

AUDIT COMMITTEE MEETING

January 15, 2015

Leslie Bingham-Escareño, Chair



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

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

**AGENDA
8:30 AM**

January 15, 2015

**Dewitt C. Greer State Highway Building
Ric Williamson Hearing Room
125 E 11th Street
Austin, Texas**

CALL TO ORDER, ROLL CALL

Leslie Bingham-Escareño, **Chair**

CERTIFICATION OF QUORUM

Leslie Bingham-Escareño, **Chair**

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

ITEM 1: Presentation, Discussion, And Possible Action To Approve The Audit Committee Minutes Summary For October 9, 2014

Mark Scott
Director of Internal Audit

ITEM 2: Presentation, Discussion, and Possible Action on the yearly update of the Internal Audit Charter and Board Resolution No. 15-011

ITEM 3: Presentation, Discussion, and Possible Action regarding the State Auditor's Office Audit #15-014 "A Report of the Audit of the Texas Department of Housing and Community Affairs Fiscal Year 2014 Financial Statements"

REPORT ITEMS

1. Presentation and Discussion of Status of the Internal Audit Activity Including Staffing
2. Presentation and Discussion on the Status of the FY2015 Internal Audit Work Plan
 - a) An Internal Audit of TDHCA payroll
 - b) An Internal Audit of Sources and Uses of Funds – New audit to be added to FY2015 Audit Plan
 - c) Consultation on Sub-recipient Monitoring Processes – New Project
3. Presentation and Discussion of the Fraud, Waste, and Abuse Hotline and Other Fraud Complaints

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

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.

OPEN SESSION

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

ADJOURN

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

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

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

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

1

AUDIT COMMITTEE ACTION REQUEST

BOARD SECRETARY

JANUARY 15, 2015

Presentation, Discussion, and Possible Action on the Audit Committee Meeting Minutes Summary for October 9th, 2014.

RECOMMENDED ACTION

RESOLVED, that the Audit Committee Meeting Minutes Summary for October 9, 2014 are hereby approved as presented.

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

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 8:30 a.m. on October 9th, 2014. The meeting was held at John H. Reagan Building Room JHR 140, 105 W 15th Street, Austin, Texas.

The following two Audit Committee Members were present, which constituted a quorum:

- Leslie Bingham-Escareño, Chair
- Tom Gann, Member

M. Betsy Schwing served as Secretary of the Committee.

The Audit Committee met 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

Motion made by Mr. Gann to approve the Audit Committee Minutes for May 8th, 2014; duly seconded by Ms. Bingham-Escareno; motion passed.

Item 2:

Presentation and Discussion of the State of the Internal Audit Activity

Report item. No action required.

Item 3:

Presentation, Discussion, and Possible Approval of the FY 2015 Internal Audit Work Plan

Motion made by Mr. Gann to make a recommendation to the Department's Governing Board to approve the FY2015 Internal Audit Work Plan. Ms. Bingham-Escareño seconded the motion by Mr. Gann.

Item 4:

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

Report item. No action required.

Item 5:

Presentation and Discussion of Recent Internal Audit Reports

Report item. No action required.

Item 6:

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

Report item. No action required.

Item 7:

Presentation and Discussion of the Status of Prior Audit Issues

Report item. No action required.

Item 8:

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

Report item. No action required.

No Executive Session was held.

Motion made by Mr. Gann to adjourn the meeting; duly seconded by Ms. Bingham-Escareno; meeting adjourned at 9:18 a.m.

The full transcript of the meeting including motions, offered seconds, questions and responses, is retained by the Texas Department of Housing and Community Affairs as an official record of the meeting.

M. Betsy Schwing, Secretary

Approved:

Chair

2

AUDIT COMMITTEE ACTION REQUEST
INTERNAL AUDIT
JANUARY 15, 2015

Presentation, Discussion, and Possible Action on the 2015 Internal Audit Charter.

RECOMMENDED ACTION

WHEREAS, the Internal Audit Division is required by audit standards to develop a charter, and to periodically update the charter,

NOW, therefore it is hereby

RESOLVED, the Internal Audit Charter are approved as presented.

BACKGROUND

Internal Audit Standards (the Institute of Internal Auditor's *International Standards for the Professional Practice of Internal Auditing*) require periodic approval of the Internal Audit Charter.



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

www.tdhca.state.tx.us

Rick Perry
GOVERNOR

BOARD MEMBERS

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

TDHCA Internal Audit Charter (Effective October 17, 2001, Amended January 15, 2015 as approved by the Department's Governing Board)

This charter is required by professional audit standards.

Mission:

The Office of Internal Audit (OIA) has been established at the Texas Department of Housing and Community Affairs (TDHCA) to provide independent, objective assurances and consulting services to TDHCA Board and management. The OIA helps TDHCA accomplish its objectives by bringing a systematic, disciplined approach for evaluating and improving the effectiveness of risk management, controls, and governance. The OIA helps the TDHCA to identify and manage financial and other risks, identify economies and efficiencies, safeguard assets, ensure compliance with legislative and regulatory requirements, and report accurate and reliable information to TDHCA's customers. It also provides a proactive and systematic approach for the identification of business improvements. The OIA conducts TDHCA's program of internal auditing under the authority of and in accordance with the Texas Internal Auditing Act, located in the Texas Government Code, Title 10, Chapter 2102.

The OIA reports to the TDHCA Governing Board and is managed by the Chief Audit Executive (CAE). The CAE must be certified as a Certified Public Accountant (CPA) or Certified Internal Auditor (CIA), to achieve compliance with the Internal Auditing Act. The operation title of the CAE is the Director of Internal Audit.

Standards of Audit Practice

The program of internal auditing follows the Texas Internal Auditing Act, Standards for the Professional Practice of Internal Auditing, and Generally Accepted Government Auditing Standards.

Administration of the Program of Internal Auditing

In accordance with the Internal Audit Act, the CAE shall report directly to the Governing Board and shall be independent of operational duties that could impair the independence of the auditing program. The CAE will work with members of TDHCA management, as designated by the Boards and the Executive Director, to ensure the performance of the internal audit plan and compliance with the requirements of external audit functions related to the agency's operations. The CAE will keep the full Governing Board apprised of the progress of both internal and external audits.



Access to Information Needed for the Program of Internal Auditing

Authorization is granted for the full and free access to any of the TDHCA's records (either manual or electronic), physical properties, activities, and personnel relevant to a review. In addition, audit personnel may make direct contact with any level of management or staff concerned with an audit. Documents and information given to internal auditors will be handled in the same prudent manner as by those employees normally accountable for them. All confidential information obtained as part of a review will remain confidential. TDHCA staff and management will cooperate with the OIA to ensure that external auditors are provided with the information needed during their audits.

The CAE has the duty and authority to ensure that TDHCA is in compliance with the Internal Auditing Act, and the requirements of external audits including the statutes relating to the State Auditor's Office. TDHCA staff members are required to cooperate in the ongoing efforts to ensure compliance with audit requirements.

Professional Conduct

Audits and reviews are to be conducted in a professional manner, with the goal of providing value to TDHCA's Governing Board, management, and staff. Arrangements for conducting audits should cause the least possible disruption to the operations or activities under audit. Efforts will be made to minimize inconvenience to operating staff in the examination of records.

Confidentiality

OIA treats its working papers as confidential. Internal auditing working papers may sometimes be requested by members of the public pursuant to the Public Information Act, by means of an open-records request. The Office of Attorney General has in the past ruled that internal audit work papers can be exempted from open-records request. In the event of court proceedings, client privilege cannot be invoked with respect to working papers. Working papers and files are to be protected at all times against access by unauthorized persons.

Completed audit reports are public documents, and are provided in accordance with the statute to the Governing Board, TDHCA management, the State Auditor's Office, the Legislative Budget Board, the Office of the Governor, and the Sunset Commission.

Scope of Work and Independence

Internal auditing encompasses the examination and evaluation of the adequacy and effectiveness of the Department's system of internal control and the quality of performance in carrying out its assigned responsibilities. The scope of audit activities includes:

- Identifying risk associated with TDHCA operations, including administrative systems, accounting systems, and information-technology systems.
- Evaluating and assessing significant change-management functions and need or change services, processes, and operations coincident with their development, implementation, and/or expansion.
- Proactive consulting with management to improve control systems and operational effectiveness (See section on Advisory Services).
- Reviewing the reliability and integrity of financial and operating information and the means used to identify measure, classify, and report such information.
- Reviewing systems established to ensure compliance with policies, plans, procedures, laws and regulations that could have a significant impact on operations.

- Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of assets.
- Reviewing and appraising the economy and efficiency with which resources are employed.
- Reviewing operations or programs to ascertain whether results are consistent with established objectives and goals, and determining whether the operations or programs are being carried out as planned.
- Tracking and assessing management's actions taken in response to audit recommendations.
- Assisting in the investigation of significant issues within the TDHCA and notifying the TDHCA Governing Board and management as appropriate.
- Evaluation of the scope of work of external auditors, as appropriate, for the purpose of providing optimal audit coverage to TDHCA at a reasonable overall cost.

Scope and Resource Impairments

All scope limitation or potential limitations should be brought to the attention of the Chief Audit Executive, and significant issues in this regard will be reported to the Governing Board.

Internal Audit shall be free from control or undue influence in the selection and application of audit techniques, procedures and programs. Internal Audit shall be free from control or undue influence in the determination of facts revealed by the examination or in the development of recommendations or opinions as a result of the examination. Internal Audit shall be free from undue influence in the selection of areas, activities, personal relationships and managerial policies to be examined.

Adequate resources should be allocated to the program of internal auditing.

Advisory/Consulting Services

The OIA may provide advisory services, the nature and scope of which are agreed upon with the Governing Board and management. They are intended to add value and improve TDHCA's operations. The types of advisory services the OIA provides include the following:

Assessment Services are those in which the auditor examines/evaluates a past, present or future aspect of an operation and gathers, compiles, and/or analyzes information to assist management in making decisions. Assessments are provided as timely as possible and generally do not include specific recommendations for management.

Facilitation services are those in which the auditor assists management in examining organizational performance for the purpose of promoting change. In a facilitation role, such as a Control Self Assessment, the auditor does not judge organizational performance. Instead, the auditor guides Management in identifying organizational strengths and opportunities for improvements.

Liaison services are those in which the auditor attends meetings and/or reviews the work products of an internal or external work group. The purpose of the liaison service is to advise the group on how their activities may affect the agency's risk profile.

Quality Assurance

The CAE shall establish and maintain a program of quality assurance designed to evaluate the OIA's activities. The purpose of this program is to provide reasonable assurance that all work performed by the OIA conforms to established guidelines. The program includes training, supervision, and internal and external reviews. The CAE is responsible for ensuring that audits are conducted by staff with the necessary skills, knowledge and abilities to successfully complete the audit in accordance with professional standards. The State Auditor's Office and other external audit organizations review OIA reports and periodically review OIA working papers.

Training

Each fiscal year, the OIA will be allocated a budget for training and educational materials. Internal auditors will maintain their professional proficiency through continuing education and training. Professional development will be provided through a variety of methods including progressively challenging audit assignments, external training courses, performance appraisals, and participation in professional organizations.

Auditors will acquire continuing professional education (CPE) hours sufficient to comply with professional standards and/or meet applicable licensing requirements. At a minimum, 80 hours of CPE will be completed each biennium by each auditor, with at least 20 CPE hours completed each year.

Supervision

The quality assurance program will include audit supervision to ensure conformance with internal auditing standards and internal OIA policies and procedures.

Internal and External Reviews

Internal reviews will be performed periodically to appraise the quality of the audit work performed. These reviews will include reviews of working papers, periodic discussions of the status of projects, and accountability for time budgets. External peer reviews will be arranged and conducted in accordance with the Institute of Internal Auditing guidelines, *The Professional Practices Framework* and the Government Accountability Office guidelines. The External peer reviews will be based on available time and fiscal budgets, with a goal of a three-year cycle.

Internal Audit Reports

Written reports, which include management's responses, are prepared and issued following the conclusion of each audit. These reports include background information related to the areas audited as well as findings, recommendations, and management comments. The audit report will include the scope of the audit, the overall conclusion of the auditors, and the findings and recommendations. Draft audit reports will be provided to appropriate members of management, and management will provide corrective action plans when appropriate. Audit reports will be discussed in periodic open meetings of the Texas Department of Housing and Community Affairs.

Annual Activities

Annual Risk Assessment and Audit Work Plan

The OIA is responsible for developing an annual audit plan using risk assessment techniques which identify individual audits to be conducted during each year. The Plan must be presented to the Governing Board for their review and approval. Deviations from the audit plan should be documented; and major deviations should be approved by the Governing Board.

The risk assessment process includes the following steps:

- Identification of Auditable Units and Risks
This includes identification of activities for all divisions/programs. Requests or suggestions for audits are also included in the potential audit population.
- Risk Measurement and Prioritization
This process includes evaluating the likelihood that an adverse event or outcome could occur, and the potential ramifications if it did in fact occur.

Audit Follow-up Responsibilities

Internal auditors are required to follow-up to ascertain that appropriate action is taken on audit findings. A report to the Governing Board on recommendation-implementation status will be provided periodically and no less than annually.

Communication of Internal Audit Activities to the Governing Board.

Results of internal audit work are communicated to management and the Governing Board in periodic written reports. Internal Audit reports and other audit activities are discussed in periodic open meetings of the Texas Department of Housing and Community Affairs. In limited and appropriate circumstances, matters may be addressed in Executive Session with the concurrence of the Legal Division that one or more specific provisions of law permit such treatment.

PASSED and APPROVED this 15th day of January 2015

Chair of the Governing Board _____

Executive Director _____

Board Secretary _____

Chief Audit Executive _____

Board Resolution No. 15-011 pulled from the Agenda

3

AUDIT COMMITTEE ACTION REQUEST

INTERNAL AUDIT DIVISION

JANUARY 15, 2015

Presentation, discussion, and possible action regarding the Texas State Auditor's Office audit report #15-014 "A Report of the Audit of the Texas Department of Housing and Community Affairs' Fiscal Year 2014 Financial Statements".

RECOMMENDED ACTION

WHEREAS, the Department is required to undergo an annual audit of its books and accounts, an annual audit of the Housing Trust Fund, and to obtain audited financial statements for the Housing Finance Division and the Supplemental Bond Schedules,

NOW, therefore, it is hereby

RESOLVED, the annual financial audit, audit of the Housing Trust Fund and the audit of the Housing Finance Division and the Supplemental Bond Schedules are hereby accepted.

BACKGROUND

Audit requirements:

- 1) The Department's governing statute, Texas Govt. Code §2306.074, requires an annual audit of the Department's books and accounts.
- 2) Texas Govt. Code §2306.204 requires an annual audit of the Housing Trust Fund to determine the amount of unencumbered fund balances that is greater than the amount required for the reserve fund.
- 3) The Department's bond indentures require audited financial statements of the Housing Finance Division and the Supplemental Bond Schedules.

Results of the audits conducted by the State Auditor's Office

SAO Report on the "The Audit of the Department of Housing and Community Affairs Fiscal Year End 2014 Financial Statements" Report # 15-014 available at <http://www.sao.state.tx.us/reports/report.aspx?reportnumber=15-014>

- a) FY 2014 Basic Financial Statements (SAO Report # 15-308)
- b) FY 2014 Revenue Bond Program Audit (SAO Report # 15-309)

- c) FY 2014 Computation of Unencumbered Fund Balances (SAO Report # 15-310)
- d) FY 2014 Report on Internal Control Over Financial Reporting and on Compliance and Other Matters (SAO Report # 15-311)
- e) FY2014 Report on Compliance with the Public Funds Investment Act (SAO Report # 15-312)

The basic financial statements are available in their entirety at:

<http://www.tdhca.state.tx.us/pdf/14-BasicFinancials.pdf>



John Keel, CPA
State Auditor

A Report on
**The Audit of the Department of Housing and
Community Affairs' Fiscal Year 2014
Financial Statements**

December 29, 2014

Members of the Legislative Audit Committee:

In our audit report dated December 19, 2014, we concluded that the Department of Housing and Community Affairs' (Department) basic financial statements and Revenue Bond Program Enterprise Fund financial statements for fiscal year 2014 were materially correct and presented in accordance with accounting principles generally accepted in the United States of America. We also concluded that the Department's computation of unencumbered fund balances of its Housing Finance Division complies with Texas Government Code, Sections 2306.204 and 2306.205. The Department published our audit report as part of its financial statements, which it intends to post on its Web site at www.tdhca.state.tx.us.

We also issued a report on internal control over financial reporting and on compliance and other matters as required by auditing standards. Our procedures did not identify any material weaknesses in internal control over financial reporting or any noncompliance with laws or regulations that materially affected the financial statements. In addition, the major internal controls that we tested for the purpose of forming our opinions on the financial statements were operating effectively.

Our procedures were not intended to provide an opinion on internal control over financial reporting or to provide an opinion on compliance with laws and regulations. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting or on compliance with laws and regulations.

Additionally, we concluded that the Financial Data Schedule prepared by the Department was fairly stated in all material respects in relation to the fiscal year 2013 basic financial statements taken as a whole. We also issued a report on the Department's compliance with the Public Funds Investment Act.

Auditors also performed agreed-upon procedures to assist the Department in determining whether the electronic submission of certain information to the U.S. Department of Housing and Urban Development, Real Estate Assessment Center agreed with related hard-copy documents. Our procedures determined that the Department's electronically submitted information to the U.S. Department of Housing and Urban Development, Real Estate Assessment Center agreed with the related hard-copy documents.

Auditors communicated certain issues that were not material or significant to the audit objectives in writing to the Department's management.

As required by auditing standards, we will also communicate to the Department's Board of Directors certain matters related to the conduct of a financial statement audit.

SAO Report No. 15-014

Members of the Legislative Audit Committee
December 29, 2014
Page 2

We appreciate the Department's cooperation during this audit. If you have any questions, please contact Cesar Saldivar, Audit Manager, or me at (512) 936-9500.

Sincerely,

John Keel, CPA
State Auditor

cc: The Honorable Rick Perry, Governor
Members of the Board of Directors
Mr. J. Paul Ozer, P.E., Chair
Dr. Juan Sanchez Muñoz, Vice Chair
Mr. T. Tolbert Chisum
Ms. Leslie Bingham Escareño
Mr. Tom H. Gann
Mr. J. B. Goodwin
Mr. Timothy Irvine, Executive Director



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Independent Auditor's Report

Department of Housing and Community Affairs Board of Directors

Mr. J. Paul Oxer, P.E., Chair
Dr. Juan Sanchez Muñoz, Vice Chair
Mr. T. Tolbert Chisum
Ms. Leslie Bingham Escareño
Mr. Tom H. Gann
Mr. J. B. Goodwin

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the governmental fund, the proprietary fund, and the aggregate remaining fund information of the Department of Housing and Community Affairs (Department), as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Robert E. Johnson Building
1501 N. Congress Avenue
Austin, Texas 78701

P.O. Box 12067
Austin, Texas 78711-2067

Phone:
(512) 936-9500

Fax:
(512) 936-9400

Internet:
www.sao.state.tx.us

SAO Report No. 15-308

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the governmental fund, the proprietary fund, and the aggregate remaining fund information of the Department, as of August 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Agency Financial Statements

As discussed in Note 1, the financial statements of the Department are intended to present the financial position of the governmental activities, business-type activities, the governmental fund, the proprietary fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of Texas as of August 31, 2014, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

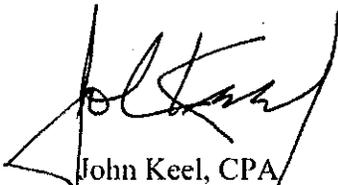
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's financial statements. The supplementary bond schedules are presented for purposes of additional analysis and are not a required part of the financial statements.

The supplementary bond schedules are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary bond schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2014, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.



John Keel, CPA
State Auditor

December 19, 2014



Independent Auditor's Report

Department of Housing and Community Affairs Board of Directors

Mr. J. Paul Oxer, P.E., Chair

Dr. Juan Sanchez Muñoz, Vice Chair

Mr. T. Tolbert Chisum

M^s. Leslie Bingham Escareño

Mr. Tom H. Gann

Mr. J. B. Goodwin

Report on the Financial Statements

We have audited the accompanying financial statements of the Revenue Bond Program Enterprise Fund (Program) of the Department of Housing and Community Affairs (Department), as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Robert E. Johnson Building
1501 N. Congress Avenue
Austin, Texas 78701

P.O. Box 12067
Austin, Texas 78711-2067

Phone:
(512) 936-9500

Fax:
(512) 936-9400

Internet:
www.sao.state.tx.us

SAO Report No. 15-309

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Program of the Department, as of August 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Fund Financial Statements

As discussed in Note 1, the financial statements present only the Program, an enterprise fund of the Department and of State of Texas, and do not purport to, and do not, present fairly the financial position of the State of Texas or the Department as of August 31, 2014, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

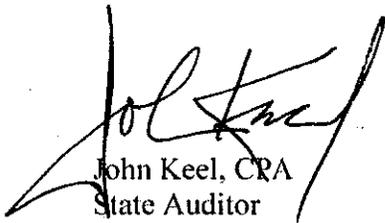
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Program's financial statements. The supplementary bond schedules and supplemental schedules are presented for purposes of additional analysis and are not a required part of the financial statements.

The supplementary bond schedules are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary bond schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

The supplemental schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2014, of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.



John Keel, CRA
State Auditor

December 19, 2014



Independent Auditor's Report

Department of Housing and Community Affairs Board of Directors
Mr. J. Paul Oxer, P.E., Chair
Dr. Juan Sanchez Muñoz, Vice Chair
Mr. T. Tolbert Chisum
Ms. Leslie Bingham Escareño
Mr. Tom H. Gann
Mr. J. B. Goodwin

Report on the Financial Statements

We have audited the accompanying Computation of Unencumbered Fund Balances (Computation) of the Department of Housing and Community Affairs' (Department) Housing Finance Division, as of and for the year ended August 31, 2014, and the related notes to the Computation, which collectively comprise the Department's Computation as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the Computation in accordance with the provision of Texas Government Code, Sections 2306.204 and 2306.205; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the computation that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on the Computation based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Robert E. Johnson Building
1501 N. Congress Avenue
Austin, Texas 78701

P.O. Box 12067
Austin, Texas 78711-2067

Phone:
(512) 936-9500

Fax:
(512) 936-9400

Internet:
www.sao.state.tx.us

SAO Report No. 15-310

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the Computation referred to above present fairly, in all material respects, the unencumbered fund balances of the Department's Housing Finance Division, as of August 31, 2014, in conformity with the criteria specified by management of the Department for compliance with the computation described in the Texas Government Code, Sections 2306.204 and 2306.205, as set forth in Note 1 of the Computation.

Emphasis of Matters

Criteria for the Computation

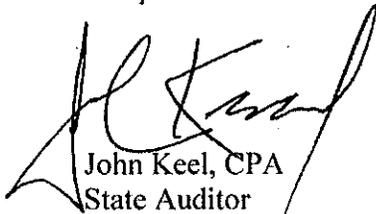
The Computation is presented on the basis of criteria described in Note 1 to the Computation for compliance with the provisions of Texas Government Code, Sections 2306.204 and 2306.205. The Computation is not intended to present unencumbered fund balances in accordance with accounting principles generally accepted in the United States of America. Unencumbered fund balances determined under the basis of presentation described in Note 1 may materially differ from those determined under accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Restriction on Use

Our report is intended solely for the information and use of the Department and is not intended to be and should not be used by anyone other than this specified party.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2014, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.



John Keel, CPA
State Auditor

December 19, 2014

R1

ORAL
PRESENTATION

R2

2a

INTERNAL AUDIT
Preliminary Payroll Audit Objectives

- a- Tests for Ghost Employees
 - 1. Email has been sent to Texas Comptroller for an adhoc report that will contain employees and their payroll amount. This report will be compared to the Human Resource list of current TDHCA employees.
 - 2. Report to be requested from Human Resources for list of current staff as of 12/31/2014.
 - 3. Received list of current badge holders for TDHCA from DPS that shows employees with badges.
 - 4. OIA will compare DPS report, Payroll report and HR list for consistency.
- b- Possible customer survey
 - 1. Drafting questions for potential use.
- c- Determine whether Payroll increases have required documentation to process
- d- General Controls over payroll
 - 1. Who is custodian of information
 - 2. Where are records stored (physically or electronically)
 - 3. Who has access to these records
- e- Comptroller site USPS
 - 1. Who has access
- f- General control of funding sources
 - 1. Reconciliation of payroll rates to financial statement information and balances
- g- Genesis
 - 1. Who has control over information
 - 2. How is information compared/reconciled before entry into USPS site
- h- Follow-up on prior audit issues, if necessary

2b

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
SAMPLE -INTERNAL AUDIT REPORT TEMPLATE– AUDIT #15-XXX
(FOR DEMONSTRATION OF FORMAT ONLY)

Subject: Review of (Project Name)

Sample Audit Results

- The cost allocation plan and methodology is (not) well documented.
- Program income does (not) have adequate controls to ensure proper use of funds.
- The XYZ program expended more (less) than its available revenue (appropriation).
- Agency needs for bond funding were (not) identified in a timely manner.

Sample Audit Recommendations

- Document all spreadsheet calculations used for indirect cost.
- Discontinue transfer of program A revenues to program Y.
- Evaluate program revenues and expenses.
- Evaluate timelines for aggregate revenues and expenses.

Other Observations/Concerns:

Stakeholder input is (not) obtained for cost allocations is a timely manner.

Response:

Management agreed with our recommendations.

Detailed responses are included in the body of the audit report.

Responsible Area:

Program Director

Scope

Our scope included a review of xxxxxxxx (documents, interviews, etc)

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

Date Signed



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

www.tdhca.state.tx.us

Rick Perry
GOVERNOR

BOARD MEMBERS

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

**A NEW AUDIT REPORT TEMPLATE
FOR DEMONSTRATION OF FORMAT ONLY.
NOT AN ACTUAL AUDIT**

*Writer's direct phone # 512-475-3813
Email: Mark.Scott@tdhca.state.tx.us*

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

This report presents the results of the Office of Internal Audit's (OIA) Review of TDHCA's Sources and Uses of Funds. The audit was identified in the Fiscal Year 2015 Annual Audit Plan.

AUDIT RESULTS:

Adequate controls are (not) in place for the various sources and use of funding at TDHCA. Processes for XYZ program are especially effective.

Activities in ABC Program should be brought into compliance with applicable regulations.

SCOPE AND METHODOLOGY

Our scope included a review of processes currently in place, and the activities for FY XX

Our methodology included interviews with the _____ (position of person in the department), and the review of written policies and procedures. We reviewed necessary documentation, such as budgets and revenue reports.

We performed tests, to determine the accuracy of financial and operational reports in XYZ division.



This report is separated into the following sections:

- Background
- A. Policy and Procedures
- B. Appropriations /Bill Patterns
- C. Uses of Funds Overview
- D. Bond Funding
- E. Program Income Restrictions
- F. Indirect Cost and Allocation
- G. Loan Programs
- H. Tax Credits
- I. Expenditure Controls

Background

The agency has a complex mix of funding and expenditures.....

Interest in this area has been expressed during (legislative hearings, etc)

The purpose of this audit is to

A. Policy and Procedure

Explanation of status of policies and procedures related to activities. Are they current? When was the last update and do staff in that department understand and follow procedures?

FINDINGS AND RECOMMENDATIONS

- A. XXXXXXXXXXXXXXXXXXXX
- B. XXXXXXXXXXXXXXXXXXXX
- C. XXXXXXXXXXXXXXXXXXXX

Recommendations:

- A.....
- B.

A. MANGEMENTS COMMENTS – CORRECTIVE ACTION TABLE

Finding Item Number	Management Comments- Status Pertaining to the Recommendations and Actions to be taken.	Target Completion Date	Responsible Division/Program Area and Manager
A.			
B.			

B. Program Reviewed (Name or subject)

Information Included:

- Overview of program or activity
- Overview of staff
- Findings based on testing and interviews
- If finding, then insert box with managers response to Internal Audit Recommendations

Continue for as many sections of report.

Last section is usually a follow up on past findings/recommendations by both internal and external auditors, if applicable.

We conducted this performance audit in accordance with applicable auditing standards. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We express our appreciation to management and program personnel for their courtesy and cooperation during this review. Please contact me at 512-xxx-xxxx if you have any questions or concerns about the issues or recommendations that are contained in this report.

Sincerely,

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

[Writer's/typist initials]

cc:

2c



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

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Rick Perry
GOVERNOR

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T. Tolbert Chisum
Tom H. Gann
J.B. Goodwin

December 19, 2014

Writer's direct dial: 512.475.3296
Email: tim.irvine@tdhca.state.tx.us

Mark Scott
Director of Internal Audit
Texas Department of Housing and Community Affairs

Dear Mark:

Management of the Texas Department of Housing and Community Affairs ("TDHCA") requests consulting services from the Internal Audit Division as set forth below.

TDHCA seeks an analysis of the current contract/grant monitoring processes that are in place at TDHCA, with an emphasis on subrecipient monitoring processes and the Internal Audit Division's advice on ways to strengthen TDHCA's internal receipt and analysis of subrecipient audit reports required by OMB Circular A-133, as well as advice on how to implement the new "omni-circular" (2 CFR Part 200).

The Internal Audit Division would not, in carrying out such a consulting engagement, be involved in any processing of transactions or staff activity, would not be asked to make operational decisions, or asked to act in any manner that might be incompatible with auditor independence.

We ask that a report or reports on this project, as you deem advisable, be prepared in management letter form to communicate the scope of your role and any advice or recommendations, which could include narratives, charts, and such other descriptive materials as you deem advisable. The reports may also include suggestions for improvements to existing processes.

Please do not hesitate to let us know if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Tim Irvine".

Timothy K. Irvine
Executive Director

cc: Cameron Dorsey
Patricia Murphy



R3

ORAL PRESENTATION