



John Keel, CPA  
State Auditor

A Report on  
**The Audit of the  
Department of Housing and Community Affairs'  
Fiscal Year 2013 Financial Statements**

December 30, 2013

Members of the Legislative Audit Committee:

In our audit report dated December 20, 2013, 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 2013 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](http://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 (that report, including responses from management, is presented in the attachment to this letter). In that report, auditors identified that the Department had not updated a server's operating system or installed software patches to help ensure the security of the Department's data. Vulnerabilities from missing patches may leave the Department's server susceptible to internal and external attacks, which could lead to unauthorized access and compromise the Department's sensitive data.

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 Federal Data Schedule prepared by the Department was fairly stated in all material respects in relation to the fiscal year 2012 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.

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Auditors communicated an issue that was 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.

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

Sincerely,

John Keel, CPA  
State Auditor

cc: Members of the Department of Housing and Community Affairs Board of Directors  
Mr. J. Paul Ozer, P.E., Chair  
Dr. Juan Sanchez Muñoz, Vice-Chair  
Ms. Leslie Bingham Escareño  
Mr. Tom H. Gann  
Mr. J. Mark McWatters  
Mr. Robert D. Thomas  
Mr. Timothy Irvine, Executive Director



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# Attachment



## 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. J. Paul Oxer, P.E., Chair  
Dr. Juan Sanchez Muñoz, Vice-Chair  
Ms. Leslie Bingham Escareño  
Mr. Tom H. Gann  
Mr. J. Mark McWatters  
Mr. Robert D. Thomas

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, 2013, 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 20, 2013.

### **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.

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SAO Report No. 14-319

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control described in the accompanying schedule of findings and responses that we consider to be a significant deficiency.

Summary of Findings and Responses
Finding Number
2013-1

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including the Public Funds Investment Act (Texas Government Code, Section 2256), 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*.

#### **The Department's Response to Finding**

The Department's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Department's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

#### **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.

John Keel, CPA  
State Auditor

December 20, 2013

## Schedule of Findings and Responses

### Section 1

### **The Department Should Strengthen Information Technology Controls Over Upgrades to Its Servers**

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Reference No. 2013-1

#### **Type of finding: Significant Deficiency**

The Department of Housing and Community Affairs (Department) has an application on a server that uses an operating system that the vendor no longer supports. As a result, the Department can no longer update the operating system with software patches necessary to fix known vulnerabilities. Servers using unsupported operating systems do not receive any official patches from the vendor. Vulnerabilities from the lack of patches may leave the Department's server susceptible to internal or external attacks, which could lead to unauthorized access and compromise the Department's sensitive data.

Auditors communicated this weakness in the security over the Department's server to Department management in writing in fiscal years 2011 and 2012. However, as of December 2013, the Department had not corrected or mitigated the weakness.

#### **Recommendation**

The Department should update its server's operating system and install software patches to help ensure that its data is secure.

#### **Management's Response**

*The Department agrees with the recommendation and is currently in the final testing phase of upgrading to new servers with a supported operating system version. Completion of the upgrade is anticipated no later than January 31, 2014.*

#### *Person Responsible:*

*Director of Information Systems*