

AUDIT COMMITTEE MEETING

January 28, 2016

Leslie Bingham-Escareño, Chair



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

**AGENDA
9:00 AM
JANUARY 28, 2016**

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

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

Leslie Bingham-Escareño, Chair
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 November 12, 2015

Mark Scott
Director of Internal Audit

ITEM 2: Presentation, Discussion, and Possible Action regarding the Texas State Auditor's Office audit report #16-011 "A Report of the Audit of the Texas Department of Housing and Community Affairs Fiscal Year 2015 Financial Statements"

Mark Scott
Director of Internal Audit

- a) FY 2015 Basic Financial Statements (SAO Report #16-307)
- b) FY 2015 Revenue Bond Program Audit (SAO Report #16-308)
- c) FY 2015 Computation of unencumbered Fund Balances (SAO Report #16-309)
- d) FY 2015 Report on Internal Control Over Financial Reporting and on Compliance and Other Matters (SAO Report #16-310)
- e) FY 2015 Report on Compliance with the Public Funds Investment Act (SAO Report #16-311)

REPORT ITEMS:

Mark Scott
Director of Internal Audit

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

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

EXECUTIVE SESSION

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

- 1. Pursuant to Texas Government Code, §551.074 the Audit Committee may go into Executive Session for the purposes of discussing personnel matters including to deliberate the appointment, employment, evaluation, reassignment, duties, discipline, or dismissal of a public officer or employee.
- 2. Pursuant to Texas Government Code, §551.071(1) the Committee may go into executive

session to seek the advice of its attorney about pending or contemplated litigation or a settlement offer.

3. Pursuant to Texas Government Code, §551.071(2) the Committee may go into executive session for the purpose of seeking the advice of its attorney about a matter in which the duty of the attorney to the governmental body under the Texas Disciplinary Rules of Professional Conduct of the State Bar of Texas clearly conflicts with Texas Government Code, Chapter 551.
4. Pursuant to Texas Government Code, §2306.039(c) the Committee may go into executive session to receive reports from the Department's internal auditor, fraud prevention coordinator, or ethics advisor regarding issues related to fraud, waste or abuse.

OPEN SESSION

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

ADJOURN

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

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

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

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

NOTICE AS TO HANDGUN PROHIBITION DURING THE OPEN MEETING OF A GOVERNMENTAL ENTITY IN THIS ROOM ON THIS DATE:

Pursuant to Section 30.06, Penal Code (trespass by license holder with a concealed handgun), a person licensed under Subchapter H, Chapter 411, Government Code (handgun licensing law), may not enter this property with a concealed handgun.

De acuerdo con la sección 30.06 del código penal (ingreso sin autorización de un titular de una licencia con una pistola oculta), una persona con licencia según el subcapítulo h, capítulo 411, código del gobierno (ley sobre licencias para portar pistolas), no puede ingresar a esta propiedad con una pistola oculta.

Pursuant to Section 30.07, Penal Code (trespass by license holder with an openly carried handgun), a person licensed under Subchapter H, Chapter 411, Government Code (handgun licensing law), may not enter this property with a handgun that is carried openly.

De acuerdo con la sección 30.07 del código penal (ingreso sin autorización de un titular de una licencia con una pistola a la vista), una persona con licencia según el subcapítulo h, capítulo 411, código del gobierno (ley sobre licencias para portar pistolas), no puede ingresar a esta propiedad con una pistola a la vista.

NONE OF THESE RESTRICTIONS EXTEND BEYOND THIS ROOM ON THIS DATE AND DURING THE MEETING OF THE AUDIT COMMITTEE OF THE TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS.

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AUDIT COMMITTEE ACTION REQUEST
INTERNAL AUDIT DIVISION
JANUARY 28, 2016

Presentation, Discussion and Possible Action on Audit Committee Meeting Minutes Summary for November 12, 2015.

RECOMMENDED ACTION

RESOLVED, that the Audit Committee Meeting Minutes Summary for November 12, 2015 are hereby approved as presented.

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

On Thursday, November 12, 2015, at 9:00 a.m. the meeting of the Audit Committee (the “Committee”) of the Governing Board (the “Board”) of the Texas Department of Housing and Community Affairs (the “Department”) was held in the John H. Reagan Building Room JHR 140 at 105 W. 15th Street, Austin, Texas. Leslie Bingham Escareño presided over the meeting and Mark Scott served as secretary. All three members of the Committee were in attendance: Leslie Bingham-Escareño, Tom Gann, and Tolbert Chisum.

Upon motion of Mr. Gann, duly seconded by Mr. Chisum, the minutes of the July 30, 2015, meeting of the Committee were adopted as presented.

Mr. Scott presented the Internal Audit Work Plan for 2016. He stated that the audit plan was prepared based on a risk assessment done in a standard matrix format. The five functions to be audited in the Fiscal Year 2016 are Fair Housing, real estate analysis, the compliance section of the Compliance Division, Multifamily Finance Division and the Tax Credit Program. Also to be completed in Fiscal Year 2016 is the carryover project of program income. Mr. Gann stated that he thought it was very aggressive, as each one is a lot of heavy weight and if help is needed to holler quick and early, because those are very aggressive selections made. Mr. Chisum concurred with Mr. Gann, and also, getting the program income done by the end of December, that is aggressive.

Mr. Irvine, Executive Director of the Department, stated he thinks it is a well targeted plan, and as acknowledged, it’s a pretty aggressive plan. These are a lot of big meaty issues. His only caution was with regard to activity on the multifamily programs, as they are in the throes of recovering from a lot of turnover loss and new management. Ms. Bingham Escareño asked Mr. Scott if he saw an opportunity to try to accommodate or modify either the order of the audit schedule, if the plan is approved, or other opportunities to accommodate without putting unnecessary, untimely strain due to just internal deliverables. Mr. Scott stated he would definitely work with management.

Ms. Bingham Escareño stated she was noticing great communication and interaction between management and the audit function which she thinks is so helpful, and she thinks that we’re seeing, especially with Mr. Irvine’s optimistic comments, that there is a good line of communication to ensure that audit is doing what needs to be done as the audit function but being open to the internal operational needs of the Department.

Upon motion of Mr. Chisum, duly seconded by Mr. Gann, the Fiscal Year 2016 Internal Audit Work Plan was approved, as presented, to recommend approval to the Board.

Mr. Scott provided an update on external audits, reviews and monitoring activities, stating that KPMG is auditing the HOME Program as part of the statewide audit, and an issue has arisen over whether KPMG is going to use the new grant guidance as criteria or the old OMB circulars.

TDHCA's position is that the new grant guidance does not apply for the current KPMG audit. The situation is being monitored closely because a bad audit report from KPMG could harm the agency. Mr. Irvine said that to his knowledge, we've never received properly adopted federally promulgated regulations from HUD creating new requirements and specifying when and how they take effect. Mr. Scott added that in addition to the A-133 there are the cost circulars that would be a problem if they used the new grant guidance. Ms. Bingham Escareño asked that if KPMG does use the new grant guidance and there are findings, what happens after that? Mr. Scott answered that they issue a report that has findings of noncompliance with an associated questioned cost, and in theory, there is a mechanism whereby the federal funding agency would either say no, we don't agree with the finding or that the agency has to pay back the government for those questioned costs. Given the fact that HUD seems to be on our side for the most part, the net effect would probably just be having a very bad looking audit report. Chances are they wouldn't require any payback of questioned costs. Ms. Bingham Escareño agreed that would be her thought too, that she assumes part of the agency's response would be that under the new guidance that there hasn't really been operational guidance from HUD on how to go about making historical agreements comply with new grant guidance.

Mr. Scott provided an update on reports of suspected fraud, waste, and abuse. The report of the numbers was in an updated chart format. Mr. Chisum expressed his surprise that 93 percent of the complaints were not related to the Department. Mr. Scott stated that out in the housing developments they may have a complaint that doesn't address a project that we funded, but the one entity they know to call is us. Mr. Chisum stated it's almost a clearinghouse, and Ms. Bingham Escareño agreed.

Ms. Bingham Escareño told Mr. Scott that they were glad that he had joined us and his team has done an excellent job. She concluded, "Audit's responsibilities to the State are very clear, but we've noticed a real impact that being collaborative and working well together, respecting and honoring responsibilities has really been noticeable this year, so we appreciate you and your team's efforts."

There being no further business to come before the Committee, the meeting was adjourned at 9:25 a.m.

_____ Leslie Bingham Escareño, Chairman

_____ Mark Scott, Audit Committee Secretary

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AUDIT COMMITTEE ACTION REQUEST

INTERNAL AUDIT DIVISION

JANUARY 28, 2016

Presentation, discussion, and possible action regarding the Texas State Auditor's Office audit report #16-011 "A Report of the Audit of the Texas Department of Housing and Community Affairs' Fiscal year 2015 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 Gov't Code §2306.074, requires an annual audit of the Department's books and accounts.
- 2) Texas Gov't 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 required 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 2015 Financial Statements" Report # 16-011 available at <http://www.sao.state.tx.us/reports/report.aspx?reportnumber=16-011>

- a) FY 2015 Basic Financial Statements (SAO Report # 16-307)
- b) FY 2015 Revenue Bond Program Audit (SAO Report # 16-308)
- c) FY 2015 Computation of Unencumbered Fund Balances (SAO Report # 16-309)
- d) FY 2015 Report on Internal Control Over Financial Reporting and on Compliance and Other Matters (SAO Report # 16-310)

e) FY 2015 Report on Compliance with the Public Funds Investment Act (SAO Report # 16-311)

The basic financial statements will be available in their entirety at: <http://www.tdhca.state.tx.us/pdf/15-BasicFinancials.pdf>



John Keel, CPA

A Report on

The Audit of the Department of Housing and Community Affairs' Fiscal Year 2015 Financial Statements

December 22, 2015

Members of the Legislative Audit Committee:

In our audit report dated December 18, 2015, 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 2015 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 basic 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 2014 basic financial statements taken as a whole. We also issued a report on the Department's compliance with the Public Funds Investment Act. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Audit Standards*.

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.

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. 16-011

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,

Lisa R. Collier, CPA, CIDA
First Assistant State Auditor

cc: The Honorable Greg Abbott, Governor
Members of the Department's Board of Directors
Mr. J. Paul Oxer, 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, 2015, 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 an opinion 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.

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, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Department Financial Statements

As discussed in Note 1, the financial statements of the Department are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only that portion 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, 2015, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance 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, Schedule of Changes in Department's Net Pension Liability, Schedule of Employer Contributions, and Notes to the Required Supplemental Information, 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 an opinion 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 relate 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 18, 2015, 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.



Lisa R. Collier, CPA, CIDA
First Assistant State Auditor

December 18, 2015

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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 Revenue Bond Program Enterprise Fund (Program) of the Department of Housing and Community Affairs (Department), as of and for the year ended August 31, 2015, 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 an opinion 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.

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, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance 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 the 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, 2015, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance 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 an opinion 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 relate 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 18, 2015, 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.



Lisa R. Collier, CPA, CIDA
First Assistant State Auditor

December 18, 2015

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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 Computation of Unencumbered Fund Balances (Computation) of the Department of Housing and Community Affairs' (Department) Housing Finance Division, as of August 31, 2015, and the related notes to the Computation.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the Computation in accordance with the financial reporting provisions of Texas Government Code, Sections 2306.204 and 2306.205. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Computation that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion 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 Computation is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Computation. These procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the Computation, whether due to fraud or error. In making those risk assessments, the auditor considered internal control relevant to the entity's preparation and fair presentation of the Computation 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 Computation.

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

Opinion

In our opinion, the Computation referred to above, presents fairly, in all material respects, the unencumbered fund balances of the Department's Housing Finance Division, as of August 31, 2015, in accordance with the financial reporting provisions of Texas Government Code, Sections 2306.204 and 2306.205, as described in Note 1 of the Computation.

Basis of Accounting

We draw attention to Note 1 of the Computation, which describes the basis of accounting. As described in Note 1 to the Computation, the Computation is prepared by the Department on the basis of the financial reporting provisions of Texas Government Code, Sections 2306.204 and 2306.205, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of Texas Government Code, Sections 2306.204 and 2306.205. 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.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2015, 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.



Lisa R. Collier, CPA, CIDA
First Assistant State Auditor

December 18, 2015

2d

**Report on Internal Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards**

Independent Auditor's Report

Department of Housing and Community Affairs Board of Directors

Mr. 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

We have audited, in accordance with the 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, the 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, 2015, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements and have issued our report thereon dated December 18, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely 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 the effectiveness of the entity's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.



Lisa R. Collier, CPA, CIDA
First Assistant State Auditor

December 18, 2015

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Report on Compliance with the Public Funds Investment Act

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

Mr. Timothy Irvine, Executive Director, Department of Housing and Community Affairs
Mr. David Cervantes, Chief Financial Officer, Department of Housing and Community Affairs
Ms. Monica Galuski, Director of Bond Finance, Department of Housing and Community Affairs

We have performed tests designed to verify whether the Department of Housing and Community Affairs (Department) complied with the requirements of the Public Funds Investment Act for the year ended August 31, 2015. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Audit Standards*.

This report is intended solely for the information and use of the Department's Board of Directors, the Department's management, and the Legislature. However, this report is a matter of public record, and its distribution is not limited.

Lisa R. Collier, CPA, CIDA
First Assistant State Auditor

December 18, 2015

R1



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Board Members

J. Paul Ozer, *Chair*

Juan S. Muñoz, PhD, *Vice Chair*

Leslie Bingham-Escareño

T. Tolbert Chisum

Tom H. Gann

J.B. Goodwin

INTERNAL AUDIT

“REVIEW OF TDHCA’S PROGRAM INCOME”

AUDIT #15-007

January 14, 2016

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

INTERNAL AUDIT
“REVIEW OF TDHCA’S PROGRAM INCOME”
AUDIT #15-007

INTERNAL AUDIT DIRECTOR
Mark E. Scott, CPA, CIA, CISA, CFE, MBA

AUDIT TEAM
BETSY SCHWING, CPA, CFE, CGMA
BARBARA EVANS

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
INTERNAL AUDIT REPORT – AUDIT #15-007

SUBJECT: Review of Program Income

AUDIT RESULTS

- F.1 Responsibilities for monitoring and reconciling Neighborhood Stabilization Program (NSP) program income recorded in the United States Department of Housing and Urban Development's (HUD) Disaster Recovery Grant Reporting System (DRGR) have not been clearly designated or communicated.

RECOMMENDATIONS

- F.1 Responsibilities for monitoring and reconciling program income information recorded in DRGR should be clearly designated and communicated. NSP program management should ensure that program income information recorded in DRGR is monitored and reconciled to the other relevant TDHCA information systems on a regular and routine basis.

OTHER OBSERVATIONS/CONCERNS:

The TCAP differences between the TDHCA information systems of Financial Accounting System (PeopleSoft) and the Loan Servicing System (MITAS) were determined to be immaterial and probably due to timing differences. We have no findings related to TCAP.

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 Program Income of the Tax Credit Assistance program (TCAP) and NSP for Fiscal Years 2013, 2014, and 2015.

Our methodology included a risk assessment of the various TDHCA programs that generate program income; interviews with management and other staff of the relevant accounting and program divisions. We also reviewed and analyzed necessary documentation which included the relevant TDHCA information systems and DRGR.



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

1/14/2016
Date Signed



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

www.tdhca.state.tx.us

Greg Abbott
GOVERNOR

BOARD MEMBERS

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Writer's direct phone # 512.475.3813

Email: mark.scott@tdhca.state.tx.us

RE: Review of TDHCA'S Program Income, Internal Audit Report #15-007

TO: Chairman J. Paul Oxer and Board Members of the Texas Department of Housing and Community Affairs (TDHCA)

Dear Chairman Oxer and Board Members,

This report presents the results of the Office of Internal Audit's (OIA) "Review of Program Income." The audit was identified in the Fiscal Year 2015 Annual Audit Plan and carried forward to the Fiscal Year 2016 Annual Audit Plan.

AUDIT RESULTS:

We reviewed the TDHCA processes that account for program income. We noted opportunities for improvements in the areas of reconciling information systems and separation of duties as described in the report that follows.

SCOPE AND METHODOLOGY:

The audit scope covered activities and processes in relation to program income that were in place during the period of FY2013 through FY2015. OIA reviewed the processes in place for identification, recording and reporting program income.

The methodology for the audit included a risk assessment of the various TDHCA programs that generate program income; interviewing financial and program management and staff; reviewing and assessing processes and procedures related to program income; and reviewing and analyzing relevant data from financial and other information systems.

Based on the risk assessment for this audit project, OIA selected the Tax Credit Assistance Program (TCAP), and the Neighborhood Stabilization Program (NSP) for detailed review. The HOME program is currently under review by KPMG. The housing trust fund that is administered by TDHCA is included in the annual audit of the financial statements by the State Auditor's Office.

The report is separated into following sections;

- Overview
- Information Systems used to record Program Income related data
- Reconciliation of Program Income
- Separation of Duties
- Findings and Recommendations

OVERVIEW

The NSP Program is under the Single Family section of the Single Family, Community Affairs and Metrics Division of the TDHCA. The federal oversight agency for this program is the United States Department of Housing and Urban Development (HUD). NSP was authorized by the “Housing and Economic Recovery Act of 2008” (HERA), as a supplemental allocation to the Community Development Block Grant (CDBG) Program. Additional funds have been provided through the Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) as part of NSP3. The purpose of the Neighborhood Stabilization Program is to acquire and redevelop foreclosed properties that might otherwise become sources of abandonment and blight. NSP provides funds to purchase foreclosed, vacant or abandoned homes and residential properties, in order to rehabilitate, resell, or redevelop them, stabilize neighborhoods and stem the decline of property values in communities impacted by the housing crisis.

TDHCA received approximately two million dollars in NSP program income each fiscal year between FY2013 and FY2015. Program income is identified by HUD as “gross income received by the recipient or a subrecipient directly generated from the use of NSP/CDBG funds. Common sources of NSP program income are: payments of principal and interest on loans made with NSP funds; proceeds from the sale of properties acquired and/or improved with NSP funds; Recapture of NSP subsidies if an assisted home is sold before the end of the affordability period; interest earned on program income pending its disposition; repayments of liens placed on privately owned property that was demolished using NSP money; and gross income from the use or rental of real property constructed or improved with NSP funds, less the costs incidental to the generation of that income.” The HUD NSP Policy Alert for Program Income in NSP states: “The general rule in drawing NSP and CDBG funds is that funds must only be requested for immediate cash needs. Program Income works on a first-in, first-out basis. It must be used before drawing down additional grant funds, unless the program income is in an approved revolving fund. In that case it must be used for the specified purpose of the revolving fund before further drawdowns for that specified activity.”

The Tax Credit Assistance Program (TCAP) was established by the American Recovery and Reinvestment Act (ARRA) on February 17, 2009. TCAP was funded through the HOME Investment Partnerships Program (HOME) administered by HUD. The purpose of TCAP was to provide funds for capital investments in multi-family projects that received low-income housing tax credit awards between October 1, 2006 and September 30, 2009. The TCAP grant ended March 2012. The Department continues to receive repayments on the loans made with the TCAP funds.

Currently the Department receives approximately six million dollars in TCAP loan repayments each fiscal year. These loan repayments are not program income as defined by the TCAP guidelines. According to the TCAP guidelines [24 CFR Part 85.25 (b)], program income is the gross income generated by the use of TCAP funds during the grant period. The grant period began the date the TCAP grant award agreement was executed by HUD (July 23, 2009). The grant period ended on the date the final financial report was submitted to HUD upon close out of the TCAP award. The Department submitted the final financial report to HUD in March of 2012. Receipts of the payments on loans subsequent to the grant period are classified

by the program staff as repayment funds. However, the Financial Administration Division uses the term program income to refer to these loan repayments.

Proper identification and designation of program income is important for various reasons. For example, federal regulations may require that the grantee use program income prior to drawing down additional federal funds.

Timely reconciliations of program income in the various agency information systems are important for several reasons. DRGR is the system of record for reporting NSP activity to HUD. Accurate NSP information must be reported through Disaster Recovery Grant Reporting System (DRGR) to HUD to achieve compliance with federal reporting requirements. Proper accounting of cash management is required for state of Texas compliance. Additionally, program income is used as a primary source of funds for NSP. TCAP repayments are recycled to fund future activities. Unlike NSP, TCAP repayments are not reported to HUD through DRGR or any other HUD developed information system.

INFORMATION SYSTEMS

Several information systems are relevant to the recording and reporting of program income:

1. Loan Servicing System (MITAS) - Used internally by TDHCA to track individual loans and borrower activity.
2. Financial Accounting System (PeopleSoft) - Used internally by TDHCA to record accounting information and transactions, such as cash receipts and expenditures. PeopleSoft is the agency accounting system that interfaces with the state comptroller’s Uniform Statewide Accounting System (USAS).
3. Disaster Recovery Grant Reporting System (DRGR) - developed by HUD’s Office of Community Planning and Development for the CDBG Disaster Recovery program and other special appropriations such as NSP. This external system is used by NSP grantees, such as TDHCA to:
 - drawdown funds,
 - report program income,
 - submit the NSP Action Plan,
 - submit Quarterly Performance Reports (QPRs)

The following table indicates the information systems used to record NSP and TCAP program income:

Program	Program Income recorded in Financial Information System (PeopleSoft)	Program Income recorded in Loan Servicing System (Mitas)	Program Income recorded in HUD System
NSP	Yes	Yes	Yes - DRGR
TCAP	Yes	Yes	No

PeopleSoft, MITAS and DRGR are described in further detail in the table included at page 7 of this report.

RECONCILIATION OF PROGRAM INCOME

The Office of Internal Audit (OIA) conducted in-depth reconciliation for TCAP and NSP. The purpose of the reconciliation of program income was to determine if identified deposits of program income were recorded in MITAS and in the case of NSP, reported in HUD's DRGR system.

Program income information for TCAP and NSP recorded in the various information systems is included in the tables that follow, along with the auditor calculations of the differences in the amounts recorded in each of the information systems.

FY	TCAP Program Income per PeopleSoft	TCAP Program Income per MITAS	Dollar Difference between PeopleSoft and MITAS (Auditor Calculation)
2013	\$6,593,760.46	\$6,522,423.95	\$71,336.51
2014	\$5,404,012.68	\$5,401,178.98	\$2,833.70
2015	\$5,963,504.84	\$5,961,588.17	\$1,916.67

The TCAP differences are determined to be immaterial and probably due to timing differences. We have no findings related to TCAP.

FY	NSP Program Income per PeopleSoft	NSP Program Income per DRGR	NSP Program Income per MITAS	Dollar Difference between PeopleSoft and DRGR (Auditor Calculation)	Dollar Difference between PeopleSoft and MITAS (Auditor Calculation)	Dollar Difference between DRGR and MITAS (Auditor Calculation)
2013	\$2,113,353.96	\$2,178,866.89	\$2,168,050.34	(\$65,512.93)	(\$54,696.38)	\$10,816.55
2014	\$2,609,683.12	\$2,075,939.14	\$2,550,360.44	\$533,743.98	\$59,322.68	(\$474,421.30)
2015	\$1,942,839.48	\$2,404,645.72	\$1,848,998.99	(\$461,806.24)	\$93,840.49	\$555,646.73

Common reconciling items included PeopleSoft journal entries that all were not recorded and reported in the MITAS and DRGR systems. Reconciliations between PeopleSoft and MITAS are performed with explanations as to differences. There was a clean-up of prior years errors performed in FY 2015. The reconciliations and corrections need to be completed on a timely basis.

NSP program income information recorded in DRGR is not formally monitored by anyone at the Department. The program income information in DRGR is not reconciled to any information system at TDHCA to ensure the data is accurate. The Director of Single Family Operations and NSP Program Staff stated that there is currently no reconciliation of the program income information recorded in HUD's DRGR system. The Accounting Operations Manager and senior grant accountant also stated that HUD's DRGR system is not reconciled to the Department's Loan Servicing System. Information recorded in HUD's DRGR system should be regularly and routinely reconciled to the Department's other relevant

information systems to ensure the information is accurate and complete and to minimize risks of fraud or reliance on inaccurate information.

SEPARATION OF DUTIES

Assigned responsibilities related to custody, recording and reconciling program income may not be sufficiently separated. Currently the grant accountant has custody of the checks (when preparing the deposits), records the receipts in the general ledger and records the NSP program income in HUD's DRGR system. The grant accountant performs the reconciliation between the Department's general ledger and the information recorded in the Department's loan processing system. The grant accountant stated she is also responsible for making correcting and adjusting entries when they are needed. This same individual has a role in the disbursement process when a subrecipient requests a draw from the Department and can also request draw down funds from HUD through the DRGR system.

Control activities related to authority, custody and accounting of operations should be sufficiently separated to reduce the risk of errors, fraud, waste and abuse. If resources are not available that will allow for sufficient separation of duties, other controls should be considered and possibly implemented to ensure assets are adequately safeguarded and properly recorded and reported.

The Accounting Operations Manager stated that controls are in place to mitigate the risk of insufficient separation of the grant accountant's duties. For example, the senior grant accountant reviews the deposits created by the grant accountant. The senior grant accountant reviews the reconciliations generated by the grant accountant. The grant accountant cannot disburse funds requested by the subrecipient without the approval of other TDHCA employees. Drawdown requests from HUD in DRGR must be approved by another TDHCA employee.

The Director of Financial Administration stated that the risk of errors and irregularities is mitigated by the review and release process by the Team-Lead. Therefore, the review and release process strengthens internal control.

The Accounting Operations Manager stated that the assigned roles are currently being reviewed. The Office of Internal Audit recommends that Department management continue the review of assigned roles and periodically evaluate the roles and permissions assigned to individuals responsible for the custody, recording and reconciling program income transactions to ensure that duties are sufficiently separated.

FINDINGS AND RECOMMENDATIONS

F1. Responsibilities for monitoring and reconciling NSP program income recorded in DRGR have not been clearly designated or communicated.

R1. Responsibilities for monitoring and reconciling program income information recorded in DRGR should be clearly designated and communicated. NSP program management should ensure that program income information recorded in DRGR is monitored and reconciled to the other relevant TDHCA information systems on a regular and routine basis.

MANAGEMENT COMMENTS – CORRECTIVE ACTION TABLE

Management Comments – Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Division/Program and Individual
Management concurs with the recommendation. The Single Family Operations and Services Division (“SFOS”), working with the Financial Administration Division, will implement policies and procedures to ensure NSP Program Income is monitored and reconciled between the TDHCA information systems of record, at a minimum, on a quarterly basis.	March 31, 2016	SFOS – Homero Cabello

Sincerely,

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

mes/bke

cc:

Information Systems relevant to recording TCAP and NSP Program Income:

Please note that this information was compiled as it relates to TCAP and NSP Program Income. It is not intended to be all inclusive.	Loan Servicing System (MITAS)	Financial Accounting System (PeopleSoft)	Disaster Recovery Grant Reporting System (DRGR)
Description of the system	Used internally by TDHCA to track individual loans and borrower activity.	Used internally by TDHCA to record accounting information and transaction, such as cash receipts and expenditures.	External System developed by HUD that is used by NSP grantees, such as TDHCA to: <ul style="list-style-type: none"> ▪ drawdown funds, ▪ report program income, ▪ submit the NSP Action Plan, ▪ submit Quarterly Performance Reports (QPRs)
How is the system used in relation to NSP or TCAP Program Income	<p>Loan repayments are applied (posted) to the individual borrower accounts.</p> <p>The loan repayment is applied to principal, interest, escrow and fees as applicable.</p>	<p>Cash receipts (including loan repayments) are recorded as deposits by a grant accountant in the Accounting Operations Section of the Financial Administration Division.</p> <p>Cash receipts are credited to the related grant or program.</p>	<p>Program income information is recorded in the DRGR System by the grant accountant in the Accounting Operations Section of the Financial Administration Division.</p> <p>Performance reports are submitted to HUD quarterly by TDHCA's NSP Program Administrator.</p>
Who enters the data	<p>TDHCA Financial Services processor in Financial Administration Division applies (posts) the NSP and TCAP loan repayments to the individual accounts.</p> <p>Specific staff has the ability to make notes in the loan servicing system.</p>	Cash receipts (including loan repayments) are recorded as deposits by a grant accountant in the Accounting Operations Section of the Financial Administration Division.	Program income information is recorded in the DRGR System by the grant accountant in the Accounting Operations Section of the Financial Administration Division.

Please note that this information was compiled as it relates to TCAP and NSP Program Income. It is not intended to be all inclusive.	Loan Servicing System (MITAS)	Financial Accounting System (PeopleSoft)	Disaster Recovery Grant Reporting System (DRGR)
Who uses the data	<p>Loan Servicing uses the data recorded in MITAS to perform loan servicing functions such as customer service (i.e. payment and balance inquiries, etc. to borrowers); provide payoff figures to borrowers and/or authorized third-parties; preparation/submission of annual notices to borrowers and IRS information filings; and prepare necessary reports for reconciliation purposes to the accounting area.</p> <p>Data recorded in MITAS is compiled into the high-level report that is reported to Executive Leadership.</p>	Financial Administration Division uses the data to prepare financial reports including the annual financial reports.	<p>HUD staff can review funded activities, prepare reports to Congress and other interested parties, and monitor program compliance.</p> <p>The QPRs are posted on the TDHCA public website and can be viewed by general public and other stakeholders.</p>
Who ensures the data in the system is accurate, complete and entered in a timely manner	<p>MITAS is reconciled to the Financial Accounting System by the Accounting Operations Grant Accountant.</p> <p>The reconciliation is reviewed by the Accounting Operations Senior Accountant and the Loan Servicing Manager.</p> <p>The results of the reconciliation are reviewed and approved by the Loan Servicing Manager and the Manager of Accounting Operations.</p>	There is a multi-level review structure in the Financial Administration Division. For example, the senior grant accountant reviews the deposit transactions prepared by the grant accountant.	Currently program income information in DRGR is not formally monitored or reconciled by TDHCA management or staff.

R2

AUDIT COMMITTEE REPORT ITEM

INTERNAL AUDIT DIVISION

JANUARY 28, 2016

DISCUSSION OF RECENT EXTERNAL AUDIT ACTIVITY

ORAL PRESENTATION

R3

AUDIT COMMITTEE REPORT ITEM

INTERNAL AUDIT DIVISION

JANUARY 28, 2016

DISCUSSION OF INTERNAL AUDITS AND CONSULTING ACTIVITY

ORAL PRESENTATION

R4

AUDIT COMMITTEE REPORT ITEM

INTERNAL AUDIT DIVISION

January 28, 2016

**The Internal Audit Division received
76 complaints of fraud, waste or abuse in
Fiscal Year 2016 (as of December 31, 2015)**

<p>67 allegations were received through the Department's Fraud Hotline</p>	<p>10 of the 67 related to TDHCA programs or activities:</p> <ul style="list-style-type: none"> ▪ Tax Credits – 8 ▪ HOME – 1 ▪ LIHEAP – 1 	<p>57 (85%) of the allegations were not related to the Department's programs or staff or there was not enough information to determine if the allegation related to a Department program, division or activity.</p>
<p>9 allegations were received from other sources including the State Auditor's Office (SAO)</p>	<p>8 of the 9 related to TDHCA programs or activities:</p> <ul style="list-style-type: none"> ▪ Rental Assistance (including Section 8) – 3 ▪ CSBG – 1 ▪ HOME – 1 ▪ Tax Credits – 1 ▪ NSP – 1 ▪ Various Programs 1 	<p>1 (11%) of the allegations was not related to the Department's programs or staff or there was not enough information to determine if the allegation related to a Department program, division or activity.</p>

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