraud Hotline and for Reviewing Fraud Complaints

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**AUDIT COMMITTEE REPORT ITEM**

**INTERNAL AUDIT DIVISION**

**OCTOBER 9, 2014**

Presentation and Discussion of Recent Internal Audit Reports.

**REPORT ITEM**

Internal Audit completed two audits since the last audit committee meeting. Both of these projects were part of the Fiscal Year 2014 audit plan.

**BACKGROUND**

**An Internal Audit of the Performance Measures at TDHCA**

The Department reported reliable results to the Legislative Budget Board for all five key performance measures tested. A performance measure result is considered reliable if it is certified or certified with qualification.

Two of the measures we tested were certified with qualification because the methodology used to calculate the results was not strictly followed. A measure is certified with qualification when the calculation of performance deviates from the measure definition but the deviation caused less than a 5 percent difference between the number reported to the Legislative Budget Board and the correct result. Management has already implemented changes to adhere to the methodologies for these two measures. The other three measures we tested were certified.

No issues were found in the internal controls over the performance measure process.

**An Internal Audit of the Financial Administration Division**

The operating budgets developed by the Financial Administration Division are in alignment with anticipated funding and estimated expenditures. With very few exceptions, the Department records, posts, and deposits housing finance revenue payments accurately and timely. Of the 34 housing finance revenue payments we tested, two (5.9%) were not deposited by the third business day after the date of receipt as required by the Texas Comptroller of Public Account's Office. These two deposits were one day and three days late, respectively.

We did recommend that the Division further enhance their internal controls by fully documenting the procedures for processing housing finance revenue payments and that those procedures be reviewed and approved by Division management. Management agrees and has set a target date for implementation by February 1, 2015.

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# *An Internal Audit of Performance Measures at TDHCA*

## **Executive Summary**

The Texas Department of Housing and Community Affairs (Department) reported reliable results for all five key performance measures tested. A performance measure result is considered reliable if it is certified or certified with qualification.

We selected five of the Department's key measures to test. A key measure is a performance measure that the Legislative Budget Board (LBB) has designated as such and is closely related to the goals identified in the statewide strategic plan.

Two of the key measures we tested were certified with qualification:

- Percent of Households/Individuals Assisted, and
- Number of Households Assisted with Single Family HOME Funds.

The measure "Percent of Households/Individuals Assisted" addresses the extent to which services are provided by all housing programs and calculates the level of services provided compared to the need. The Department's calculation methodology uses the current fiscal year's reported number of assisted households but uses the amount of the prior fiscal year's committed funds to determine the number of households served in each income group. For example, the Department determined the number of households assisted in each income group for fiscal year 2013 based on the funds committed for assistance in fiscal year 2012.

The "Number of Households Assisted with Single Family HOME Funds" is measured by the number of loans funded in the Department's Housing Contract System (HCS). The HOME Division considers an activity funded when the HOME Division and the Department's Program Services Division have approved the activity. However, the HOME Division uses a query to count the number of funded loans based on the status of the Accounting Division's approval of the activity. In addition, the HOME Division does not adjust for activities that were approved but subsequently canceled before assistance was provided to a household.

Three of the key measures we tested were certified:

### **Performance Measures**

Performance measures are defined by the Legislative Budget Board (LBB) and relate to program performance and operational efficiency. They serve several purposes:

- They are monitoring tools to help guide government and make state agencies accountable to the taxpayers.
- They indicate how progress toward agency goals and objectives is measured.
- They are used by decision-makers when allocating resources and determining appropriation levels.
- They are intended to help focus an agency's efforts on achieving priority goals and objectives.

All state agencies must submit their performance measure data to the LBB. Different classifications of measures have different submission requirements. For example, output and efficiency measures must be submitted quarterly and outcome and explanatory measures must be submitted annually.

*An Internal Audit of Performance Measures at TDHCA*

- Number of Persons Assisted through Homeless and Poverty-related Funds,
- Total Number of Reviews of Local Administrators, and
- Number of Households Assisted with Multifamily HOME Funds.

Though the first two measures above contained minor errors in one quarter, the impact on each measure was less than 5 percent of the total reported. These minor errors do not appear to be caused by inadequate controls over data collection, calculation, or reporting. The third certified measure above contained no errors.

No issues were found in the internal controls over the performance measure process. Controls over the performance measure reporting process include: performance measure data reviews by division performance measure liaisons and division directors, comparison of data entered into the Automated Budget and Evaluation System of Texas (ABEST) with the Department's own performance measures database, and draft report review and comments by executive management before final submission to the Legislative Budget Board.

The Department's standard operating procedures for performance measure reporting only exist in draft form. The State Auditor's Office in their *Guide to Performance Measure Management* indicate that an agency should clearly document all steps performed in the collection, calculation, review, and reporting of the performance measure data in its written policies and procedures.

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## Detailed Results

### Chapter 1

## The Percent of Households/Individuals Assisted is not Based on the Funds Used to Assist Those Households

Although the Department's key outcome performance measure "Percent of Households/Individuals Assisted" reported reliable results, it was certified with qualification because it was not calculated using the correct methodology.

According to the State Auditor's Office in their *Guide to Performance Measure Management*, a measure is certified with qualification when the agency's calculation of performance deviates from the measure definition but the deviation caused less than a 5 percent difference between the number reported to the Automated Budget and Evaluation System of Texas (ABEST) and the correct performance measure results. A measure's results are considered reliable if the measure is certified or certified with qualification.

This key outcome measure addresses the extent to which services are provided by all housing programs and calculates the level of service provided compared to the need. The housing programs included in this measure are: the Housing Trust Fund, HOME, Section 8, Housing Tax Credit, Single Family Bond, and Multifamily Bond programs.

The Department's methodology calculates the number of households assisted for each income group – very low, low, and moderate income – based on the amount of funds committed to assist each group for the year. However, the calculation methodology uses the current fiscal year's reported number of assisted households but uses the amount of the prior fiscal year's committed funds. For example, for fiscal year 2013, the Department's calculation for this measure used the year-end total number of assisted households reported by each housing program's respective fiscal year 2013 performance measures, and the amount of committed funds reported in the fiscal year 2013 State of Texas Low Income Housing Plan and Annual Report (SLIHP). However, the committed funds reported in the fiscal year 2013 SLIHP are the amounts actually committed in fiscal year 2012.

In addition, the Department's other outcome measures for each income group (very low, low, and moderate income) use the same methodology. These individual income group measures were not included in the audit testing. However, using the prior year's funds to determine the amount of assistance provided to the current year's households may result in the Department reporting skewed numbers for these measures as well.

### Recommendation

The Department should calculate the "Percent of Households/Individuals Assisted" using a methodology that includes current income data.

**Management's Response**

Management agrees with the recommendation and will make the necessary changes to ensure that the fiscal year used for income category distributions are consistent with the fiscal year used for the total unit/individual data. This adjustment will be applied not only to the measure "Percent of Households/Individuals Assisted" but for any other identified outcome measures using this methodology for income stratification. David Johnson will make the necessary changes to the methodology. Methodological changes will occur by July 1, 2014. Because the LBB's schedule for reporting this measure is only annually the evidence of these changes will not be seen until September of 2014.

These changes will not require a change to the LBB-approved definition of the measure but does require notification to the LBB as the methodological changes will affect the figure reported each State Fiscal Year.

Responsible person: David Johnson

Date: July 1, 2014

Chapter 2

## Calculation of the Single Family HOME Measure Is Not Based on Consistent Criteria

The Department's key output measure "Number of Households Assisted with Single Family HOME Funds" was certified with qualification. According to the State Auditor's Office in their *Guide to Performance Measure Management*, a measure is certified with qualification when the agency's calculation of performance deviates from the measure definition but the deviation caused less than a 5 percent difference between the number reported to ABEST and the correct performance measure result.

This single family HOME key measure tracks the number of households assisted with single family HOME funds. The number of households is measured by the number of loans funded in the Department's Housing Contract System.

The measure's definition does not specify when a loan is considered funded. The HOME Division considers a loan funded when the HOME Division and the Department's Program Services Division have both approved the activity. The remaining approval in the Housing Contract System is made by the Accounting Division which is not responsible for determining program eligibility or reviewing program applications.

However, the HOME Division uses a query to count the number of funded loans based on the Accounting Approval status, not the HOME Division and Program Services Division approval status. In addition, the HOME Division does not factor into the performance measure data any activities that were approved but subsequently canceled before assistance was provided to a household.

We recalculated the number of funded loans using the HOME Division and Program Services Division approval date and subtracted any canceled activities. We compared the recalculated results to the actual performance reported in ABEST for the first and second quarters of fiscal year 2014. The 251 activities reported in the first quarter of fiscal year 2014 were overstated by 3 (1.2%) and the 135 activities reported in the second quarter were understated by 4 (3.0%).

### **Recommendation**

The Department should follow the performance measure's definition when counting the "Number of Households Assisted with Single Family HOME Funds."

### **Management's Response**

Management agrees with the recommendation and has already implemented the necessary changes. The referenced query now appropriately uses the Program Services approval date instead of the Accounting approval date to properly consider a loan funded. Staff will also re-query previous quarters within the State Fiscal Year to ensure that any loans cancelled or terminated are accounted for by adjusting the previously reported figures.

*Chapter 3*

## Three Key Measures Were Certified

Three of the five key measures we tested reported reliable results and were certified:

- Number of Persons Assisted through Homeless and Poverty-related Funds,
- Total Number of Reviews of Local Administrators, and
- Number of Households Assisted with Multifamily HOME Funds.

According to the State Auditor's Office in their *Guide to Performance Measure Management*, a measure is certified if reported performance is accurate within 5 percent and if it appears that there are controls in place to ensure accuracy over collecting and reporting the performance data. A measure's results are considered reliable if the measure is either certified or certified with qualification.

Though two of the three measures above contained minor errors in one quarter, the impact on each measure was less than 5 percent of the total reported. In addition, these minor errors did not appear to be caused by inadequate controls over data collection, calculation, or reporting.

The "Number of Persons Assisted through Homeless and Poverty-related Funds" is calculated as the sum of persons assisted through the Community Services Block Grant ("CSBG"), Emergency Solutions Grant ("ESG") and Homeless and Housing Services Program ("HHSP") as reported in contract administrators' monthly performance reports. We selected a sample of contracts that covered 189,486 (69.5%) of the 272,591 persons reportedly assisted by homeless and poverty-related funds in the first two quarters of fiscal year 2014. We verified that the number of persons reported monthly by the contract administrators accurately matched the number of persons reported by the Department.

The "Total Number of Reviews of Local Administrators" is the number of monitoring reviews conducted as part of contract monitoring in the Compliance Division. This measure counts the actual number of local administrators reviewed, even though an administrator may administer more than one contract. We tested 15 (15.8%) of the 95 reviews reported as of the end of the second quarter of fiscal year 2014. We reviewed monitoring reports and the sign-off dates of the monitoring procedures to verify when the monitoring took place.

The Department's key output measure "Number of Households Assisted with Multifamily HOME Funds" was certified. This measure tracks the number of households assisted with multifamily HOME funds. It is calculated as the sum of all restricted units awarded HOME funds for rental development. We tested four multifamily projects that accounted for 73 (44.8%) of the 163 total HOME units reported through the end of the second quarter of fiscal year 2014. Every project tested had supporting documentation and board approved funding commitments for the same number of HOME units as reported in ABEST. In addition, the projects were reported in ABEST for the same quarter in which they received board approval.

*Chapter 4*

## **The Department's Procedures for Performance Measure Reporting are not Finalized**

The Department's standard operating procedures for performance measure reporting only exist in draft form. The State Auditor's Office in their *Guide to Performance Measure Management* asserts that an agency should clearly document all steps performed in the collection, calculation, review, and reporting of the performance measure data in its written policies and procedures.

Management indicated that finalizing these policies and procedures was postponed to allow time for the staff currently responsible for reporting performance measures to go through the entire performance measure process and incorporate future automated processes into the final versions. Written policies and procedures can help the Department ensure consistency when collecting, reviewing, and reporting performance measures to the Legislative Budget Board.

### **Recommendation**

The Department should finalize its draft policies and procedures for performance measure reporting.

### **Management's Response**

Management agrees with the recommendation. The SOP was finalized on July 1, 2014.

## **Appendix A**

### **Objectives**

The objectives of the audit were to determine if the Department:

- is accurately reporting its performance measures to the Automated Budget and Evaluation System of Texas (ABEST), and
- has adequate control systems in place over the collection, calculation, and reporting of its performance measures.

### **Scope**

The scope of this audit was five key performance measures reported to the Legislative Budget Board by the Department for fiscal year 2013 through the end of the second quarter of fiscal year 2014, depending on whether the measure was reported annually or quarterly. The five performance measures evaluated were:

- Percent of Households/Individuals Assisted,
- Number of Households Assisted with Single Family HOME Funds,
- Number of Households Assisted with Multifamily HOME Funds,
- Number of Persons Assisted Through Homeless and Poverty-Related Funds, and
- Total Number of Reviews of Local Administrators.

### **Methodology**

We audited the reported results of the selected measures for accuracy and for compliance with the performance measure definitions. This included recalculating each measure using the original data. We also evaluated the Department's internal controls over the tracking, compilation, calculation, and reporting of these measures.

In addition, we assessed the reliability of the data obtained from the Department's information systems and used to track and compile the results of these measures. This included examining the queries used to extract the data from the Department's automated systems and examining the formulas in the spreadsheets used to track the data. We compared hard copy files to the electronic data in the applicable systems. We relied on previous internal and external audit results for the application controls of the systems housing the applicable data. The systems or software housing performance measure data include the Housing Contract System, Community Affairs Contract System, MITAS (used for tracking Bootstrap loan data), HAPPY (used for Section 8 data) and E-Housing (used for the single family bond program.)

Specifically, we collected and reviewed the following information:

- Performance measure data in spreadsheets and applicable software systems.

## *An Internal Audit of Performance Measures at TDHCA*

- Reports and queries generated from the applicable software systems.
- The Department's internal policies and procedures over performance measure reporting.
- The Department's performance measure results as reported in ABEST.

We conducted the following procedures and tests:

- Conducted interviews of staff regarding the processes used to collect data, calculate results and report on the selected performance measures.
- Reviewed prior internal and external audit reports regarding the applicable information systems.
- Evaluated the methodology for calculating the results of the selected performance measures and compared these methodologies to the Legislative Budget Board's ABEST definitions for each measure.
- Reviewed the queries used to obtain the automated data and the spreadsheet formulas used to track and calculate the data maintained in Microsoft EXCEL.
- Evaluated the results of the selected performance measures and assigned them to the following categories based on the criteria in the State Auditor's Office's *Guide to Performance Measure Management*: certified, certified with qualification, inaccurate and factors prevent certification. As required, a measure was considered reliable if it was certified or certified with qualification.

### **Criteria**

The following documents were used as criteria:

- Performance Measure Definitions in ABEST including the definition, data source, methodology, and purpose.
- *Guide to Performance Measure Management* (State Auditor's Office Report #12-333, March 2012.)
- The Department's policies and procedures for performance measures reporting.

### **Type of Audit**

This audit was a performance audit of the Department's performance management system.

### **Report Distribution**

As required by the Texas Internal Auditing Act (Texas Government Code, Chapter 2102), this report is distributed to the:

- Texas Department of Housing and Community Affairs' Governing Board
- Governor's Office of Budget and Planning
- Legislative Budget Board

*Texas Department of Housing and Community Affairs – Internal Audit Division*  
*July 2014*

*Report #14-1064*

- State Auditor's Office
- Sunset Advisory Commission

### **Project Information**

We conducted audit fieldwork from May 2014 through June 2014. We conducted this performance audit in accordance with *Generally Accepted Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This audit was also conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

The following staff performed this audit:

- Derrick Miller

### **Appreciation to Staff**

We would like to extend our sincere appreciation to management and staff of the Department for their cooperation and assistance during the course of this audit.

5b



## TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

[www.tdhca.state.tx.us](http://www.tdhca.state.tx.us)

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September 23, 2014

*Writer's direct phone #512.936.7580*  
*Email: [betsy.schwing@tdhca.state.tx.us](mailto:betsy.schwing@tdhca.state.tx.us)*

RE: AN INTERNAL AUDIT OF THE FINANCIAL ADMINISTRATION DIVISION (REPORT #14-1063)

To: The Audit Committee and the Governing Board of the Texas Department of Housing and Community Affairs

The Internal Audit Division has completed its audit of the Texas Department of Housing and Community Affairs' (Department's) Financial Administration Division (Division). The objectives of this audit were to determine if the operating budgets developed are aligned with anticipated funding and estimated expenditures, and if housing finance revenue received is recorded, posted and deposited accurately and timely. We found that the operating budgets developed by the Financial Administration Division are in alignment with anticipated funding and estimated expenditures. We found that, with very few exceptions, the Department records, posts, and deposits housing finance revenue payments accurately and timely.

### Operating Budget

The Financial Administration Division's Financial Services Section (Financial Services) develops the Department's operating budget. In preparing the Department's annual operating budget, Financial Services reviews the prior year's budget and monthly expenditure reports, performs a fixed cost analysis, and obtains each division's budget requests. The draft budget may undergo multiple revisions based on division feedback and available funding. The final draft budget is reviewed by the Department's executive team, the Department's board chair and executive director before it is presented to the Department's governing board for approval. The Division presents the budget for approval at a public board meeting.

We interviewed and observed Financial Services staff members charged with developing the operating budget, and reviewed documentation and data they rely upon to develop the budget. We also analyzed responses received from 19 of 26 (73.1%) division managers and directors we surveyed to solicit their feedback on the budget process. Eighteen of those respondents indicated that they have some responsibility or involvement in their division's budgeting process.

Explicit criteria for the creation of the Department's operating budget are not defined by state or federal regulations. Best practices were identified for evaluating Financial Services' budget development



process. These best practices were discussed with and agreed upon by management. The agreed-upon best practices include employing sound methodology, using reasonable assumptions, using the best data available, and obtaining feedback from stakeholders. We determined the following:

- *Financial Services employs sound methodologies when developing the budget.* Allocations of fixed costs are based on each division's number of full time equivalent (FTE) positions, financing is based on the available funding, and the requested costs submitted by the division's are considered when developing the operating budget.
- *Financial Services makes reasonable assumptions during the budget development process.* The previous year's activity is assumed to be a reasonable baseline for developing the next year's budgets. If feedback is not received from a respective division, it is assumed that the division has no objections or further input for the budget. Requested costs are submitted by the divisions on the assumption that each division is best suited to determine their own funding needs for operation.
- *Financial Services uses the best available data to develop the budget.* Financial Services uses the prior year's budgets, historical expenditures, and estimated expected revenue information available to develop budgets. Survey respondents indicated that they most frequently use the prior year's operating budget and historical and estimated expenditure information when compiling information in the operating budget's preparation.
- *Financial Services obtains feedback from budget stakeholders.* Financial Services receives requested costs prepared and submitted by the divisions in preparing the budget. Every division is provided access to the draft budgets with opportunity to provide feedback. The Department's board chair and executive management review the draft budget before it is presented to the governing board for approval.
- *Budgets are periodically compared to actual activity.* Financial Services reviews and posts monthly management reports of budgeted funds compared to actual year-to-date expenditures for each division. All divisions have access to these reports. Fifteen (83.3%) of the 18 survey respondents indicated that they compare budgets to actual activity. Twelve of those 15 indicated that they make the budget-to-actual comparisons quarterly and/or monthly.

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Based on our understanding of the budget development process and the feedback from survey respondents, we concluded that Financial Services employs best practices when developing the budget.

### **Housing Finance Revenue**

The Department had \$14,288,608 in appropriated housing finance revenue receipts in FY 2013 and \$14,871,552 in appropriated housing finance revenue receipts in FY 2014. Housing finance revenue includes annual compliance fees for the Department's multifamily property monitoring, housing tax credit program administration fees, asset management fees and bond administration fees. Texas Government Code §2306.118 requires that the Department deposit housing finance revenue with the Texas Treasury Safekeeping Trust Company (TTSTC).

The Department receives housing finance revenue by check payments through the mailroom or by direct wire transfer to TTSTC. The Division is responsible for processing housing finance revenue payments received by the Department. The Division enters the payment information into the Department's accounting system and prepares the checks for deposit to the Department's designated TTSTC bank accounts.

The Division has multiple controls in place to establish custody of the checks by each staff member as the checks are processed and to verify that all checks delivered to the Division are deposited. Each Division staff member signs for receipt of checks on the physical cash receipts log that accompanies the checks. The Division compares the electronic Cash Receipts System to the signed cash receipts log on a monthly basis to verify all checks delivered to the Division were deposited. All check and wire transfer payments received are reconciled monthly by an accountant who is not responsible for receiving, posting, or depositing housing finance revenue payments. The accountant performs the reconciliation between the monthly TTSTC bank statements, the Department's accounting system, and the deposits' backup documentation maintained by the Division.

We tested a judgmental sample of 34 housing finance revenue payments received by the Department from September 1<sup>st</sup> of state fiscal year 2013 through May 31<sup>st</sup> of fiscal year 2014. We found that all 34 (100%) transactions were posted to the Department's accounting system, recorded in the cash flow statements, and deposited in the Department's TTSTC accounts accurately. We identified two (5.9%) transactions that were not deposited by the third working day after the date of receipt as required by the Texas Comptroller of Public Account's Office. One deposit was posted after the TTSTC daily cutoff time for deposits and was deposited the next business day, causing it to be one day late. The other deposit was three days late due to training of new staff on payment posting process.

The Division has controls to maintain and monitor the timeliness of deposits. Financial Services has designated backup staff members to perform payment processing functions in the absence of a primary staff member. The Financial Services Team Leader reviews all payments recorded in the Cash Receipts System monthly to identify late deposits and their causes and reports the causes to the Financial Services Manager.

The Division has not fully documented the housing finance revenue payment processing procedures. Individual staff members have developed steps for performing their assigned responsibilities. However, ~~the complete procedures for payment posting and deposit preparation are not formally documented by management.~~ Without formally documented procedures there is a risk that staff may not carry out duties in the manner intended by Division management.

#### RECOMMENDATIONS:

- The Financial Administration Division should continue their efforts to minimize the occurrence of late deposits and meet the three day deposit timeline required by the Comptroller.
- The Financial Administration Division should fully document the procedures for processing housing finance revenue payments. The documented procedures should be reviewed and approved by Division management.

**MANAGEMENT'S RESPONSE:**

*The Financial Administration Division will continue their efforts to minimize the occurrence of late deposits and meet the three day deposit timeline required by the Comptroller. Any instances in which the three day timeline cannot be met will continue to be properly documented.*

*Person Responsible: Jose Guevara Target Date for Implementation: October 1, 2014*

*Management agrees with the recommendation that a comprehensive and documented standard operating procedure (SOP) related to the processing of checks will strengthen its internal controls. At this point, the procedure is segmented and documented by various accountants primarily in the form of a procedural manual. Management and staff will actively evaluate its procedural manuals and create a new comprehensive SOP. The new SOP will be reviewed and approved by senior management within Financial Administration. Management expects to have it compiled and approved by no later than 2/1/15.*

*Person Responsible: Jose Guevara Target Date for Implementation: February 1, 2015*

**Audit Scope and Methodology**

The audit scope for operating budget evaluation was fiscal years 2013, 2014 and 2015. The audit scope for testing housing finance revenue processing was fiscal years 2013 and 2014. Our methodology consisted of interviewing individuals involved in developing operating budgets and processing payments, reviewing documentation, observing budgeting and payment processing activities, evaluating budget activities and budgeting data, comparing the Department's budgeting processes to best practices, surveying Department employees involved in the operating budget development, evaluating payment processing, testing housing finance revenue received and deposited.

This audit was conducted as part of our fiscal year 2014 internal audit plan. We conducted our fieldwork from June through August 2014. We conducted this performance audit in accordance with *Generally Accepted Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This audit was also conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

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We would like to extend our sincere thanks to the management and staff of the Financial Administration Division for their cooperation and assistance during the course of this audit.

Sincerely,



M. Betsy Schwing, CPA, CFE, CGMA  
Acting Director of Internal Audit

mbs/ddm

cc: Tim Irvine, Executive Director  
David Cervantes, Chief Financial Officer

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**AUDIT COMMITTEE REPORT ITEM**

**INTERNAL AUDIT DIVISION**

**OCTOBER 9, 2014**

Presentation and Discussion of the Status of External Audits, External Reviews and External Monitoring Activity.

**REPORT ITEM**

The State Auditor's Audit Report on Physical Controls at Selected State Agency Data Centers was released in August 2014.

There are two external audits and two monitoring activities in progress.

**BACKGROUND**

**The State Auditor's Audit Report on Physical Controls at Selected State Agency Data Centers:**

The State Auditors performed a review of the physical controls over the data centers for four state agencies including the Texas Department of Housing and Community Affairs (TDHCA). Auditors identified opportunities for each agency to improve processes for managing physical access to their data centers. The auditors' recommendations for TDHCA are as follows:

- a) TDHCA should define the job titles or roles of its personnel who require access to its data center.
- b) TDHCA should also implement a process that includes a comprehensive review of all personnel with access to its data center, including employees and contractors of other state agencies.

The Department has implemented both of these recommendations.

The State Auditor's stated that TDHCA had processes in place to manage electronic access to the data centers for their own employees and contractors. In addition, TDHCA had adequate environmental controls to protect the data center from environmental threats such as fire and floods.

To minimize the risk of public disclosure, detailed findings and recommendations were not included in the publicly available limited-use report. Pursuant to Standard 7.41 of the U.S. Government Accountability Office's *Government Auditing Standards*, the findings identified were deemed to present potential risks to public safety and the security of critical network infrastructure and private or confidential data. As such, the detailed findings and recommendations are considered confidential and were excluded from this publicly available report.

**Status of external audits, reviews or monitoring activities in progress:**

Entity	Description	Stage	Comments
SAO	<p>AUDIT</p> <p>Annual Opinion Audits:</p> <ul style="list-style-type: none"> <li>▪ Basic Financial Statements</li> <li>▪ Revenue Bond Program Enterprise Fund Financial Statements</li> <li>▪ Computation of unencumbered fund balance</li> <li>▪ Financial Data Schedule</li> </ul> <p>AGREED UPON PROCEDURES:</p> <p>Report on agreed upon procedures for comparing the Financial Data Schedule to related hard copy documents, including the information the Department submits to the Real Estate Assessment Center</p>	Planning	
KPMG	<p>AUDIT</p> <p>Audit of Community Services Block Grant (CSBG) for the State of Texas Single Audit</p>	Fieldwork	Exit conference is expected in January 2015
HUD	<p>MONITORING</p> <p>In-depth monitoring of compliance with environmental review procedures</p>	Fieldwork	Report expected at the end of October 2014
HUD	<p>MONITORING</p> <p>On-site monitoring of the Emergency Shelter Grants Program</p>	Reporting	TDHCA received the results of the on-site monitoring on 8/8/14. TDHCA provided responses to HUD on 9/5/14.



John Keel, CPA  
State Auditor

An Audit Report on  
**Physical Controls at Selected  
State Agency Data Centers**

August 18, 2014

Members of the Legislative Audit Committee:

Auditors performed a review of the physical controls over the data centers for the Texas Legislative Council (TLC), the Office of the Comptroller of Public Accounts (Comptroller), and the Texas Department of Housing and Community Affairs (TDHCA), which are located within the Capitol Complex, and the data center for the Texas Commission on Environmental Quality (TCEQ), which is located outside the boundaries of the Capitol Complex (see text box). All four agencies that housed the data centers audited had processes in place to manage electronic access to the data centers for their own employees and contractors. In addition, all four agencies had adequate environmental controls to protect their data centers from environmental threats such as fire and flood. However, each agency had opportunities to strengthen elements of the physical controls over its data center.

**Capital Complex**

The **Capitol Complex** is the state-owned property in Austin, Texas (including the Capitol and Capitol Extension) within the area bounded on the north by Martin Luther King, Jr. Boulevard; bounded on the east by Trinity Street; bounded on the south by 10th Street; and bounded on the west by Lavaca Street.

Source: Texas Government Code, Section 443.0071.

Access to three of the four audited agencies' data centers is managed by the Department of Public Safety (DPS) and/or the Texas Facilities Commission (TFC). The Comptroller manages all electronic access to its data center. While DPS and TFC both have processes and controls to manage physical access to state-owned buildings and the data centers within them, auditors identified significant weaknesses that should be addressed:

- DPS and TFC both interpret the Texas Government Code as providing them the statutory responsibility to ensure physical security and the statutory authority for unfettered access to all areas of state-owned property within the Capitol Complex. While TFC recognizes DPS's authority for managing physical security for other state agencies within the Capitol Complex, TFC has recently begun to independently manage physical access for its employees and contractors, with the exception of physical access to the Capitol, Capitol Extension, and several immediately surrounding buildings. However, DPS and TFC do not have a written agreement to define each agency's roles and responsibilities pertaining to the management of physical access within the Capitol Complex.
- TFC's *Tenant Manual* generally defines TFC's responsibilities and the tenant agencies' responsibilities related to security, operations, services, building rules, and emergency procedures for the state-owned buildings under TFC's purview. However, the *Tenant Manual* does not specifically define TFC's and tenant agencies' responsibilities for physical controls related to state agency data centers.

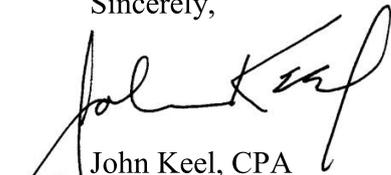
Auditors also identified opportunities for the four audited agencies to improve their processes for managing physical access to their data centers. Specifically:

- TLC should clearly define its process for managing electronic access cards for its employees and contractors and define the job titles or roles of its personnel who require access to its data center. TLC should also implement a process that includes a comprehensive review of all personnel with access to its data center, including employees and contractors of other state agencies.
- TDHCA should define the job titles or roles of its personnel who require access to its data center. TDHCA should also implement a process that includes a comprehensive review of all personnel with access to its data center, including employees and contractors of other state agencies.
- TCEQ should define the job titles or roles of its personnel who require access to its data center and retain documentation as evidence of its reviews of electronic access to its data center, including the employees and contractors of other state agencies. TCEQ should also strengthen its process to ensure that it removes the access of former employees and contractors in a timely manner.
- The Comptroller should strengthen its processes to ensure that its review of electronic access includes all levels of access to its data center, that it removes the access of former employees and contractors in a timely manner, and that it retains copies of all physical access authorization forms.

To minimize the risks associated with public disclosure, this report summarizes the weaknesses in security identified during this audit. Auditors provided the details of those weaknesses and recommendations separately to the management of the audited state agencies. All six agencies agreed with the findings and asserted that they had implemented or would implement corrective actions.

Pursuant to Standard 7.41 of the U.S. Government Accountability Office's *Government Auditing Standards*, the findings identified in this limited-use report were deemed to present potential risks to public safety and the security of critical network infrastructure and private or confidential data. As such, the detailed findings and recommendations are considered confidential and will be excluded from this publicly available report.

Sincerely,



John Keel, CPA  
State Auditor

#### Summary of Objectives, Scope, and Methodology

The audit objectives were to:

- Determine whether selected agencies maintain physical controls over their data centers to help ensure the security of data center assets.
- Determine whether the Texas Facilities Commission has (1) clearly defined its responsibilities for physical security at agency data centers and (2) implemented effective processes and related controls over physical security at agency data centers.

The audit scope covered September 2012 through November 2013.

The audit methodology consisted of conducting interviews; collecting and reviewing information; and performing tests, procedures, and analyses against predetermined criteria. Auditors used professional judgment to select samples for testing. The sampled items were not representative of the population and, therefore, it would not be appropriate to extrapolate those test results to the population.

The Texas Legislative Council provides some information technology services to the State Auditor's Office. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The following members of the State Auditor's staff performed the audit:

- Justin H. Griffin, CISA (Project Manager)
- Ileana Barboza, MBA, CGAP, CICA (Project Manager)
- Sherry Sewell, CGAP
- Nathan Beavers
- Scott Weingarten, CGAP
- Marlen Kraemer, MBA, CISA
- Jason Carter
- Michael C. Apperley, CPA (Quality Control Reviewer)
- Cesar Saldivar, CGAP (Audit Manager)

cc: The Honorable Rick Perry, Governor

Boards, commissions, and executive management of the following entities:

Department of Public Safety

Office of the Comptroller of Public Accounts

Texas Commission on Environmental Quality

Texas Department of Housing and Community Affairs

Texas Facilities Commission

Texas Legislative Council



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**AUDIT COMMITTEE REPORT ITEM**  
**INTERNAL AUDIT DIVISION**  
**OCTOBER 9, 2014**

Presentation and Discussion of the Status of Prior Audit Issues.

**REPORT ITEM**

Internal Audit tracks prior audit issues from both internal and external auditing or monitoring reports. These issues are followed up and cleared as time allows.

**BACKGROUND**

Of the 15 current prior audit issues:

- 8 issues were recently reported by management as “implemented” and are reflected on the attached list. These will be verified and closed by internal audit once we have reviewed the supporting documentation. These issues are for the following divisions:
  - 5 are for multiple divisions,
  - 2 are for the Community Affairs division, and
  - 1 is for the Housing Trust Fund division.
  
- 7 issues are still “pending” and are reflected on the attached list. Internal Audit will verify and close these issues once they are reported as “implemented.” These issues are for the following divisions:
  - 4 are for the Manufactured Housing Division,
  - 2 are for the Community Affairs division, and
  - 1 is for the Asset Management division.

# ***Texas Department of Housing and Community Affairs***

## ***Detailed Audit Findings***

**Report Name:** HUD Affordable Housing Monitoring and Technical Assistance Visit

**Division:** Asset Management Division

**Report Date:** 08/17/2012

**Current Status:** Pending

**Finding:** Review of the multifamily portfolio report indicated that there are numerous projects that are out of compliance with the HOME Program requirements.

On June 20, 2012, Stephen Eberlein met with Tim Irvine, Executive Director and Sara Newsom, Director, HOME Program, to discuss issues and progress in resolving the defaulted activities listed in HUD's FY 2009 Monitoring Report. Following is a recapitulation of the meeting.

- St. John Colony Park alk/a, Del Meadows, Dale, TX - IDIS #4001- All issues have been resolved
- Thomas St. Apartments, 925 Thomas St, Linden, TX - IDIS #2727 - All issues have been resolved
- Colonias Del Valle, Pharr, TX-IDIS #2710- All issues have been resolved
- Mexia Homes - Mexia, TX - IDIS #2637 - *Enforcement action underway by State Administration Penalties Office*
- Juan Linn Apartments- Victoria, TX-IDIS #4369 - *New owner in place. Progress is being made to reestablish the LURA*
- Carriage Square Apartments - Dickinson, TX - IDIS #2670 - *Property was demolished. The land is being marketed for sale and redevelopment*
- Red River - Wharton, TX - IDIS # 7607 - *State is working with new owner to reestablish the LURA*
- Palisades at Belleville- Belleville, TX- IDIS #2647- *State is working with new owner to reestablish the LURA. Note: This owner also owns the Red River Project directly above.*
- Gardens of DeCordova - Granbury, TX - IDIS #26281- *Owner defaulted on construction loan. The private lien holder has maintained compliance with LIHTC/Board requirements and the state is optimistic that he will accept the HOME requirements. The state is scheduled to monitor this project in July 2012.*
- Community Action of South Texas - Three projects - All of the LURAs have been extended and all other issues resolved.
- Duncan Place- Hillsboro, TX- IDIS # -*State will request a grant reduction*
- Flamingo Bay Apartments (Lakeside Center) - 200 Garfield, LaPorte, TX - IDIS # 1529 - *State will request a grant reduction*

The following projects noted in the FY 2009 monitoring report have been brought into compliance and no further action is required at this time.

Lincoln Court Apartments - IDIS #2631  
Port Yelasco Apartments - IDIS #2636  
Colorado City Homes- IDIS #2676  
Colorado City Homes II - IDIS #2677  
Southeast Texas Community Development- IDIS #2680  
Ebenezer Senior Housing- IDIS #2681  
Spur Triplex - IDIS #2694  
Sterling Park Square • ID IS #2696  
Tyler Community Homes (Path) IDIS #2699  
Weldon Blackard Rental- IDIS #2706  
Railroad Street Rental Housing- IDIS #2711

# ***Texas Department of Housing and Community Affairs***

## ***Detailed Audit Findings***

Sunrise Villas Apartments IDIS #2723  
Alamo Plaza Apartments- IDIS #3200  
Villa De Reposo - IDIS #4002  
Alta Vista Village Retirement Community- IDIS #4006  
Spring Garden Apartments IV- IDID #4007  
Plainview Duplex - IDIS #4008

**Recommendation:** Because two projects noted in FY 2009 report remain unresolved, this finding remains open. Once the remaining issues for *Duncan Place and FlamingoBay (Lakeside Center)* are resolved through repayment of the HOME Investment to the state's HOME Treasury Account; approval of a grant reduction; or otherwise brought into compliance, this finding can be cleared. The state needs to continue to work to bring the *Juan Linn and Red River* projects into compliance.

These final corrections need to be completed on or before February 28, 2013. If compliance cannot be achieved via one of the above-referenced options, the state must repay its HOME Treasury Account for the full amount of the HOME Investment for these projects from non-federal funds. The state should also provide a monthly update on the status of the above noncompliant projects with the first report being due on or before September 5th, and by the 5<sup>th</sup> day of each month thereafter.

**Management Response:** The Department is providing an update to HUD on the multifamily portfolio.

**Target Implementation Date:** 02/28/13

**Actual Implementation Date:** N/A

**Status:** Management has not yet reported this recommendation as implemented.

**Recommendation Age (in days):** N/A

Management has reported a revised implementation date as 07/31/13.

# ***Texas Department of Housing and Community Affairs***

## ***Detailed Audit Findings***

**Report Name:** An Internal Audit of Loan Processing

**Division:** Program Services

**Report Date:** 11/06/2013

**Current Status:** Implemented

**Finding:** The Department does not consistently obtain the trailing documents required to evidence that a loan is valid and that the Department's lien position is properly recorded.

We tested 90 closed loan files. We found that:

- 10 (11.1%) of the 90 closed loan files tested did not contain evidence that the deed of trust was recorded by the title company. If a deed of trust is not recorded, the Department's lien position, as stated by the deed of trust, could be superseded by other liens recorded prior to the recording of the Department's lien.
- 5 (5.6%) of the 90 closed loan files tested did not contain evidence of a title policy. Without evidence of a title policy, the Department does not have assurance that it is protected against damages resulting from problems with the title.
- 2 (2.2%) of the 90 closed loan files tested contained approved final HUD-1 settlement statements that were not the original document or a certified copy. Without evidence of a certified, executed final HUD-1 settlement statement, the Department does not have assurance that all parties to the loan transaction have been informed of the charges involved in the transaction.

The Department's loan closing policy requires staff in the Program Services Division to follow up each month on any trailing documents that have not yet been received from the title companies. However, Program Services does not run the reports necessary to identify missing trailing documents on a monthly basis.

In addition, closing instructions from the Department to the title companies direct the title companies to return certain trailing documents to Program Services. However, the deadlines for returning the trailing documents vary by program and are sometimes not consistent within the same program. This can create confusion for both the title companies and the Department's staff in tracking the due dates of trailing documents.

**Recommendation:** The Department should:

- obtain and review all of the required trailing documents from the title companies after closing,
- run the outstanding trailing document report monthly and follow up on any missing documents as required by the loan closing policy, and
- ensure consistency in the requirements for the return of trailing documents to the Department.

**Management Response:** Management concurs with the recommendations. The Program Services Division, working with the Loan Servicing Section and the program areas, as appropriate, will ensure that deadlines for submission of trailing documents are made consistent and that there is systematic follow-up for the trailing documents to ensure they are received and reviewed for all closed loans. In addition, the Program Services Division will ensure that policies and procedures, including checklists, and monthly reporting, are updated and

**Target Implementation Date:** 12/31/13

**Actual Implementation Date:** 04/01/14

# ***Texas Department of Housing and Community Affairs***

## ***Detailed Audit Findings***

implemented by December 31, 2013, and that except as programmatic requirements may dictate otherwise, these are consistent from program to program.

Responsible person: Brenda Hull

Corrective action date: December 31, 2013

**Status:** Management reports that this recommendation has been implemented. Internal Audit has not yet verified this assertion. **Recommendation Age (in days):** N/A

# ***Texas Department of Housing and Community Affairs***

## ***Detailed Audit Findings***

**Report Name:** An Internal Audit of Loan Processing

**Division:** HOME Division

**Report Date:** 11/06/2013

**Current Status:** Implemented

**Finding:** Thirteen (14.4%) of the 90 closed loan files we tested did not contain evidence of current title commitments when the loan was closed. Title commitments expire 90 days from their stated effective date. According to the Texas Administrative Code, Title 10, Part 1, Chapter 23, Subchapter C, §23.32 (b)(1) and Subchapter D, §23.42(b)(1), , a title commitment or title policy that expires prior to execution of closing must be updated at closing. At the time of closing, these 13 expired title commitments were between 92 and 438 days old. Without updated title commitments, the Department does not have assurance that the property's title is clear from all other liens outside of the commitment's effective date and expiration date.

**Recommendation:** In instances where the title commitment has expired, the Department should ensure that an updated title commitment is received prior to closing.

**Management Response:** Management concurs with the recommendation and will immediately implement policies and procedures to ensure that the Department verifies that each loan has a current title commitment on file at the Department at the time of loan closing to demonstrate compliance with the Texas Administrative Code.

**Target Implementation Date:** 11/05/13

**Actual Implementation Date:** 04/09/14

Responsible person: Jennifer Molinari, Brenda Hull

Corrective action date: November 5, 2013

**Status:** Management reports that this recommendation has been implemented. Internal Audit has not yet verified this assertion.

**Recommendation Age (in days):** N/A

# ***Texas Department of Housing and Community Affairs***

## ***Detailed Audit Findings***

**Report Name:** An Internal Audit of Loan Processing

**Division:** Program Services Division

**Report Date:** 11/06/2013

**Current Status:** Implemented

**Finding:** We tested 90 closed loan files for two disclosure statements, one required by the Truth in Lending Act and one required by RESPA. These disclosures must be provided to the borrower prior to loan closing. Six (6.7%) of the 90 files we tested were missing evidence of these disclosures. Five of the 6 files were missing both disclosures and one file was missing only the RESPA disclosure. Without these disclosures on file, the Department does not have evidence that it has complied with the federal requirements for these disclosures.

**Recommendation:** The Department should maintain evidence that disclosures required by the Real Estate Settlement Procedures Act and the Truth in Lending Act were provided to the borrower.

**Management Response:** *Management concurs with recommendation and will implement processes to ensure disclosures are maintained in the files.*

**Target Implementation Date:** 12/01/13

**Actual Implementation Date:** 04/01/14

*Responsible person: Jennifer Molinari, Homero Cabello, Brenda Hull*

*Corrective action date: December 1, 2013*

**Status:** Management reports that this recommendation has been implemented. Internal Audit has not yet verified this assertion.

**Recommendation Age (in days):** N/A

# ***Texas Department of Housing and Community Affairs***

## ***Detailed Audit Findings***

**Report Name:** An Internal Audit of Loan Processing

**Division:** HOME Division

**Report Date:** 11/06/2013

**Current Status:** Implemented

**Finding:** The loan closing documents for HOME HBA loans are not prepared or reviewed by staff of the Department's Legal Division (Legal). Instead, the loan closing documents are prepared by an individual in Program Services using templates approved by Legal. However, these templates have not been reviewed or updated by Legal since 2011. As a result, errors or irregularities in the prepared loan documents could occur and may go undetected.

**Recommendation:** The Department should ensure that the Legal Division:

- periodically reviews the templates used by the HOME HBA loan closer to determine if they should be revised, and
- reviews the loan documents on a sample basis to ensure they are being completed accurately and used as intended.

**Management Response:** Management has reviewed the process for the preparation of HOME HBA loan documents and determined that the process will include a review by the Legal division. The updated process, including a Legal review for all loans, will be implemented by November 15, 2013. In addition, the HOME, Legal and Program Services divisions will ensure that the loan document templates are periodically reviewed and updated.

**Target Implementation Date:** 11/15/13

**Actual Implementation Date:** 11/15/13

Responsible person: Jennifer Molinari, Brenda Hull

Corrective action date: November 15, 2013

**Status:** Management reports that this recommendation has been implemented. Internal Audit has not yet verified this assertion.

**Recommendation Age (in days):** N/A

# ***Texas Department of Housing and Community Affairs***

## ***Detailed Audit Findings***

***Report Name:*** An Internal Audit of Loan Processing

***Division:*** HOME Division

***Report Date:*** 11/06/2013

***Current Status:*** Implemented

***Finding:*** We also noted that 12 (13.3%) of the 90 loan files we tested were not recorded in the Department's Loan Window. The Department's loan closing policies and procedures require Department staff to input information into the Loan Window at various points in the loan processing cycle. When staff does not update the Loan Window, staff members in other divisions who participate in the loan processing cycle are unable to track a loan's progress through the Department. In addition, information used to determine loan processing time is not readily available.

***Recommendation:*** The divisions involved in loan processing should ensure that loans are entered into the Loan Window as required so that loan processing times can be tracked.

***Management Response:*** Management appreciates the information regarding improved processing times and will ensure that loans are consistently entered and tracked in the Loan Window.

***Target Implementation Date:*** 11/05/13

Responsible person: Jennifer Molinari, Homero Cabello, Brenda Hull

***Actual Implementation Date:*** 11/15/13

Corrective action date: November 5, 2013

***Status:*** Management reports that this recommendation has been implemented. Internal Audit has not yet verified this assertion.

***Recommendation Age (in days):*** N/A

# ***Texas Department of Housing and Community Affairs***

## ***Detailed Audit Findings***

**Report Name:** An Internal Audit of the Amy Young Barrier Removal Program

**Division:** Housing Trust Fund

**Report Date:** 05/01/2014

**Current Status:** Implemented

**Finding:** The HTF staff that work on the Amy Young Barrier Removal Program have two Housing Contract System (HCS) log-ons that allow them to have both PM1 and PM2 ability. This allows them to do the initial and subsequent review of the activity set-up.

**Recommendation:** The Amy Young Barrier Removal Program should ensure that individuals who perform the initial review of the activity set-ups are not also performing the secondary review of those same activity set-ups.

**Management Response:** Management concurs with Internal Audit's recommendations regarding reviews. Currently SOPs already prohibit the same staff member conducting both first and second reviews of any reservations system transaction. To enhance oversight of compliance with current SOPs, management will generate a quarterly report that summarizes all reservation system transactions and the staff approvals associated with them. The report will be reviewed to confirm that no instances of review and approval by the same staff are occurring.

**Target Implementation Date:** 05/30/14

**Actual Implementation Date:** 05/30/14

Responsible person: Homero Cabello

Corrective action date: May 30, 2014

**Status:** Management reports that this recommendation has been implemented. Internal Audit has not yet verified this assertion.

**Recommendation Age (in days):** N/A

# ***Texas Department of Housing and Community Affairs***

## ***Detailed Audit Findings***

**Report Name:** An Internal Audit of the Manufactured Housing Division's Titling Process

**Division:** Manufactured Housing Division

**Report Date:** 04/08/2014

**Current Status:** Pending

**Finding:** There were two corrected SOLs that were due to consumer error. When a corrected SOL is required because of an error made by a party other than the Department a corrected application for SOL is required.

**Recommendation:** The Division should either require a completed and corrected SOL application prior to issuing a corrected SOL or consider revising the Texas Administrative Code to clarify when a corrected application is required.

**Management Response:** Agreed. Currently, while the Administrative Rules specify that an application is required for a corrected SOL to be issued, there are instances where we could expedite the correction by obtaining the information from the owner email or fax reducing the burden or inconvenience. To provide for these instances, language will be added to Chapter 80.90(c) (2) (A) as follows:  
If a correction is requested because of an error made by a party other than the Department, the correction will not be made until the Department receives the following:  
(A) A complete corrected application for Statement of Ownership and Location and any applicable supporting documentation, ~~and~~ or  
(B) ~~Any necessary supporting documentation.~~ Documentation deemed appropriate and approved by the Executive Director, pursuant to Chapter 1201.207(c).

**Target Implementation Date:** 11/28/14

**Actual Implementation Date:** N/A

Responsible person: Joe Garcia

Corrective action date: November 28, 2014

**Status:** Management has not yet reported this recommendation as implemented.

**Recommendation Age (in days):** N/A

# ***Texas Department of Housing and Community Affairs***

## ***Detailed Audit Findings***

**Report Name:** An Internal Audit of the Manufactured Housing Division's Titling Process

**Division:** Manufactured Housing Division

**Report Date:** 04/08/2014

**Current Status:** Pending

**Finding:** The Manufactured Housing Division has developed a spreadsheet to track corrected SOLs that were issued due to departmental error. However, the spreadsheet does not track data that may be useful to the Division in determining the number of unique corrected SOLs issued or the types of errors that are occurring.

**Recommendation:** The Division should consider adding the following information to the spreadsheet:

- Total number of unique corrected SOLs that were issued due to departmental error,
- Total number of unique corrected SOLs where the error was found by the customer,
- Total number of unique corrected SOLs where the error was found by the department, and
- The types of errors made, such as data entry on name, address, or election type.

In addition, the Division may want to consider working with the Information Systems (IS) division to incorporate some of these enhancements into the Exodus system as part of an automated report.

**Management Response:** Agreed. To help identify necessary training we will work with the IT Division at creating unique entry codes to help identify various correction activity rather than maintaining a spreadsheet. Currently, our processes generally include proofing as a mechanism to catch errors before the SOL is published and sent the applicant.

**Target Implementation Date:** 05/01/14

**Actual Implementation Date:** N/A

Responsible person: James Oliva

Corrective action date: May 1, 2014

**Status:** Management has not yet reported this recommendation as implemented.

**Recommendation Age (in days):** N/A

# ***Texas Department of Housing and Community Affairs***

## ***Detailed Audit Findings***

**Report Name:** An Internal Audit of the Manufactured Housing Division's Titling Process

**Division:** Manufactured Housing Division

**Report Date:** 04/08/2014

**Current Status:** Pending

**Finding:** Two (10.5%) of the 19 regularly handled corrected SOLs had SOL applications that originally were not reviewed by Document Control prior to issuance.

One (3.0%) of the 36 regularly handled issued SOLs were not reviewed by Document Control prior to issuance.

**Recommendation:** The Division should ensure that all SOL applications that require a Document Control review are reviewed as required.

**Management Response:** Agree. The procedures and training given to staff will be modified to include language specifying that all regularly processed applications (no Priority Handling) should be routed through the Document Control Unit for proofing prior to mailout unless specified otherwise by the manager or supervisor.

**Target Implementation Date:** 05/01/14

**Actual Implementation Date:** N/A

Responsible person: James Oliva

Corrective action date: May 1, 2014

**Status:** Management has not yet reported this recommendation as implemented.

**Recommendation Age (in days):** N/A

# ***Texas Department of Housing and Community Affairs***

## ***Detailed Audit Findings***

**Report Name:** An Internal Audit of the Manufactured Housing Division's Titling Process

**Division:** Manufactured Housing Division

**Report Date:** 04/08/2014

**Current Status:** Pending

**Finding:** The SOPs for the Processing an SOL Application and the Quick Processing of an SOL Application do not reflect the current process used to process SOL applications. In addition, the SOPs are signed by the prior executive director and dated September 22, 2004.

**Recommendation:** The Division should update their policies and procedures over the SOL application process to reflect the current process.

**Management Response:** Agreed. The procedures and SOPs for the Processing Unit exist in part but were not a primary focus considering the post implementation issues encountered with the new system. Now that most bugs have been worked out we compile the existing procedures and integrate the information into the SOPs and formal procedures.

**Target Implementation Date:** 07/31/14

**Actual Implementation Date:** N/A

Responsible person: James Oliva

Corrective action date: July 31, 2014

**Status:** Management has not yet reported this recommendation as implemented.

**Recommendation Age (in days):** N/A

# ***Texas Department of Housing and Community Affairs***

## ***Detailed Audit Findings***

**Report Name:** An Internal Audit of the Low Income Home Energy Assistance Program

**Division:** Community Affairs

**Report Date:** 04/22/2014

**Current Status:** Implemented

**Finding:** At this time, no one in the Community Affairs Division or the Compliance Community Affairs Monitoring section reviews the LIHEAP expenditure reports to ensure that only LIHEAP related expenditures are charged to the LIHEAP program.

**Recommendation:** The Community Affairs Division should review the LIHEAP expenditure reports on a regular basis in order to detect and correct errors promptly.

**Management Response:** Management has already commenced tracking of the Community Affairs Division programs on a monthly basis in order to detect and correct errors during the charging of the grants by Financial Administration. Each of the contract specialists is responsible for their individual grant and the timely review of the monthly reported expenditures as charged by the financial administration group. The system for tracking expenditures has not been fully developed; however, it is anticipated that this system will be fully implemented by October 1, 2014, including the reconciling/review of all expenditures through the beginning of the calendar year.

**Target Implementation Date:** 10/01/14

**Actual Implementation Date:** 08/25/14

Responsible person: Michael De Young

Corrective action date: October 1, 2014

**Status:** Management reports that this recommendation has been implemented. Internal Audit has not yet verified this assertion.

**Recommendation Age (in days):** N/A

# ***Texas Department of Housing and Community Affairs***

## ***Detailed Audit Findings***

**Report Name:** An Internal Audit of the Low Income Home Energy Assistance Program

**Division:** Community Affairs

**Report Date:** 04/22/2014

**Current Status:** Implemented

**Finding:** Eleven (30.56%) of the 36 non-payroll expenditure items tested did not indicate on the expenditure documentation, submitted to and maintained by accounting, how the allocation was determined and calculated. For example:

- an expenditure for Performance Systems Development of New York, LLC was for TREAT Weatherization related software. \$2,528.00 (20.00%) of the total expenditure amount of \$12,460.00 was charged to LIHEAP.
- An expenditure for Infinity Box Inc for Wufoo was \$599.00. \$532.51 (88.90%) of the expenditure amount of was charged to LIHEAP.
- An expenditure for the purchase of Six Sigma publications for the Deputy Executive Director of Community Based Programs (Brooke Boston) charged 48.41% to LIHEAP

In each of the 11 cases the documentation does not indicate how the allocation amount or allocation rate to LIHEAP was determined.

One (2.78%) of the 36 non-payroll expenditure items tested was not an allowable cost because it did not benefit the LIHEAP program, was not for planning or administration of LIHEAP, and was not appropriately allocated to LIHEAP. \$62.53 of a \$10,086 invoice from HAPPY software to continue monthly service for software updates was charged to LIHEAP, although HAPPY software is used exclusively by the Department's Section 8 program.

**Recommendation:** The Community Affairs Division should note the rationale for cost allocations on their purchase requests or vouchers in order to document reasonableness and allowableness of the cost.

**Management Response:** Management concurs with the recommendations and will further document the rationale for the allocations on PRs and vouchers. In the past management has utilized an internal system for allocation of costs based on the staff time utilized or content of the voucher/PR. The Community Affairs manager of Fiscal and Reporting will further document the rationale on the voucher or the PR prior to processing.

**Target Implementation Date:** 05/15/14

**Actual Implementation Date:** 08/22/14

Responsible person: Michael De Young

Corrective action date: May 15, 2014

**Status:** Management reports that this recommendation has been implemented. Internal Audit has not yet verified this assertion.

**Recommendation Age (in days):** N/A

# ***Texas Department of Housing and Community Affairs***

## ***Detailed Audit Findings***

**Report Name:** An Internal Audit of the Low Income Home Energy Assistance Program

**Division:** Community Affairs

**Report Date:** 04/22/2014

**Current Status:** Pending

**Finding:** Subrecipients do not have formal definitions for identifying life-threatening circumstances and lack specific procedures for handling life-threatening household crises.

**Recommendation:** The Community Affairs Division should provide guidance to subrecipients in defining “life-threatening” crises and in developing written policies to address them.

**Management Response:** Management concurs with the recommendation and will require subrecipients to define life-threatening crisis for their clients through a clear definition or policy. The Department is aware of the demographic and geographic considerations that relate to delegating the definition of “Life Threatening Crisis” to the local providers. The requirement will be in place for the PY 2015 contracts and the Compliance Division will verify that the local definition of life threatening crisis is being correctly interpreted and implemented at the local level.

**Target Implementation Date:** 01/01/15

**Actual Implementation Date:** N/A

Responsible person: Michael De Young

Corrective action date: January 1, 2015

**Status:** Management has not yet reported this recommendation as implemented.

**Recommendation Age (in days):** N/A

# ***Texas Department of Housing and Community Affairs***

## ***Detailed Audit Findings***

***Report Name:*** An Internal Audit of the Low Income Home Energy Assistance Program

***Division:*** Community Affairs

***Report Date:*** 04/22/2014

***Current Status:*** Pending

***Finding:*** The Community Affairs Division SOPs do not sufficiently address the division's current processes for administering LIHEAP under the division's current organizational structure.

***Recommendation:*** The Community Affairs Division should finish updating its policies and procedures to reflect the roles and responsibilities of its staff in the current organization structure.

***Management Response:*** The Community Affairs Division concurs and will begin to consolidate and update the existing policies and procedures to reflect the current organizational structure.

***Target Implementation Date:*** 10/01/14

Responsible person: Michael De Young

***Actual Implementation Date:*** N/A

Corrective action date: October 1, 2014

***Status:*** Management has not yet reported this recommendation as implemented.

***Recommendation Age (in days):*** N/A

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## **AUDIT COMMITTEE REPORT ITEM**

### **INTERNAL AUDIT DIVISION**

**October 9, 2014**

Presentation and Discussion of the Status of the Fraud, Waste and Abuse Hotline and Other Fraud Complaints.

### **REPORT ITEM**

The Internal Audit Division received 131 complaints of fraud, waste or abuse in Fiscal Year 2014 (as of August 31, 2014). Last year (Fiscal Year 2013) we received 79 complaints. Complaints received by the Department in Fiscal Year 2014 increased 65.8% over the number of complaints received in Fiscal Year 2013.

### **BACKGROUND**

In Fiscal Year 2014, Internal Audit received 131 fraud complaints. Of these:

- 123 calls were received on our hotline:
  - 18 were related to the Department's programs or staff:
    - Tax Credits - 15
    - Multi Family – 1
    - CEAP - 1
    - Personnel - 1
  - 98 were not related to the Department's programs or staff. These callers were referred to the appropriate agency for assistance.
  - 7 did not provide sufficient information to determine the purpose of the complaint.
- 8 complaints were received from other sources:
  - 6 were related to the Department's programs:
    - HOME - 2
    - CEAP and/or WAP - 1
    - CEAP and CSBG - 1
    - Compliance - 1
    - Tax Credits – 1

The sources for these 6 complaints were:

- TDHCA Staff – 3
- Public – 2
- Contract Administrator - 1
- 107 of the 131 complaints (81.7%) were not under the Department's jurisdiction.
- The 24 TDHCA complaints were resolved as follows:
  - Investigated and Closed – 18
  - Referred to SAO and/or other oversight agencies – 5
  - Pending – 1 (The pending complaint was received on August 20, 2014.)