

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

AUDIT COMMITTEE MEETING

TDHCA Offices  
Room 116  
221 East 11th Street  
Austin, Texas

Wednesday,  
January 19, 2011  
5:00 p.m.

COMMITTEE MEMBERS:

GLORIA RAY, Chair  
TOM GANN  
LOWELL KEIG

STAFF :

MICHAEL GERBER, Executive Director

*ON THE RECORD REPORTING*  
*(512) 450-0342*

I N D E X

<u>AGENDA ITEM</u>	<u>PAGE</u>
CALL TO ORDER, ROLL CALL	3
CERTIFICATION OF QUORUM	3
PUBLIC COMMENT (no commenters)	3
REPORT ITEMS	
Item 1 Presentation, Discussion and Possible Approval of Audit Committee Minutes for November 9, 2010	3
Item 2 Presentation, Discussion and Possible Action on the 2011 Audit Committee charter and Board Resolution #11-017	4
Item 3 Presentation and Discussion of Audit Results from Deloitte & Touche, CPAs -Communications with Audit Committee -Opinion Audit on FY 2010 Basic Financial Statements -Opinion Audit on FY 2010 Revenue Bond Program Financial Statements -Opinion Audit on FY 2010 Computation of Unencumbered Fund Balances	5
Item 4 Presentation and Discussion of the status of the Internal Audit work plan	9
Item 5 Presentation and Discussion of recent internal audit reports	12
Item 6 Presentation and Discussion of the status of external audits	19
Item 7 Presentation and Discussion of recent external audit reports	27
Item 8 Presentation and Discussion of the status of prior audit issues	42
EXECUTIVE SESSION (none required)	
ADJOURN	50

P R O C E E D I N G S

MS. RAY: The Audit Committee meeting for January 19, 2011, is now in session. The Chair will call the roll. Gloria Ray, present.

Tom Gann?

MR. GANN: Present.

MS. RAY: Lowell Keig?

MR. KEIG: Present.

MS. RAY: Let the record show that all members are present, all three members of the committee are present.

At the beginning of each Audit Committee meeting we have an opportunity for public comment. Is there any public comment at this time, anyone who wishes to give public comment before we start the meeting?

(No response.)

MS. RAY: Hearing none, the Chair will move to item number 1, and we will recognize our Internal Audit chief, Ms. Sandy Donoho, to take us through the items on the agenda, beginning with item 1.

MS. DONOHO: Item 1 is the presentation, discussion and possible approval of Audit Committee minutes for November 9, 2010. The Audit Committee minutes for November 9, 2010 are in your Board book. Are there any questions regarding this?

MR. KEIG: Move to approve.

MR. GANN: Second.

MS. RAY: It has been moved and seconded to approve the November 9, 2010 minutes of the Audit Committee meeting. Discussion?

(No response.)

MS. RAY: Hearing none, the minutes for the November 9, 2010 Audit Committee meeting are approved.

Moving to item 2.

MS. DONOHO: Item 2 is the presentation, discussion and possible action on the 2011 Audit Committee charter and Board Resolution #11-017, our internal audit standards.

The Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing -- that's a mouthful -- require annual approval of the Internal Audit charter and the Board resolutions regarding Internal Audit. The content of the charter and the resolutions hasn't changed since they were last approved by you in March of 2010. The newest version of the charter corrects some minor typographical errors that were in there from our track changes during the last version.

There are copies of both of these documents in your book. The charter document is a corrected version so you can see what typographical errors were changed and a couple of other little minor wording things. They are also on tomorrow's consent agenda.

Are there any questions regarding the charter and the Board resolution?

MS. RAY: Any questions from the Board members?

MR. KEIG: No.

MR. GANN: No.

MS. DONOHO: Staff recommends approval of the Audit

Committee charter and Board Resolution #11-017.

MS. RAY: The Chair will entertain a motion.

MR. GANN: I so move.

MR. KEIG: Second.

MS. RAY: It has been moved and seconded to approve the Audit Committee charter and Board Resolution #11-017. All those in favor please say aye.

(A chorus of ayes.)

MS. RAY: Those opposed, no.

(No response.)

MS. RAY: The ayes have it, and the Audit Committee charter and Board Resolution #11-017 are hereby approved.

Item number 3.

MS. DONOHO: It's the presentation and discussion of the audit results from Deloitte & Touche, CPA.

Julia Petty, who is the partner from Deloitte & Touche, had an illness in the family this morning. She's not available to walk you through the results of their opinion on our financial statements, Revenue Bond Program, unencumbered fund balances, and the communications letter, so I will try to be a poor substitute here, do my best. I can give you a brief overview.

For the 2010 basic financial statements -- all of these audits are required, by the way, by statute -- we had an unqualified opinion on our basic financial statements. On the Revenue Bond Program audit, there was also an unqualified opinion which means they didn't find anything wrong with those.

The unencumbered fund balances calculation which is also required by statute, the audit results yielded no required transfer to the Housing Trust Fund.

And on the report to management they had one issue which was, unfortunately, a material weakness. It involved accounting for long-term loan programs. During the final phase of the year-end closing procedure, the Department inadvertently reverted to 2008 policy by classifying loans on the balance sheet but recording current year loan activity as deferred revenue instead of fund balance net assets. This resulted in an increase of \$37 million in loans and contracts receivable, a decrease of \$69 million in deferred revenues, and an increase in revenues and change in fund balance net assets of \$106 million.

Deloitte recommended that the Department should implement appropriate review processes for timely review of year-end financial closing entries to make sure that the application is consistent with the accounting policies, to incorporate reconciliations between loan servicing and accounting operations in order to ensure that the reported balances are accurate for the related loan programs, and to coordinate with other program-specific program services departments like HOME and CDBG that might also provide loan program activity data so that that's all recorded properly in the future.

Are there any questions on these reports? I think Bill and David are here in case you have some questions that I can't answer.

MR. KEIG: Yes. What's our target to get those recommendations in place? Is that something that's going to happen over the

period of this year?

MR. CERVANTES: Mr. Keig, yes. Our target is we're currently in the process of making those changes right now, enhancing our procedures right now, and it will be something that we'll work through through the year, and then, of course, the next opportunity we'll get will be at 8/31 again for us to address the material weakness in practice. The most frustrating thing for us is having to wait till the end of the fiscal year so that we can address this matter overall.

MR. KEIG: Thanks.

MS. RAY: Mr. Gann, do you have any questions?

MR. GANN: No, no questions.

MS. DONOHO: Okay.

MS. RAY: Let me ask you a question on item number 3 before we move to item number 4.

MS. DONOHO: Yes, ma'am.

MS. RAY: Since Deloitte is not here, they are planning to be here for the March meeting?

MS. DONOHO: Yes, ma'am.

MS. RAY: Will we wait for that period of time to vote on accepting the report or do we need to accept that report now with you giving it at this time? What's the process?

MR. GERBER: We'd like to ask for the Board to accept the Deloitte audit, and we do feel a need for Julia to come and report out to you which we'll do at the March meeting, but obviously we're going to the market

with bonds and we want to have our audit accepted by the Board so we have that taken care of for purposes of other issues that the Department is working on that require that, but we do feel the need for Deloitte to come and formally report out to you.

MS. RAY: So this committee, this Audit Committee will recommend -- it's going to be on the consent agenda, so our position is that we recommend to the Board to accept the audit report at the January meeting. Is that your position?

MR. GERBER: Yes, ma'am.

MS. RAY: Is there any discussion on that?

MR. KEIG: No. So I move to accept the reports and to recommend to the full Board acceptance of the audit.

MS. RAY: Do I hear a second?

MR. GANN: Second.

MS. RAY: It's been moved and seconded to accept the report from Deloitte & Touche and recommend to the full Board to also accept the Deloitte & Touche audit recommendations at the full Board meeting in January. All those in favor say aye.

(A chorus of ayes.)

MS. RAY: All those opposed, no.

(No response.)

MS. RAY: The ayes have it, and we will accept the audit results from Deloitte and recommend to the full Board that they also accept the report.

Now we can move on.

MS. DONOHO: Okay. I'm sorry. Thank you for catching that. I was trying to get ahead of myself here. Item number 4 is presentation, discussion and possible action on the status of the Internal Audit work plan.

Looking at the table in your Board book, we completed the following work since our last Audit Committee meeting: an audit of IT governance and a quality assurance program self-assessment which is required by our audit standards -- they require us to have an external peer review every three years, and our last one, as you recall, was in December of 2009 -- and to review our compliance with audit standards on an ongoing basis so this work was part of that process, and we've also reviewed our charter and Board resolutions which you've just approved.

We'll talk about the audit reports that I just mentioned under item number 5. On the status of other work, we anticipate the release of the audit of the Neighborhood Stabilization Program in mid to late February. The start of the Weatherization Program audit was delayed from December to January to allow staff time to complete work on the NSP audit which turned out to be a little more extensive than we had originally planned. The Weatherization Program audit and the audit of the Tax Credit Assistance Program are both underway, they started recently. We anticipate that both of these reports will be released around April.

One thing that we do want to do is switch the time line on our plan from the Hurricane Ike audit and the Tax Credit Exchange Program audit

and just flip those two, and both of those divisions are okay with that. We're trying to accommodate the time demands of Multi Family during tax credit season which they wanted a little more time there.

Also, our Teammate software reconfiguration has been delayed possibly until March or April. We have a new version in testing now and that's the one that will give you a much better prior audit issues report in the future, we hope.

Are there any questions on the status of our audit plan?

MR. KEIG: Does the Board have to approve the audit plan or the work plan, or is that just for information?

MS. DONOHO: You approved it in the fall after the first of the fiscal year.

MS. RAY: It's already been approved.

MS. DONOHO: But if you wanted to approve the change in time line, that would be fine. I would recommend that.

MS. RAY: Then we'll ask the Audit Committee are there any concerns about the changes?

MR. IRVINE: It was just posted as a discussion item.

MS. RAY: Approval is not required, but we'll vote if you want us to.

(General laughter.)

MS. RAY: Okay. Moving on to item 5.

MR. KEIG: It's the same items, it's just reordered.

MS. DONOHO: Right. We're going to do one in April.

MR. GERBER: And actually, Mr. Keig, I would just interject that actually we're putting a lot of pressure on sub-recipients in the Hurricane Ike recovery program to produce, and so having an audit happen a little sooner gives them some good feedback hopefully to improve their processes a little sooner on the front-end, and it works out better for the Department's business cycle as well.

MS. DONOHO: Item 5 is presentation and discussion of recent internal audit reports.

The first one I want to talk about is the internal audit report of information technology governance. This is an audit that's required by our audit standards. The standard requires that we periodically review IT governance so the objective of this audit was to determine if the Department's leadership, organizational structures and processes ensure the Department's IT sustains the Department's organizational strategies and objectives. I know that's a mouthful but essentially what we're looking at there is does the information technology processes of the Department have the support of management and does management approve the projects that the IT department does, do they get feedback from management on how the IT processes work.

As you know, our IT division is very small and we don't have the range, complexity and distribution of systems that's often found in larger organizations, however, we have a great deal of need, given our funding and our multiple activities. Overall we found the Department's leadership supports the Information Systems Division and ensures that IS supports the goals and

objectives of the Department. IS addresses business needs, considers user needs, involves users in development and implementation, tracks projects and communicates with management.

We did have a couple of minor issues that we identified. We felt like the IT strategy was well aligned with the business strategy but there were these two processes that could be improved to further document the alignment. The first one is the IS steering committee which is used to review and approve new IT systems and changes, with meeting by e-mail instead of having actual meetings where they discussed IT issues. We felt like these meetings should be resumed formally to discuss and prioritize systems and system changes. So I just received an invitation to the next steering committee, so I believe this is a recommendation that's already been implemented.

MR. KEIG: That was going to be my next question.

(General laughter.)

MS. DONOHO: I got the invite, I guess I'll be attending, although I don't vote.

In addition, the policies and procedures used to manage systems requests should be revised to reflect the actual processes used to make the requests. I think they had a process but the policies and procedures didn't really match the process, so we felt like they either needed to follow their policy and procedures or revise it to reflect what they were actually doing.

Are there any questions on this report?

MS. RAY: I don't have any questions on the report and I appreciate the report, but I do believe that the IS steering committee meetings are important to the overall functioning of the Department, and I'd like to commend Curtis, and Curtis, your staff for the work that they've done in IT. And in the short time that I've been involved with the Department, I personally have been able to see and experience some of the vast improvements in IT and the changes that you've made in streamlining, and you've certainly been of benefit to those of us that are on the Board just with our little IT that we use during the meetings. It's a great benefit to us and it keeps us from getting back problems carrying around that huge Board book.

Do you have anything at this time that you'd like to add, Curtis?

MR. HOWE: Ms. Ray, thank you for your comments, and I'll be very brief. I just want to thank you for your comments on behalf of all the staff in the Information Systems Division. I'm really fortunate to have a good group of people that really care about the Department and the mission of the agency, and that's our number one goal, to make sure that our technology supports the mission of the agency.

MS. RAY: I know that at the full Board meeting one of the first things that I look for when I sit down on the dais is where is the IT guy just in case I push the wrong button or something. And I've had little things like just the cord being pulled loose and my screen goes dark on me all of a sudden and I don't know what's happening.

But you've been a great asset to the Department and we appreciate it very, very much.

MR. HOWE: Thank you, Ms. Ray. And if I may just add also, I would like to thank the staff of Internal Audit. They took a very thorough detailed look at our processes and our projects and how we make sure that the activities in IT are properly governed, and I think it was a very beneficial process. We hadn't gone through this before since I've been here which is about ten years now, and I think it was a worthwhile audit.

MS. RAY: Very good. Our cry is always continuous process improvement, and we're so dependent on the IT portion of our business today. In today's working environment we would just be absolutely lost without you.

Mr. Gann, did you have something to add?

MR. GANN: I have two small comments. One, some of us older ones on the Board --

MS. RAY: Mature.

MR. GANN: -- mature ones, we like it at 100 percent, that you've got it at now that you can blow it up to 100 percent. I guess the numbers look better that way is what I'm saying anyway.

Number two, you might want to check tomorrow's Board meeting because we're one page off on today, when you click on either the last page or the first page, so you might want to check for tomorrow. It won't hurt us today because he uses paper.

(General laughter.)

MR. GERBER: Ms. Ray, I would just interject also that the budget that came out today, one of the things that gets cut for us and for most state agencies is IT.

MS. RAY: That's horrible.

MR. GERBER: It's going to be rough and it's going to mean more creativity by IT, and luckily we've got a great staff there to sort of keep, between band-aids and rubber bands, holding the system together. But it's going to be a challenge in the next couple of years.

MS. RAY: Thank you so much, Curtis, for the work that you and your staff do for the Department.

MR. HOWE: Thank you.

MS. RAY: Okay. Moving on.

MS. DONOHO: Okay. The next internal audit report is Internal Audit's quality assurance and improvement program. We're required by statute to comply with the standards set by the Institute of Internal Auditors. These standards require us to perform a self-assessment on our audit working papers and to report to our Board at least once a year on the status of our self-assessment. So the self-assessment process requires us to perform a detailed review of our charter, our audit working papers for the prior year and our policies and procedures.

To perform this review we used a working paper tool that was developed by the State Agency Internal Audit Forum which is the group of state agency internal auditors. I'm the chair of their peer review committee which developed this tool. I was not the chair when the tool was developed, though, I will say that. To ensure objectivity, the reviews of our audits for last year were completed by some of our newer staff and were reviewed by auditors that didn't work on those audits, so they were looking at a set of

working papers that for the most part, with a couple of one or two papers here and there, they did not do that work, so they felt free, hopefully, to critique us.

As a result of the self-assessment, we believe we're in full compliance with our definition of internal auditing, the required auditing standards and our code of ethics. This belief is further supported by the results of our most recent peer review. We had two recommendations for improvement on our last self-assessment that were implemented in this self-assessment.

Are there any questions regarding this?

MS. RAY: I don't have any questions.

MR. GANN: Just curiosity. On the Davis-Bacon compliance did we have any problems with that one? I was just curious. I may be on the wrong page.

MS. DONOHO: I think you're on the wrong page. That's coming up next.

MR. GANN: That's the next one. Okay.

MS. DONOHO: So if there are no other questions.

MS. RAY: Move on to item 6.

MS. DONOHO: Yes, ma'am. It's presentation and discussion of the status of the external audits.

There are ten external audits, reviews or monitoring visits for fiscal year 2011 -- I will point out that it's only January -- that are either planned, underway or recently completed. We usually have about 13 a year; I think we'll be much higher than that this year just based on where we're at at

this point.

The table in your book shows nine: there's the KPMG statewide audit; the Deloitte audit that you heard about earlier; three HUD reviews, two of Disaster Recovery and a Section 8 review that we don't expect to receive a report on, it's more of technical assistance type visit; a HUD OIG review of Disaster Recovery, and that report we expect soon; a Treasury audit of the Tax Credit Exchange Program; and two DOE monitoring visits for the Weatherization Program. We also recently received notice of the Department of Homeland Security OIG review of the alternative housing pilot project which is the Heston project that's scheduled for late March. That one is not on your list. So that makes up the ten.

In addition to these ten we are still waiting on final reports for three external audits from 2010. One is HHS review of the LIHEAP program, the Low Income Housing Home Energy Assistance Program, a HUD review of Davis-Bacon compliance -- and that's the one I believe you're asking about, Mr. Gann. We received a draft report in August on that one, they submitted responses back to HUD on November 1, but the final report has not yet been issued. And then a HUD review of the CDBG Disaster Recovery Program. They did that review in July of 2009, it was a monitoring visit. We received a draft report in March 2010, responses were submitted back to HUD in June, and HUD has not issued a final report yet.

So I'm sorry, Mr. Gann, your question on Davis-Bacon?

MR. GANN: I was just curious. That original review that you went through before you sent it off for final review, was it pretty smooth on the

Davis-Bacon side? I was expecting some rough territory there, I guess.

MS. DONOHO: I believe there were some issues in that report that we didn't necessarily agree with and I think that the Department submitted a response back, and so they're waiting for HUD to either clear those.

MR. GANN: Well, hopefully the final will come back well. I was just curious to see how it actually came out.

MS. DONOHO: And I don't think we know yet whether HUD agrees with the response.

MR. GERBER: Tom, would you like to chime in on the two issues?

MR. GOURIS: Tom Gouris, deputy executive director for Housing Programs.

There were two issues, I believe, and I think that they at least verbally confirmed that we've addressed them now. Actually, Patricia and Laura Myrick went up and visited with them in person and revised our responses and we haven't seen anything in writing but we believe that we've accomplished that.

MR. GANN: That's fine. I look forward to that one.

MS. DONOHO: Are there any other questions on the status of external audits?

MS. RAY: I don't have any questions. Mr. Keig?

MR. KEIG: Yes. On the Homeland Security audit of the Heston project, did we have any discussions with them about why they're auditing that? I mean, we've given full disclosure of what happened.

Anything more you can tell me about that?

MR. GERBER: I'll let Kevin add to it, but I think it's a standard closeout audit. Obviously we finished the use of the funds that we could use and when we determined that it was not going to be a successful project, in consultation with them, they authorized us to go ahead and end the demonstration -- which is what it was, they were testing the technology out, didn't work -- and they also gave us the authority to go ahead and treat them as surplus property and to sell the 50 units that I think we had in the warehouse for some period of time.

MS. CRAWFORD: This was actually Office of Inspector General for Homeland Security, and they're doing it for all four states that were involved in the program so they're going to apply the same objectives to all four states. And they weren't even going to tell us what their scope was but we asked and so we got a very broad, pretty much they didn't even touch on everything: effectiveness, the reliability of the housing type for disaster recovery, and those types of things. So it remains to be seen exactly the full scope, but it's for all four states: Alabama, Louisiana, Mississippi and Texas.

MR. GERBER: Didn't I see something about closeout in some of the traffic going back and forth that was going to happen?

MS. CRAWFORD: That's not what my understanding of this was.

MR. GERBER: Of this particular one.

MR. HAMBY: They were closing out the program and we sent letters, so that's probably what you're thinking that you've seen in this area,

but this is more targeted to how effective were their programs that they let for all four of the states. We're obviously the smaller of those as well, and we pretty quickly determined our program didn't work.

MR. GANN: They were all four different programs?

MR. HAMBY: They were all four different programs. Our houses tended to leak quickly. It will not be pretty but it won't be because of us.

MR. GERBER: But it's important, don't call them our houses, call them those houses.

(General talking and laughter.)

MR. GERBER: Ms. Ray and I both visited the homes in New Orleans and it's an idea that had such promise.

MS. RAY: It did.

MR. GERBER: And it was just a good concept, bad folks at planning it.

MR. HAMBY: I was actually talking to our construction manager to see what he had to say about these houses, and primarily the way they were put together was with caulk as the primary feature to make sure they didn't leak. So it was not a good plan from the beginning.

MS. RAY: Sure didn't look like that when it was sitting inside the warehouse. It couldn't leak of course. But it seemed like a promising program but that's what tests and pilot programs are for, to find the problems with it, and that was a big failure. I'm glad to know that Texas was not the only state involved in that, that there were four states involved in that trial.

MR. GERBER: Not of that particular technology. We were the only ones testing out the Heston product. In Louisiana they were using something called Katrina Cottage, or Mississippi was using a Katrina Cottage which were kind of a cookie cutter 6- to 900 square foot house and could be rapidly mass produced. There were other things being tested out in the other states, but the program was really geared for Mississippi. Out of \$400 million, I think they got about \$275- or \$300 million of it. So we received a small amount and we thought, frankly, the biggest credential they had was that the Department of Defense uses this and the United Nations uses a modification of the Heston product to house troops and to house relief workers, and so we thought we had a failure high degree of confidence that the execution would be better than it was.

MS. RAY: Let me ask you of the four products that were looked at in the four different states, of the four were there any successful pilot projects that showed promise?

MR. GERBER: I think the Katrina Cottages have been talked about. It guess this audit will, it sounds like perhaps depending upon the scope, maybe give us some.

MS. CRAWFORD: The Katrina Cottage was very much like a park model home, actually, and so really in my opinion -- and maybe this is the wrong forum for that -- ours was the only one that was really something that could be shipped and utilized very quickly.

MS. RAY: Instead of the trailers.

MS. CRAWFORD: Ours was the only one to do that and ours

didn't work. The others are more permanent solutions that take much longer, so I think the whole program really didn't meet the objectives as I understood them.

MR. GANN: The Katrina Cottages weren't on wheels?

MR. HAMBY: They were on wheels but they were on platforms on wheels, so it's still like brining in a travel trailer or anything else. You couldn't ship 500 of them and have them stacked in a warehouse in case of emergency.

MS. RAY: Okay. Are there any other questions on the external audit? If not, we'll move to item number 7.

MR. GERBER: There's one last point on that, Ms. Ray. The houses, I know, were put in surplus property and who did they go to?

MR. HAMBY: We didn't actually sell them. We gave them away to a nonprofit, the name escapes me, but it's in the Houston area. They have a warehouse where they moved all the stuff out of our warehouse into their warehouse, and they're in the process of distributing them through one of their local nonprofit agencies. And so some 30 or 40 homes will actually go to someone, the 30 or 40 homes that were left will go to someone, as will all the refrigerators and the other things that we had there. We advertised it through the building program, and so it went up on the website, everybody had a fair opportunity to bid, and these are the people who agreed to do it.

MR. GERBER: So hopefully without the federal strings attached to it maybe some of that will actually go to some good use.

MS. RAY: Very good.

Moving on to item number 7.

MS. DONOHO: Item 7 is the presentation and discussion of recent external audit reports, and this time we only have one to talk about, but an update on another one also.

This one is the Department of Energy's onsite monitoring report of the Weatherization Assistance Program. The Department of Energy, also known as DOE, has been visiting us quarterly, they performed an onsite monitoring in November of 2010. This monitoring visit included looking at the administrative, financial and programmatic aspects of the program. They also visited two sub-grantee agencies and they identified a couple of findings, two findings, I think, and five concerns.

There were no findings or concerns related to their limited financial review, they had no findings in their administrative review, they had three concerns, and I don't think any of these are a surprise to anybody. The first one is that they were concerned about the significant number of agencies that are failing in the state. They recommended that TDHCA follow the process in our state plan or develop a methodology for identifying agencies who are in trouble or at risk of failing. They expressed concern regarding how we'll continue as an agency to provide weatherization services throughout the state for both ARRA and regular WAP funds if sub-grantee agencies continue to fail and there are no acceptable bidders in particular areas to provide those services.

They requested that TDHCA submit a plan by the end of the 2010 program year for serving areas in which funds have been de-obligated,

and they also questioned how the agency will achieve the projected production numbers and fully expend the ARRA grant given the number of agencies that are having problems.

They visited 13 properties during their onsite monitoring and identified the following issues: there was no evidence in the files of a mold assessment being conducted or client notification for mold or hazardous conditions; they had a prior concern about the NEAT audit which is the, I guess, system that they put information in to kind of tell them what they need to do when weatherizing a home; and they also found an air conditioning unit that was replaced with a 2 ton unit but the program was charged for a 2-1/2 ton unit.

And that's pretty much the kind of brief summary of this report that's in your book. Are there any questions regarding this audit?

MS. RAY: I think the members of the Audit Committee, as well as the full Board, are also concerned about our effectiveness in administering the program. We've had some very unfortunate failures across the state in terms of fraud and abuse, and when we have those kinds of problems it does impact our ability to fully have good program execution by the end of the year.

Mr. Executive Director, do you mind if Brooke kind of talks us through this area, please?

MR. GERBER: Of course.

MS. BOSTON: First, there are quite a few things in this that we take some exception to, and we're releasing our response probably in the next couple of days. But one of the things that they say that I think Michael

and I are probably offended by -- and I use that kind of loosely -- is that they indicate that we don't have a great methodology for identifying the agencies that are at risk. The only way that DOE could list out the ones that are in there is because we told them. Those aren't ones they've gone and seen.

So we do have a method for identifying at risk, and of that list four of those are ones that have actually, I would go so far as to say, failed, two that are already closed down -- we've been sharing that information with you guys -- two that are in the process of being de-obligated for ARRA funds, although I wouldn't say that they've failed as agencies. I wouldn't say that they've failed as agencies, I think that they have failed as it relates to ARRA WAP, they couldn't deal with the expansion. We're working with them on their non-ARRA activities so that they can continue in the long run as an effective community action agency.

A lot of the ones on that list are the ones that because we were able to identify them as having some issues or concerns, we've been able to do really intensive TA, do some effective onsite monitoring, we've brought in some process specialists. So the implication in here that we don't have a process or that we're not following a process I don't think is really accurate. There are some failing agencies but we know about them and we're very involved in trying to make those corrections.

I also think our monitoring is pretty robust and we've made remedies along the way whenever DOE or Internal Audit has had suggestions about the monitoring protocols, so a part of why we're able to identify who has risks is because we have pretty tough monitoring, and even DOE when they

have come has complimented our monitoring, that we do catch a lot and we're catching the right things. The last time Department of Energy I asked them point blank: If you were in our shoes, what else would you do differently? And they said, Nothing.

I totally agree with you on the monitoring and identifying the at risk, I totally agree with your assessment on that, but I guess a larger question is if these agencies get closed down, how are we going to provide services to that community where the need still exists even though the agency is having problems, and how will we expend the money when we do identify these at risk agencies. To me that's the bigger question than we don't have a system, because I believe we do.

MR. GERBER: Well, let me address the issue of the agencies.

Some of the agencies that have shut down, like Cap Taylor and like NIRD, were certainly among our weakest anyway. They were agencies that had longstanding problems. Some of the agencies that have now been targeted for de-obligations are the same. And interestingly in some cases, for example with Cap Taylor which serves Abilene, we have found that other community agencies with additional capacity have been willing to step up, and that's been very, very helpful to us.

MS. RAY: To me that's the greater question.

MR. GERBER: Right. And I think we've got 40-some-odd agencies, and we've seen a need across the board to look at how they're organized. During the middle of the stimulus is not a good time to do it. But ultimately we need to get to some smaller, more manageable number where

the agencies are more rigorous and more highly professionalized and can actually do more with less. And so that's going to be an ongoing challenges with the Community Services Block Grant funds working through these agencies, and any other funds that go in there. Across the board they're going to be asked to step up and take on more responsibility.

But the short-term question, how do we get all these WAP dollars administered, that's a struggle, and touch a little on that.

MS. BOSTON: There's kind of two things you asked about: how do you continue to serve the areas and how do you get all the money spent.

MS. RAY: Exactly.

MS. BOSTON: They both won't happen. I think that from our forecasting model so far I think we can be very successful at spending all the money but it is not going to remain, I think, exactly where we have it allocated.

I don't think there will be very many areas that will go totally unserved, they're still going to get more than had our WAP not come and impacted their community, but for instance, there are some that maybe 10 or 15 percent of their contract, when we look at forecasting models, we're seeing that they would have left about 10 percent on the table.

So we're going to be working with those groups and with other groups who could show that spending at their current rate they would be able to spend more than their current contract and hopefully be able to move the money around a little bit, I would hope mostly through voluntary agreements. So I think it's less the areas will go unserved than that their proportionally

amounts of dollars going in may be different than their current contract amounts.

But I think as long as there's willingness and coordination on how to move the money it looks as though we'll be able to spend it all by the March deadline which was optimistic. As we went through these forecasting models recently, I think that gave us a lot more confidence. And that's if changes to the current per-unit costs don't change. We actually think that there will be changes to the per-unit costs that will actually make that even -- kind of accelerate that picture.

MS. RAY: In other words, the prices go up, you'll spend the money even though you might not do the anticipated number of units.

MS. BOSTON: And actually, we're required, ideally, to do 33,000 units. I think in our worst case scenario we're going to do around we're going to do around 50-, 55-, and we may be able to do more than that.

MS. RAY: Fifty-five thousand?

MS. BOSTON: Uh-huh.

MS. RAY: Very good.

MS. BOSTON: We just broke 25,000 today.

MS. RAY: I feel a whole lot better now. I'm glad we had this chat.

MR. GERBER: We've spent more than 41 percent of the money, and we've got till March of 2012.

MS. RAY: Okay. Very good story.

MR. GERBER: And I will say, interestingly, with the start of

the new year we've talked to a lot of mayors and city council members and others to put pressure to move dollars out. It's important for chief elected officers of cities to know that they may be leaving dollars on the table and that those dollars could be lost to their community, and most of them have stepped up.

MS. RAY: So what I think I'm hearing you say is that even the communities where you have agencies that are at risk, because of the influx of the ARRA dollars more people are being served, whether they've spent 100 percent of the money that they've been allocated, they're still serving more families than they would have served under the other funding levels.

MS. BOSTON: Correct.

MS. RAY: So the story is a good story. Sometimes when you identify an at risk agency and deal with an at risk agency in these environments it's a good thing for the overall program because it brings other people to the front that can do the work, and maybe those agencies need to be changed or adjusted.

MS. BOSTON: I think, too, I would just add in this model DOE included in their at risk category people who are still very slow at spending, and while in some cases I would agree with that, that that does make them at risk of potentially not finishing their contract, some of them for a variety of reasons, depending on what the entity is, it just has taken them a very long time to get ramped up.

But for instance, Austin, you've heard us talk about them, they were just dragging it out and dragging it out. We talked internally, we're like

should we transfer this to Travis County, what are we going to do. And they kept telling us here's our plan, it's very specific, and sure enough, they have ramped up. I think they can overspend if we let them. So I think some of it is just it's taken a little longer.

MS. RAY: I have a very parochial question, and it's probably not really appropriate for this forum, but it's parochial in that it's in my area such as all of the flak that we had about ACOG and the problems that we had there and the changes. Have we seen improvement with ACOG? Since I'm not involved with them anymore, I don't know what's going on.

Mr. DE YOUNG: Yes. I think we've seen that ACOG has changed their management structure significantly.

MS. RAY: I know.

MR. DE YOUNG: It moved an experienced division director over the program and have moved it more to the housing side of their organization. We have not seen the production numbers yet come back from ACOG from these recent changes. They took a hiatus to try and get all this analyzed, as well as implement the changes, and I think we'll start to see that production really ramp up. I think we're a month or two off before we're back to the high production numbers.

Prior to all this, ACOG was one of the high performers, and now they've kind of, since this hiatus, the others have been moving very well and ACOG has slipped down a little bit, but they're certainly not in trouble at all.

MS. RAY: Okay, good. That's all I needed to know.

MR. GERBER: And we'll share this with all of you, but in the case of ACOG they received \$15-1/2 million, they've spent \$5.7 million, and they've weatherized 2173 units, so that's 37 percent of the money has been spent. So they really are very much part of the pack. They're not leading it, certainly, and they're not far behind. There are many other agencies we're more concerned about, and I think they're really trying to right their ship.

MS. RAY: Mr. Keig, do you have any other questions on this?

MR. KEIG: Just about the mold assessments. Does that mean that no mold assessments were done, or they just found some instances where no mold assessments were found?

MR. GERBER: Just some of the units.

MS. BOSTON: Some instances. And we've implemented their recommendation, but for both mold as well as lead-safe practices, they felt like we -- including the whole network, the universal we of weatherization -- have not been consistent in how we're getting clients informed about mold and lead-safe. So when they've been checking files here and elsewhere -- this was actually in a prior report as well -- so we've been more aggressive about we created a form specifically that addresses both issues and we've been more aggressive with the sub-recipients now about you have to use this in every client file, our monitors are testing for it more aggressively.

MR. KEIG: Do we look at for old -- what is it, before 1980 asbestos as well? I don't know if you're going in and disturbing that type of stuff.

MS. BOSTON: Well, we do have to do proper asbestos abatement like if we impact windows frame.

MR. DE YOUNG: Windows and doors wherever paint is in existence, and asbestos, DOE really recommends that we not become an asbestos abatement program. If there's significant asbestos, usually the house is not denied but it is deferred service and we ask them to resolve the asbestos issue, and then we will come back with weatherization services at a later date. Interestingly enough, that hasn't happened in that many WAP units right now. The bigger issue is the lead-based paint issue in the pre-78 units, and that's a significant issue as well as a significant documentation issue for all the agencies.

MS. RAY: Do you have any other questions?

MR. KEIG: No.

MS. RAY: Mr. Gann?

MR. GANN: No.

MS. RAY: Thank you very much for your monitoring, both of you working together so well. This is a very, very big area for our state and certainly for our citizens out there. Everywhere that this program has been implemented all over the state, the information or the feedback that we get from the families who have benefitted from this particular program, we have really done some really good work that will help the families and improve their quality of life for years to come. And so it's a very, very big program, not only for the number of dollars but for the number of families who are being helped and benefitted, and it can't help but help the State of Texas.

We really do appreciate your work you've done on this, it's a big job.

Thank you. We'll move on to the next one on the HUD OIG.

MS. DONOHO: Before we do that, I would like to mention that Internal Audit has on the work plan and has already started an audit of the Weatherization Program because when we looked at weatherization monitoring last year we felt like the processes were in place there to monitor the sub-recipients and the monitoring tools and that sort of thing were effective. So the questions I think we have at this point are if, as an agency, TDHCA can identify the sub-recipients that are having problems, what are we doing to predict which ones are going to have problems and what are we doing to prevent them and how can we, as an agency, through our monitoring processes identify and predict and prevent agencies from failing. So we're going to be looking at monitoring again from kind of a different approach.

MS. RAY: We look forward to that internal audit.

MS. DONOHO: The next issue is the HUD OIG ACS contract issue. We talked about this at the last Audit Committee meeting, and I wanted to share with you just briefly a followup on that issue because we talked about it at length the last time.

TDHCA recently responded to HUD regarding the ACS contract findings in their July 20, 2010 audit report. There's a copy of that letter in your Board book. \$210,000 was recaptured from ACS and the contract between ACS and TDHCA was amended to increase clarity and to address the rest of HUD's recommendations. So those are completed and, at least as

far as Internal Audit's tracking, closed.

Are there any questions on that issue?

MR. KEIG: No. Thanks to Kevin for all the hard work on that.

MR. HAMBY: I'd love to say I did a lot of it, but Martin Rivera and Kelly did a lot of that. I think I was the fear behind it. They did most of it.

(General laughter.)

MS. RAY: I too want to thank you, Kevin. That ACS contract really goes back almost to my beginning with the agency, and I was able to see your hand of fear, if you will, throughout the contract, particularly on the front-end of the contract. And I think that we had some issues, as one would see it from a different perspective, but if you have been through the process, I think we can appreciate what the Department did.

And my concern is I think it was an extraordinary model and it's unfortunate -- and this is just my soapbox -- that we don't have a similar model for Ike.

MR. HAMBY: Well, I can tell you that Mike and I met today with some builders who said that the Rita Round II process was the best federal program to build houses that they've ever been associated with.

MS. RAY: I certainly feel the same way. And I certainly have to give you and your staff and Kelly and all of those in the Disaster Recovery Program, with all the machinations we had to go through, you really came out with a great product, and it really needs to be made the model, if not for the nation, certainly for the state. And I just hate to see us going through some of the same problems in disaster recovery because we're, in my opinion, losing

sight of the benefits of the program that you guys put into place that I'm very grateful for.

And I know the citizens of Texas, particularly those who were impacted by Rita, are certainly grateful for the good work that came out of that ACS contract. I saw the before, I saw the after, I'm very grateful for it. Thank you very much.

Moving on to item number 8, if there are no other questions.

MS. DONOHO: Item 8 is the presentation and discussion of the status of prior audit issues. We have 51 current prior audit issues in our database, and I will clarify this by saying we're struggling along with this database, it has some problems, the reports aren't as clear as I'd like them to be. We're implementing a new way of tracking these, and as soon as that's in place, hopefully these reports will be a little bit clearer.

Of the 51 that we have in there now, there are three issues that were previously reported as implemented, and we verified and closed those recently. There are 34 more that are implemented, they have not been verified and closed by Internal Audit yet. That's work that we do kind of between projects or when we have staff who have any kind of downtime, and we haven't had a lot of that lately.

The three issues that were identified and closed were in Community Affairs, Information Systems and Program Services. There are eight issues that were recently reported by management as implemented. Those will go on our list to be cleared as soon as we have the time. There is one in Community Affairs/Community Services, three in Energy Assistance,

two in Disaster Recovery, one in Information Systems, and one in the Tax Credit Program. There were six issues that were in process and we'll verify and close them as soon as they're reported as being implemented, and there's one of those in Community Services, two in Energy Assistance, one in Compliance and Asset Oversight, one in Disaster Recovery, and one in Information Systems.

Are there any questions on any of the prior audit issues?

MS. RAY: Mr. Keig, do you have a question?

MR. KEIG: Yes. I'd like to get a little more information on issue 46.

MS. RAY: On Community Affairs?

MR. KEIG: Community Affairs. That's a 2008 audit issue, had to do with monitoring tracking system not being kept up to date, as a result it cannot be relied upon for completing risk assessment process, and staff must manually go through the monitoring reports to determine information they need for the risk assessment.

And I'm not up to my ears in this, so I need some help from you guys as it seems like this is something that's an efficiency thing as well that would help us do our job better. It's been going on now for over two years and we've got a target date of February 28. Can we hit that date and get a new system in place?

MR. GERBER: Why don't we walk through what we're doing.

MR. DE YOUNG: The original finding related to a database that was kept in an Excel file, it was fairly simple: it had capture dates, when

we did the monitoring visit, when we sent letters and when we resolved the closeout issues. Since that time we have tried to get a new system in place through the IS staff, and they have had an inordinate amount of projects ongoing, and so with the introduction of ARRA funds, we decided that internally for the program we would start our own internal database.

It is still an Excel database but it's got more capability. We can stratify -- and you'll see in the audit, we take some of the suggestions in the audit -- we stratify as to the number of audit findings that agencies have in the past. If you had one audit finding or one monitoring finding or ten monitoring findings, you go the same number of points. Now we can actually stratify and say the agencies that have ten monitoring findings versus two monitoring findings are given different scores.

Also, we have the ability to increase the points for being passed over. Because of the nature of some of the programs in Community Affairs, you don't necessarily monitor them every year. If they've been passed over for a year we actually raise their risk profile and we end up monitoring them sooner in that new year so that they have quickly an accurate assessment of where they are.

Those agencies that get a lot of money are always going to end up there, but there was a possibility in the past that someone who did not receive a lot of money would go almost a two-year period without a monitoring, and so we've adapted the database to force the issue on a more time-sensitive matter and move that entity to a quicker audit, and at the same time look at what is the amount of funding they have, how much did they have

in monitoring findings the last time we went there, what were the nature of those monitoring findings, were they significant or were they minor. All of that has been incorporated into an enhanced spreadsheet.

We still probably could stand to do some more enhancements, and we have staff currently working on that and it's an ongoing process. We see the February 28 deadline. We hope to be there. I think we have everything current in the database as of now. And we're trying to add some historical data to give some context to the risk assessment process to see the agencies that historically had problems in certain areas, whether it be finance and accounting or whether it be just in delivery of services for the Weatherization Assistance Program or utility assistance programs.

MR. KEIG: Anything from Internal Audit to add?

MS. DONOHO: Not on this one. I think, since we're looking at monitoring again, hopefully this is something that we can consider in our audit that we're starting up now and kind of see where they're at with this.

I know one of the issues that's kind of related to this that we had in our last audit of Weatherization monitoring was that we weren't releasing monitoring reports in the 30-day window required by the Department of Energy, and those are tracked in the state too. So I think that fixing this problem might fix that other issue, I hope.

MS. BOSTON: This finding you asked about, though, is just for CSBG, not for Weatherization or Energy. But when we come up with a really great model or efficiency for one area, we try to mimic it on the other side.

MR. KEIG: And have we hired somebody in particular to work on this system, and can we spend some of that ARRA money to do so for that kind of administrative work?

MS. BOSTON: Not for this finding in particular because this finding, again, is about the Community Services Block Grant money, and the CSBG ARRA money didn't have any administrative funds with it.

We did hire a database person for our ARRA Weatherization money. She has evolved a really neat database and assuming that it's readily replicable as ARRA is winding down over to the Community Services side, it's probably more just an issue at that point of cross-training and trying to tweak it without having to build a new one. So I think we'll derive benefit from the Recovery Act Weatherization employee without having a Community Services person being paid out of Recovery Act or anything like that. So I think we ultimately will get the benefit on the Community Services Program from the Weatherization Recovery Act database.

MS. DONOHO: And I apologize. I was thinking about issue number 69 which is the Weatherization database when I was talking about the DOE timeliness issue.

MR. KEIG: And 69, unless you had something else, I would just encourage you -- I know we're looking at budget cuts and everything and everything is tight -- if you have to reset that deadline, put a realistic time line out there, and if you have to build a Chevy, build a Chevy, don't try to build a Rolls Royce.

MR. DE YOUNG: I'll advise them that way, absolutely.

(General laughter.)

MR. GERBER: I'll reset the time line. I think that the 28th is going to be an aggressive timetable to meet, and the same will be true for number 69 as well, and I would say that we will probably need a couple of additional months beyond that. That's just realistic given the work flow. So my hope is that we have good news to report to you at the next Audit Committee meeting, but it may be, in fact, the one after that.

MR. KEIG: Then in light of that I'm not going to ask, unless you would like to give us some information about 69, I say let's say wait until maybe a next Audit Committee meeting and we can get an update from you on that.

MS. RAY: That will be in the April time frame. I think that's appropriate.

MR. GERBER: That's fine. Anything you want to mention on that real quickly?

MR. DE YOUNG: That's great.

MS. RAY: I think that's appropriate.

MR. KEIG: That's all I have.

MS. RAY: Mr. Gann, do you have any concerns?

MR. GANN: No.

MS. RAY: Well, this concludes our agenda items. Again, I'd like to thank the Internal Audit Division. And you have a new employee that I don't think was introduced to everybody.

MS. DONOHO: Rene Valdez.

MS. RAY: Rene, welcome to our little world. We're glad to have you.

And we thank you for extraordinary work that the audit staff has done, and we thank you, Sandy, for bringing these miracle workers onboard and finding the good talent to help us in our quest of continuous process improvement.

And Mr. Gerber, I thank you for bringing the staff in. It is always encouraging and enlightening as we learn more details and we walk feeling a lot more comfortable than we did when we walked in. And we thank all of you for being here.

And if there are no other questions, no other concerns, the Audit Committee meeting for January 19, 2011, is adjourned.

(Whereupon, at 6:00 p.m., the meeting was concluded.)

CERTIFICATE

MEETING OF: TDHCA Audit Committee

LOCATION: Austin, Texas

DATE: January 19, 2011

I do hereby certify that the foregoing pages, numbers 1 through 42, inclusive, are the true, accurate, and complete transcript prepared from the verbal recording made by electronic recording by Penny Bynum before the Texas Department of Housing & Community Affairs.

01/24/2011  
(Transcriber) (Date)

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