

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

AUDIT COMMITTEE MEETING

7:37 a.m.
Thursday, May 5, 2011

Room 116
TDHCA Headquarters
211 East 11th Street
Austin, Texas

MEMBERS PRESENT:

LESLIE BINGHAM ESCAREÑO, Chair
TOM GANN
LOWELL KEIG

STAFF PRESENT:

MICHAEL GERBER, Executive Director

ALSO PRESENT:

J. PAUL OXER

AGENDA

ITEM	PAGE
CALL TO ORDER, ROLL CALL, CERTIFICATION OF QUORUM	7 7
PUBLIC COMMENT	
REPORT ITEMS	
1. Presentation, Discussion and Possible Approval of the Audit Committee Minutes for January 19, 2011	4
2. Presentation, Discussion and Possible Approval of the Internal Audit Work Plan	5
3. Presentation and Discussion of Recent Internal Audit Reports	8
4. Presentation and Discussion of the Status of External Audits	33
5. Presentation and Discussion of Recent External Audit Reports	25,34
6. Presentation and Discussion of the Status of Prior Audit Issues	41
EXECUTIVE SESSION (None)	48
ADJOURN	49

P R O C E E D I N G S

MS. BINGHAM ESCAREÑO: Audit committee meeting to order. And maybe just to start, do you want to go around and introduce --

MR. GERBER: If we could. Congratulations on assuming the role as audit committee chairman.

MS. BINGHAM ESCAREÑO: Thank you very much.

MR. GERBER: It might be helpful to just introduce -- let Sandy introduce the audit committee staff.

MS. BINGHAM ESCAREÑO: Great.

MS. DONOHO: You mean the audit staff, yes.

MR. GERBER: The audit staff.

MS. DONOHO: Okay. Sandy Donoho, director, Harriet Fortson, Cari Ratan, Derrick Miller, Betsy Schwing and Nicole Elizondo.

MS. BINGHAM ESCAREÑO: Great.

MR. GERBER: Now, let the staff introduce themselves.

MR. GOURIS: Tom Gouris, Deputy Executive Director for Housing.

MS. BOSTON: Brooke Boston, Deputy --

MR. CERVANTES: David Cervantes, Director of Financial Administration.

(Pause.)

MR. IRVINE: Tim Irvine --

(Laughter.)

MS. BINGHAM ESCAREÑO: Enough said.

DE YOUNG: Michael De Young, Community Affairs Director.

MS. GAMBLE: Sharon Gamble, Manager of Energy Assistance section.

MS. TREVINO: Lucy Trevino, Manager, Contracting Monitoring.

MS. HOLLOWAY: Marni Holloway, Manager of the Texas NSP.

MS. CRAWFORD: Kelly Crawford, mini-Patricia Murphy for Disaster Recovery.

MS. BINGHAM ESCAREÑO: Non-meat eater.

MS. CRAWFORD: Yes. And temporary vegan.

MS. BINGHAM ESCAREÑO: There you go.

MR. DALLY: Bill Dally, Chief of Agency Administration.

MS. BINGHAM ESCAREÑO: Thank you guys for being here. So Sandy and her team's been very busy so let's go ahead and get started.

First, we'll take a look at the minutes and I'll entertain a motion for approval.

MR. KEIG: Move to approve.

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

MR. GANN: Second.

MS. BINGHAM ESCAREÑO: Okay. We have a motion by Mr. Keig, a second by Mr. Gann.

Any further discussion?

(No response.)

MS. BINGHAM ESCAREÑO: All those in favor, aye.

(A chorus of ayes.)

MS. BINGHAM ESCAREÑO: Opposed?

(No response.)

MS. BINGHAM ESCAREÑO: All right. Motion carries. Thank you.

Item 2, a look at the Internal Audit Work Plan.

Sandy?

MS. DONOHO: Okay. Looking at the Internal Audit plan in your board book, we have two minor changes we'd like to make. Both of these are reflected on the plan. One is to expand our audit of the Disaster Recovery Program.

Right now it says it's of Hurricane Ike. We want to do a more general review of the entire Disaster Recovery Program so we're just expanding the scope on that audit a bit.

In addition, we have gone ahead and started the Tax Credit Exchange Program. We moved that from July to April because we completed some of our planned work a bit earlier

than anticipated and these are the last two audits on our plan so because of the timing and the expanded scope on Disaster Recovery, we wanted to bring the plan back and get your blessing on that.

Are there any questions?

MS. BINGHAM ESCAREÑO: Any questions?

MR. KEIG: Were you moving the tax credit exchange from -- well, no, that's earlier.

MS. DONOHO: Yes, we're just doing it --

MR. KEIG: How do you shift it around? You can only have so much time during the day.

MS. DONOHO: We're just moving it a little earlier -- the start date because we've finished the things that we were working on earlier than we planned.

I mean, you know, at the beginning of the year, I planned where to start this audit this month and this audit this month and so that's affected by how they stack up.

MR. KEIG: You were going to do this expansion at some point anyway.

MS. DONOHO: Right.

MR. KEIG: Okay.

MS. BINGHAM ESCAREÑO: They finished a little bit earlier with the rest so it looks like they can accommodate --

MR. KEIG: Yeah. I move to accept the

recommendation.

MS. BINGHAM ESCAREÑO: Very good. Motion has been made.

MR. GANN: I second it.

MS. BINGHAM ESCAREÑO: Second, Mr. Gann.

Any further discussion?

(No response.)

MS. BINGHAM ESCAREÑO: All those in favor, aye.

(A chorus of ayes.)

MS. BINGHAM ESCAREÑO: Opposed?

(No response.)

MS. BINGHAM ESCAREÑO: Motion carries.

Item 3, Presentation --

MR. GERBER: Madam Chair, just to make sure that we're official and all, could you go ahead and just call the roll so we can certify a quorum?

MS. BINGHAM ESCAREÑO: Absolutely.

Mr. Gann?

MR. GANN: Here.

MS. BINGHAM ESCAREÑO: Mr. Keig?

MR. KEIG: Here.

MS. BINGHAM ESCAREÑO: And I'm Leslie. I'm here.

MR. GERBER: We have a quorum so we're set.

MS. BINGHAM ESCAREÑO: Very good. Thank you.

MR. GERBER: We have three.

MS. BINGHAM ESCAREÑO: Okay. Item 3?

MS. DONOHO: Item 3 is the presentation and discussion of recent internal audit reports. We've released internal audit reports since our last meeting in January.

Due to the size and content of these reports, I'm going to focus primarily on the Neighborhood Stabilization Program audit and then briefly cover the other two, the other two audits. One had no findings and the other one had very minimal issues.

So our biggest audit was the Neighborhood Stabilization Program. This took us quite a while to complete. We identified a number of significant issues in NSP, as it's called, that could affect the efficiency of the program and their compliance with rules and regulations.

We felt like internal controls were lacking in this program. There are key program processes that are not communication to staff. Communication between NSP and other divisions involved in processing NSP's transactions is not effective.

For example, segregation of duties -- there are NSP quality assurance specialists that have the authority to enter a transaction into the Housing Contract System and to approve the same transaction that they enter. Not that

that's necessarily happened, but having that authority is an issue.

Tracking of key program elements -- they don't track subgrantees' milestones, incremental budget transfers or homebuyer loans through the interdivisional and multistep closing process.

Performing regular reconciliations -- the NSP information and the Housing Contract System is not reconciled with information that's reported to HUD in the disaster recovery grant reporting which is called the DRGR system. We compared 52 contracts in both systems and found 26 percent of them had differences. One of these contracts was off by \$5 million.

The total net amount of the discrepancies for all 26 contracts was \$2.3 million more in DRGR than in the Housing Contract System. The result of this is it increases the risk that inaccurate information could be reported to HUD.

Recording transactions accurately and timely -- the contract status in the Housing Contract System doesn't always reflect the actual status of the contract. We looked at 48 contracts and found that 18 of them were inaccurate.

Also, maintaining supporting documentation in the Housing Contract System, we found that budget amendments were

not available for 17 of 28 contracts; 26 of 48 files didn't have evidence of an environmental review -- 21 of those were TDRA, I will point out.

And five of 48 files, which is just about 10 percent, did not include contract termination documents. Policies and procedures were not finalized. They have a limited number of draft policies and procedures that have yet to be finalized over a year after the program started.

There were a few other issues: We were unable to accurately verify that HUD obligations were satisfied by the September 3, 2010, deadline because the Housing Contract System doesn't keep an historical record of information so we tried to confirm that that deadline was met and weren't able to.

The Department doesn't review the draws that were submitted by TDRA prior to payment, draws are not processed timely, and the draw documentation in the Housing Contract System is not complete. We looked at 77 draws; 18 of them were not processed within the required five days.

There is not enough staff to complete the anticipated workload for approximately 400 loan closings by the August 31 deadline. And the loan files that NSP provides to the legal division for loan preparation are often incomplete, which slows down the processing of the files.

We recommended that all these issues be addressed in order to ensure the success of the program and management's responses indicate a commitment to correcting these problems.

Are there any questions on this report?

MR. KEIG: I have a question for management.

MS. DONOHO: Okay.

MR. KEIG: I guess I'll ask Mr. Gerber and he can refer to whomever. On page 7, there at the very bottom, management will prepare a budget transfer reconciliation report for the May board meeting. And I don't think we've got that in this board book. Has that been delayed?

MR. GOURIS: That's correct. We had anticipated getting it accomplished in time for the May board meeting.

We've run into some difficulties with reconciliation in that the two programs that we are reconciling, the DRGR and the Housing Contract System are -- don't speak to each other, and so we're having to create a intermediary activity, an Excel spreadsheet.

And the initial spreadsheet we were working with -- we've made a lot of progress going down the road with that but have decided to revamp the way we're doing that in the last couple of weeks so we aren't -- we haven't made the May deadline that we'd hoped to.

MR. KEIG: So to be able to get this -- we need

to reconcile the two systems --

MR. GOURIS: Right.

MR. KEIG: -- to do that.

MR. GOURIS: Right.

MR. KEIG: And so that's being kind of reset to the June -- end of June is the target.

MR. GOURIS: I think that's our target. That is our -- hopefully -- our target's a lot sooner --

MR. KEIG: We'd like it sooner but --

MR. GOURIS: -- late -- sooner but we -- That's coming to you all for the June meeting. And we will have some -- probably have some adjusting issues to have to deal with at that point.

MR. GERBER: And, Tom, do you mind talking about -- I mean, right at the moment we've got a fairly intensive technical assistance effort that's going on sponsored by HUD. We're keenly aware that there are problems in the program --

MR. GOURIS: Correct.

MR. GERBER: -- have embraced those problems and the audit findings. We never like to have these kinds of things. This is a program that, you know, we say it's built on the fly but that's still not an excuse for not having adequate procedures and controls in place so it's pretty much

an all-hands-on-deck kind of thing right now to clean it up.

MR. GOURIS: Okay.

MR. GERBER: And I know that we've got technical assistance folks in. Why don't you talk a little bit about that.

MR. GOURIS: Sure.

MR. GERBER: And then that should lead to some additional discussions, frankly, with our audit team to try to make sure we're doing the right things to reconcile and improve these systems. But we haven't had those discussions yet fully with the audit director.

MR. GOURIS: Independent of the audit activity, HUD has provided technical assistance to a number of NSP recipients, focusing last fall on some of their more needs subrecipients; had a review of us this spring and the entity that was doing the -- providing the technical assistance indicated a number of areas where they thought we could certainly use some help.

And we, of course, are embracing that, trying to make the best of their time here. Right now they're scheduled for about a 90-day term with us. They're here almost every day at some capacity, sometimes several folks providing trainings for internal staff, providing trainings for our

subrecipients, providing trainings for our other partners in the program, TDRA and TSHAC. And the idea is to try to get -- make sure that everyone's in sync.

One of the things that this program has lacked in the ability to have that time to plan for extensive trainings we've done. We've done some in hot-issue areas but the program is a pretty broad program and bringing this national expertise into the agency is going to be real helpful for us to make sure that we're -- you know, everyone's at the same page.

I think where we'll end up, as far as the training goes -- I know that's one of the areas that the audit identified, but I think also they're going to be bringing some ideas to help us fix some of our issues.

Quite candidly, our partnership with TDRA is -- has been a big concern, a concern of the audit. It's also been a concern of the monitor -- the technical assistance folks and trying to find ways to get them up to speed.

They're not housers by trade and so yesterday we had, in fact, a real estate seminar or training, just to get some basic real estate back into their shop and make sure we're all on the same page. So that's the kind of thing we're trying to bring into the fray.

We've gotten the opportunity to share with them

the audit and share with our technical assistance folks the audit and so they modulated some of their training ideas to make sure that they're hitting on the things that were discussed in the audit.

MR. GERBER: I would just add -- and I think our highest priority is, you know, you've got to have controls in place; you've got to have procedures in place; you've got to have people talking with one another. We've had quite a bit of conversation with Ms. Holloway who runs the programs -- Tom's been central to that.

We've added -- we brought in a guy who had previously been the manager of the program to help backstop Marni and try to help address issues. And others are also helping as well, so we're trying to raise the level of talent that's in that shop.

But everyone, I think, understands the goal to, frankly, just fix it. And we're all working towards that.

And that's -- it's a little hard on one side of it and then I think Sandy rightly points out the governor directed that we have this hundred million dollars and 19 of it is under the jurisdiction of the Department of Rural Affairs because it came to the CDBG program and they historically have been the CDBG agency, even when it's applied back to housing.

So they got a chunk and in the ensuing months they

frankly have had a collapse of many of their agency functions and so we're dealing with some of those issues with that agency.

And we've had a conversation with their interim ED and with their board chair that they've got one last hoorah to try to figure out how to make lemonade out of some of these contracts, and if they can't, they'll turn the installers back over to us, and we have backup contracts that are, I believe that -- we'll work to get ahead and then -- as those contracts fold, we'll move to other contracts so that we don't leave those dollars on the table, as best we can.

A lot of this was because there's an artificial deadline placed by HUD of September 30, so there was a rush to obligate money and we did it in a -- you know, we sort of got that box checked by HUD but, obviously, a lot of things sort of fell off the side of the table in the rush to go and do that so now the cleanup is taking place.

Marni, anything you want to add to that?

(No audible response.)

MR. GOURIS: I might just say that part of the structural problem is we have systems in place. Our contract system's a great system; it just wasn't designed for this program, and the adjustments that were made to it weren't -- you know, first time out on a program you don't

have all the understandings of what you might need.

Good case in point -- when we first started this program, we were under the understanding with HUD that our commitment, as we do commitments for HOME when we allocate the money to a subgrantee, we're committed.

As we rolled through the process -- into the process, we discovered that HUD's expectation for commitment here was an obligation of a specific property and our contract system really didn't allow us to address that in a way that got to the right answer for us as far as obligation, so we had to modify our system in a way that we can't draw information out of it very clearly.

That's why we're spending so much time doing the reconciliation now to make sure that we have a good, solid match between their system and the federal system. Do you -- so I'm, you know, everything here is complicated at the agency.

I'm not using that as an excuse; I'm trying to explain where we are and what we're trying to get accomplished and I think we're making good strides in getting the reconciliation done. By the June meeting we will have a new comparison to work with.

MR. GERBER: And I think the staff would like to have the opportunity to report even though we won't have an

Audit Committee meeting at the June meeting, I think, to report on the progress made.

I think it's that significant to the Department so we'll probably ask your permission and Mr. Conine's to put it on as a regular agenda item just to keep you updated on the progress that's being made, like on meeting the reconciliation that we had hoped to have on this board meeting.

MS. BINGHAM ESCAREÑO: How about the SOP development? You know, I hear we'll push out kind of the report to the board, but in terms of just getting SOPs in line, where are you with that?

It seems like somewhere in here it had said we were hoping to have SOPs in place maybe by the end of --

MR. GOURIS: End of May.

MS. BINGHAM ESCAREÑO: End of May.

MR. GOURIS: And I think we're going to make that, that target. We're well underway. I think that -- everything goes -- you know, the routing process and today we've revamped them. Rob, who came back, is kind of leading --

MS. BINGHAM ESCAREÑO: Great.

MR. GOURIS: -- cause. And the interagency discussion between Laura, our program services person, and Marni, our program person, have happened and so we think that

those SOPs are in good shape. I still need to review them and we still need to implement them so -- but I think we're --

MS. BINGHAM ESCAREÑO: I mean, to me what it sounds like is you've got a lot of things working, particularly with HUD and the technical assistants, and all I would encourage you is just make sure that internally everybody's aware of your progress, you know, that we're communicating that.

And then the other thing that I'm thinking, and I would defer to Mr. Conine, too, as the board chair, would be probably recommending a followup audit at some point in time, whatever you guys feel like is a reasonable amount of time to allow things to be in place and then kind of do a recheck.

Do we have space and time to do that?

MS. DONOHO: We can do that.

MS. BINGHAM ESCAREÑO: How do you guys feel about that?

MR. KEIG: Fine. That's great. One more question.

MS. BINGHAM ESCAREÑO: You bet.

MR. KEIG: On page 18, with regard to TDRA, says that our Compliance and Asset Oversight Division is going to monitor and have a report by the end of April.

Did we get to do that and did we find that they

have sufficient and appropriate controls, or is there -- were there a lot of recommendations there?

MR. GOURIS: Patricia's here and Lucy's here but I'll paraphrase for them and if they want to jump in and add more -- they did do the monitoring.

They found that there were very few draws to actually review in TDRA. They were concerned about the lack of structure, I guess, that best said. Their system is different than ours in that when a draw comes through our system, we have a program person review it and approve it and then a program services person review it and approve it.

They structure theirs separate from us in a separate pot, using our systems but they only have one approval process so that's causes some concern. And they focus primarily on the checklist instead of having a more robust process. We're, of course, going to share our SOPs with them.

They're under a separate -- their funds are their funds and we have an MOU that addresses that relationship and it gets us the ability to monitor their monitoring activity but maybe not directly as much as we might like at this point and that's another area we can address.

Patricia, did you have any other -- or did I cover

it?

MS. MURPHY: Nothing, sir.

MR. KEIG: That's it.

MS. BINGHAM ESCAREÑO: Very good.

MR. GERBER: I'm going to say something just for the benefit of my staff, less directed to the board. I don't know why this report wasn't shared with the auditor -- why the monitoring report wasn't shared with our --

MR. GOURIS: It's not complete.

MR. GERBER: It's not completed yet?

MR. GOURIS: They haven't done --

MR. GERBER: Okay. We just need to make sure that we're sharing everything that's of this nature with the audit team. They're our partners in it.

We just need to make sure that we're being very attentive to getting them everything that they need with respective to monitoring visits, technical assistance visits, anything that would relate to their ability to perform their duties. I just think that's very, very important.

So I just want to just reiterate that that's just a -- you know, that's a prerequisite, I think, that what y'all had of working here so -- I'm concerned about a communications gap that's existed a little bit on this audit.

And I think we've addressed those issues but I want to make sure that they remain addressed and don't linger into the future, so please coordinate with Sandra and others.

MR. GOURIS: And just to -- I absolutely agree. We met with the monitoring folks after they had their visit and as they were trying to develop their plan for how they were going to respond. We haven't finished that yet because they had such a limited amount of information --

They were struggling with how we -- what do we say about it, and so I think we probably will -- we still have a little work to do to get that accomplished.

MR. GERBER: How soon will we get it out?

VOICE: End of next week?

MS. TREVINO: Now, we have a draft report already that we've had for about a week and we went over it -- we shared it with her and her staff and it's a lot of the same things that have already been to staff, assuming they don't have the same processes that we do.

They're just not set up like we are here at the Department and there wasn't a lot to look at -- you know, it's really early on. They're in the early stages of, I guess, the program administration.

MR. GERBER: Because they've really -- just by way of comparison, of their 19 million, they've expended very

little like, I think, less than 2 percent of their funds on actual programs. They've expended a fairly healthy amount, 30 or 40 percent of their money, for admin so we're concerned about that imbalance.

VOICE: Right. They did --

MR. GERBER: Is that about -- were those numbers all right?

MS. TREVINO: That's about right.

Dollars -- they've expended a little over \$500,000, and it's just four administrators that have actually spent -- have asked for reimbursement --

MS. HOLLOWAY: And I would add that most of those funds that -- have not actually been real estate transactions.

They haven't been closings; they've been demolition or else acquisition.

MS. TREVINO: Yes.

MS. HOLLOWAY: Yes, they are struggling and we are continuing to provide as much assistance as we can to help them with it.

MR. GERBER: So a whole lot of the TDRA effort's going into trying to wrap them up and if they can make it work, great; if they can't, we'll need to do something different with the money. And we're closing in on -- we think by June or July, we'll have about 50 percent of the money

expended and so we feel good about our ability to get ours out the door and that construction tab --

MS. HOLLOWAY: We're very close to completing our initial real estate transactions, our subrecipient purchases and their -- give construction loans and those initial land bank purchases and we are within, I would say, less than 60 days of completing that part of the program on the team --

MR. GERBER: In all fairness, they're working with some very small rural communities.

MS. HOLLOWAY: Yes.

MR. GERBER: It's just been hard all around. It's a hard program. But I think there's a lot of commitment on the side of you to fix it and -- any other --

MS. BINGHAM ESCAREÑO: Any other questions on NSP audit?

(No response.)

MS. BINGHAM ESCAREÑO: Do you want to go ahead and move forward with the rest of the audit --

MS. DONOHO: Well, yes. I did have one question, though. On Item Number 5 I am going to talk briefly about the needs assessment report that the contractor did on NSP. So would you rather hear that now or later?

MS. BINGHAM ESCAREÑO: Well, let's go ahead and finish NSP then. You can do it now.

MS. DONOHO: Okay.

MS. BINGHAM ESCAREÑO: So we'll move to Item 5 just briefly so that we can talk about the needs assessment.

MS. DONOHO: Okay. Thank you. HUD contracted with Training Development Associates, Inc., to assess the NSP program, identify training needs and recommend technical assistance. They identified the following issues:

Many of the obligations in NSP are at risk due to pipeline issues. There's a bottleneck in the program design that has impeded progress. Each unit potentially requires multiple closings. There are insufficient staff to process these closings. Subrecipients were allowed to expand their programs with no increases in their capacity.

The Department required subrecipients to be 70 percent expended by the end of February -- this report was written in January, by the way -- and most will not achieve that goal. As of January 25, six of 37 subrecipients were 50 percent or less expended, and HUD retained this contractor to provide the training and technical assistance that Tom was talking about earlier; they're on-site now.

Are there any questions about their report?

(No response.)

MS. DONOHO: Many of the issues they identified were issues we also independently identified because when

they were here doing their work, we were doing our audit work and we didn't know they were here so a lot of those issues were independently identified.

MS. BINGHAM ESCAREÑO: Do y'all have any questions about that?

(No response.)

MS. BINGHAM ESCAREÑO: Tom, do you have any other comments related to that?

MR. GOURIS: Just with regard to a deadline, that's -- it was a statement. The original deadline was set many months ago when the program started. All of the subrecipients -- I think all of them have required a --

MS. DONOHO: Forbearance.

MR. GOURIS: -- Forbearance. I couldn't remember what we called it -- a Forbearance agreement to allow them time to meet that deadline and, as Marni said, we expect most will get there just long -- just later than originally expected.

MS. BINGHAM ESCAREÑO: Okay. Thank you, Sandy.

MS. DONOHO: Okay.

MS. BINGHAM ESCAREÑO: Okay. Back to our Internal Audit Reports. The next audit report is an audit on the Weatherization Assistance Program. The Weatherization Assistance Program has procedures in place

to predict, identify and prevent weaknesses at the subrecipient level.

We looked at how they monitor subrecipients. We felt they should strengthen and formalize the processes that they used to prevent, detect or identify potential fraud, waste or abuse in this program.

The monitoring instrument they used to evaluate subrecipients is comprehensive; we identified a few ways that they could enhance those monitoring procedures. They're not musts; they're more suggestions for things that might help.

They should also develop a centralized location to track complaints as well as allegations of fraud, waste and abuse. We also cleared and closed all eight prior audit issues identified at previous internal audits, as well as four issues that were identified by the Department of Energy monitors.

So I think overall this is a good report. We did really find anything of substance or recommendations for enhancing the program.

MS. BINGHAM ESCAREÑO: Do you guys have any questions about this one?

VOICE: None.

MR. KEIG: Are y'all still using -- what's the

ethics-line contractor that you were using?

MS. DONOHO: The Network?

MR. KEIG: Yeah.

MS. DONOHO: Yes.

MR. KEIG: Are you still using The Network,
Inc. --

MS. DONOHO: Yes.

MR. KEIG: -- or you've moved to Global
Compliance? We got -- our committee moved to Global
Compliance.

MS. DONOHO: Did they? We're still using The
Network.

MR. KEIG: Does it have the functionality where
you could use it as a complaint data base?

MS. DONOHO: You can for the calls that come in
for them. They have an optional piece that you can use to
track things that don't come in through them.

MR. KEIG: Right.

MS. DONOHO: But we didn't feel like it justified
the cost.

MR. KEIG: Okay.

MS. DONOHO: Internal Audit keeps a -- our audit
software team, we keep a tracking list of things that comes
in through Internal Audit. What we were looking for in this

audit were the things what come in to the Weatherization people or the things that come in from the monitors or the things that the subrecipients self-report, things like that don't come through Internet Audit and don't get tracked by us.

MR. KEIG: And how are they tracking those?

MS. DONOHO: That's the question I had.

MR. KEIG: Well, I mean -- the outgoing forward -- do you know?

MS. DONOHO: I don't know. I -- how -- are you guys planning anything?

MS. BOSTON: For -- sorry. We have just created a system and, actually, all of the items in here we believe we've implemented and they'll be reported out as implemented prior to the next audit meeting. But for tracking there's always going to be some complaints that we get.

We've created a spreadsheet tracking system that covers both complaints that we get through the program area or through the Housing Resource Center as well as incidences of fraud, waste and abuse and then how we kind of track and get that through the process.

So we totally agreed with the finding and have gone ahead and put that system in place.

MR. KEIG: You just want something that -- it's fully searchable, has enough information identifiers in

there -- you know, that's what I was concerned with as -- we -- and maybe I've seen it elsewhere is we need a tracking system. Okay? We keep creating a new tracking system for different programs.

MS. DONOHO: Right.

MR. KEIG: Is there something that we could fit all in one place but different departments within that tracking system? But sounds like The Network, Inc., is really not the system to do it in.

MS. DONOHO: Right. We looked at that but it was pretty expensive and we felt like Internal Audit is small enough that we could track -- everything that comes through Internal Audit comes through me and I keep that document. That's not a document that I particularly want to share with other divisions because we track everything in there, so if we have personnel complaints --

MR. KEIG: No. No way.

MS. DONOHO: -- we have complaints that are confidential to Internal Audit, we need to keep those, but the complaints that come in through the Housing Resource Center or through Weatherization, particularly those complaints, I think, we need to track because of the number of primarily --

MR. KEIG: Yeah. And y'all will look at it when

you go back to check --

MS. DONOHO: Right.

MR. KEIG: -- and make sure they did it so okay.

MS. DONOHO: Right.

MS. BOSTON: And we actually modeled -- the Housing Resource Center has a really good complaint tracking system; they track them for the whole agency, and so we model the internal system for Energy Assistance off of that. And it actually is a system that's integrated, at least for both the complaints that we get as well as the fraud, waste and abuse issues.

MS. DONOHO: Right.

MS. BOSTON: So it's in one system for Energy Assistance, which isn't the same as one system for everybody but --

MS. BINGHAM ESCAREÑO: It works for you.

Any other questions?

MR. KEIG: No.

MS. BINGHAM ESCAREÑO: Good. TCAP?

MS. DONOHO: The next audit's on TCAP. We had no findings on this audit so -- you're probably wondering how you got a 12-page report out of no findings.

(Laughter.)

MS. DONOHO: Some of that was educational for new

board members or board members that aren't familiar with TCAP and general public. The other thing was that we looked really, really hard on this program and we wanted to convey the amount of work that we did and the number of files that we looked and we found nothing.

So some of that is just, here's all the assurance we can give you that we looked at -- you know, every stone we could turn over and we didn't find anything.

We found that the Department awarded the money correctly; the draws were paid correctly. All the reporting requirements were met for HUD; the information was accurate and timely; they did a lot of things that we found missing in NSP.

For example, they do reconciliations on a regular basis. They have policies and procedures. You know, we felt like this program was doing really well. So -- any questions on this?

MS. BINGHAM ESCAREÑO: Any questions?

(No response.)

MS. BINGHAM ESCAREÑO: So not only are you doing it right but you're doing it on time and -- it's really commendable. It's excellent.

MR. GERBER: Staff's done a tremendous job. I'd just like to briefly interrupt and address -- and say that

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J. Paul Oxer, our new board member --

MR. OXER: I'm here.

MR. GERBER: -- is here visiting and I wanted to take --

MS. BINGHAM ESCAREÑO: Welcome.

MR. GERBER: Because we're into the good audits, I wanted to make sure and bring this up --

(Laughter.)

MS. BINGHAM ESCAREÑO: Welcome. Glad to have you. Good. So no action needed on Item 4, then, we'll move on -- I mean Item 3. We'll move on to Item 4.

MS. DONOHO: Okay. Item 4 is the status of external audits. Looking at the table in your book, there are 13 external audits reviews or monitoring visits that we've had so far this fiscal year.

Generally, we have around 11 to 13 for the whole year. We're only in April so we're getting a lot more this year than we have had in previous years. Nine of those are complete; the reports have been released. We'll talk about seven of those under our next item -- or six, since we've already discussed NSP.

Three are complete and we're waiting for the reports and one of them, which is a HUD review of the Homeless Prevention and Rapid Re-housing Program, we'll be starting

in July.

Any questions on those?

MS. BINGHAM ESCAREÑO: Questions from them?

MS. DONOHO: Okay. Item 5 is presentation and discussion of recent external audit reports. We call them external audit reports but there can also be monitoring, technical assistance, anything like that.

The first one is the 2010 Statewide Audit. This is the federal portion of the Statewide Single Audit. It's performed by KPMG under contract with the State Auditor's Office. It's an audit of federal grant funds statewide.

This year KPMG reviewed ARRA 1512 reporting, CDBG, WAP, LIHEAP, CSBG, and they had three findings. None of these had questioned costs. The first one was Community Development Block Grant, which is disaster recovery. It was a significant deficiency and a repeat finding from last year, has to do with our ACS contractor for Rita Round 2.

They had three issues that rolled into one finding that were related to access controls in their IT systems. These issues were actually identified in the 2009 audit and this is a timing issue because they identified it around December and then by the time we corrected them, it was already into the next fiscal year --

MS. BINGHAM ESCAREÑO: Right.

MS. DONOHO: -- because of that December time frame, the next fiscal year had already started so by the time they got fixed, and then they came back to test, they still, you know, were able to pull things that were under the old setup.

So this is the issue that -- Curtis and I went to ACS last summer and verified that all of these issues had been corrected but because of the timing, there were these issues this year. We are hoping that they will not be there next year.

Also, Community Development Block Grant/Disaster Recovery, this was a significant deficiency in scope limitation and also a repeat finding from last year. There are quarterly performance reports sent to HUD for Rita Round 2. They weren't able to verify those because they couldn't trace those amounts to our accounting records.

There were -- and I think this had to do with a lot of issues with data and changes to data and HUD telling them that they needed to report by project level instead of summary level, and then when they go back to correct that, then that causes the data to look like it's late. And then there's some timing about the dates of the submissions. It's my understanding that this issue was also corrected.

The third issue was under Community Services Block

Grant/ARRA and it was a noncompliance issue. There were two quarterly ARRA reports that were submitted past the ten-day requirement.

One was 12 days late; the other was four days late, and this is because HUD initially requested these reports be submitted within 30 days after the end of the quarter, but the program rules were later revised to ten days. So we feel like that issue has also been addressed.

They've already engaged us for the 2011 audit. They'll be coming to look at TCP, the Weatherization Assistance Program, CDBG, again, and Homeless Prevention at this time.

Are there any questions on the statewide audit?

MS. BINGHAM ESCAREÑO: Any questions?

(No response.)

MS. BINGHAM ESCAREÑO: Good.

MS. DONOHO: Okay. The next one is an HHS LIHEAP monitoring report. This is from July 2010. We got this report in February this year so -- makes me feel really timely.

(Laughter.)

MS. DONOHO: There were three concerns they identified. One has to do with our co-payment component for CEAP, which is the Comprehensive Energy Assistance Program. This provides assistance with heating and cooling bills and

they're saying the associated requirements with our co-payment component may not fully comply with the LIHEAP statutes.

Clients are required to sign a service agreement that states that they'll pay for a portion of the utility bills, attend conservation classes, be employed or in school.

I think the Department is evaluating the design of this program in response to this concern.

The state's allocation formula used to distribute funds to subrecipients wasn't included in our 2010 LIHEAP detailed plan. I think that plan's being amended to include the allocation formulation.

And then they had a concern about no statewide computer database for subrecipients to use in entering LIHEAP applications and client data. I think that's something else that the Department is considering.

Any questions on this report?

(No response.)

MS. DONOHO: The next one is Davis-Bacon monitoring report. This is from June 10, 2010. HUD cleared these findings in response to the Department's responses and that was in January. HUD concluded that the administration enforcement and federal labor standards for the Department were adequate.

They had two findings. One identified problems with our monitoring procedures documentation and followup.

They're saying that the monitoring tool and testing spreadsheet needed to be improved to address labor standards issues. And also the Department delegated authority to perform labor standards monitoring to for-profit developers and construction contractors and they felt like there could be a conflict of interest there.

Both of these findings were cleared by HUD's Office of Labor Relations in January based on the Department's agreement to strengthen the Davis-Bacon monitoring process and ensure separation and independence of the monitoring.

Any questions on this one?

(No response.)

MS. BINGHAM ESCAREÑO: The next one is DOE Weatherization Assistance Program monitoring for February 2010. They identified two concerns during this monitoring visit. One had to do with the risk assessment tool. They felt like it should emphasize and improve the quality of the Weatherization unit statewide.

The Department is implementing processes to increase technical assistance during monitoring visits. They also express concern about production and expenditures goals for the regular DOE grant.

I think the focus has been on spending the ARRA WAP money and they were concerned about spending up the regular DOE grant. I think the Department provided some production forecast data to DOE. They also cleared all of their monitoring issues from previous reports.

Any questions on this one?

(No response.)

MS. DONOHO: Okay. The next one is HUD OIG Disaster Recovery Program. HUD OIG looked at the Disaster Recovery Program with the ACS contractor. They found that the Department's monitoring activities provided assurance that the ACS contractor complied with federal and state regulations.

They identified one minor instance of noncompliance and they did call it a "minor" instance. This was a reimbursement of \$71,691 for a mark-up for admin fees on some contractors.

They said that this was calculated using a cost-plus-percentage-of-cost method that wasn't allowed under the CDBG rules. Staff indicated that they have recovered this amount from ACS. And that was the only issue in that report.

Are there any questions?

(No response.)

MS. DONOHO: Okay. The next one is the Neighborworks quality control and compliance review of the National Foreclosure Mitigation Counseling Program -- it's a mouthful. There was one finding and two concerns noted in this one.

The finding was that our records retention policy did not include some of the required wording for this program for records retention. The Department revised its records retention policy to conform with the required wording.

They had a concern about our A-133 which is the statewide audit that I talked about earlier. Audit findings should be resolved so that they don't impact the program. And they had another concern that policies and procedures should -- are needed to track the source and expenditure of match funds.

TSHAC maintains the bank account for this program and an MOU with TDHCA. The Department provided information to support the segregation and tracking of funds in this account. The finding in this audit was closed, based on the Department's response.

Any questions on that one?

(No response.)

MS. DONOHO: Okay. Then, I think we're ready for Item 6 --

MS. BINGHAM ESCAREÑO: Yes.

MS. DONOHO: -- which is the presentation and discussion of the status of prior audit issues. We have 82 current prior audit issues. Let me remind you that this number changes pretty much on a monthly basis depending upon what audits are coming in and hitting our database and then what findings have been cleared or closed out. So that number's always kind of in flux.

There are 17 issues that were previously reported as implemented. We verified and closed them. There are 31 issues previously reported as implemented that we're still working on. We do that in our spare time between audits. And there are 31 issues that were previously reported as implement that -- okay. I already said that. I'm sorry.

There were 11 issues that were reported by management as implemented and those are on your list -- those are our newly reported -- and 22 issues that are still in process. As soon as we get the word that those have been closed, we'll report them to you and then we will put them on our list to be verified and closed.

But one issue that's not implemented, and really I think this issue is more an issue where the Department has decided not to change anything -- it has to do with our procurement process for the ACS contractor. And that's it

for prior audit issues.

Are there any questions?

MR. KEIG: Yeah, can we just start with the not-implemented and get a little more detail as to why you were not implementing the recommendation?

MS. DONOHO: Okay.

MR. GERBER: I believe it's largely because it's too late. We're in the last \$3 or 4 million of that contract, and by the time the concern had been raised by HUD -- to go back and sort of retrofit the contract was -- it just wasn't doable.

Kelly, want to add a little extra light to that, if you can, please?

MS. CRAWFORD: I think I may -- I mean, actually the procurement process that was in place at the time, that was the very first large procurement that we had ever undertaken. Those conditions just don't exist anymore.

We have procurement staff; they've wired to have multiple trainings per year. The process as it exists at this time should be adequate to clear the finding but OIG's a little far removed and so there really was nothing for us to change at this -- that's the --

We have an SOP in place. It's operating as intended.

MS. DONOHO: If I can interject here, the recommendation was, We recommend HUD's Disaster Recovery Assistance and Special Issues Division require TDHCA to adopt sound agency business procedures for disaster-recovery-funded procurements in accordance with state policy. So their recommendation was just -- what already exists, I guess --

MS. CRAWFORD: Yes.

MS. DONOHO: -- which is what Kelly's trying to say.

MR. KEIG: If I'd had enough time I would have gotten with you earlier. Last meeting there were several issues that were identified as "moldy," and do we get to go back and look at those and find out why they just keep rolling over from year to year to year?

And you may not be able to talk specifically this morning, but have we done anything to look at aged implementations that need to be -- or recommendations that still need to be implemented?

MS. DONOHO: I think that we've made an effort to try to clear out the old ones that -- for example, that I inherited four years ago when I came here. One of the first things that we did was we tried to clear out everything that was really old that was out there.

I think I inherited 400-and-something prior audit issues and we've closed out all but, you know, the 82. And most of these 82 are relatively current. They are within the last couple of years. There are a few that are kind of hanging out there but I can't think of anything in particular that's really --

MR. KEIG: Then we've got -- you know, just going through the list in the back, we've got a 2007 on 27, and 39 is a 2008; 41 is 2008; 44 is 2008.

MS. BOSTON: Note that these are all reported as implemented by staff, though.

MR. KEIG: These are all the ones --

MS. DONOHO: Yes, they're all --

MR. KEIG: -- that are implemented.

MS. DONOHO: They're all implemented.

MR. KEIG: Okay.

MS. DONOHO: I think the issue is that we're going back on some of these and asking for information --

MR. KEIG: Okay.

MS. DONOHO: -- in order for us to verify they've been closed.

MR. KEIG: So I can understand these -- you know, what are the ones that are behind the cover sheet, all the ones that are copied here -- they're printed out. These

are --

MS. DONOHO: This is the whole report from our database.

MR. KEIG: All right. So it's implemented, reported as implemented, and pending. Depending on what it is --

MS. DONOHO: Right. Yeah.

MR. KEIG: All right. And then what's -- under the status column, what is PX?

MS. DONOHO: PX is the -- the code is down at the bottom here. PX is in the process; IX is implemented.

MR. KEIG: Yeah, I have to get --

MS. DONOHO: It's kind of small.

MR. KEIG: -- like this on my -- (Indicating.)

MS. DONOHO: Yeah.

(Laughter.)

MR. KEIG: That helps.

MS. DONOHO: And then there's the X and X is management, so if it's IX, that means that they told us it's implemented. If it's IXX, that means we've independently verified.

MR. KEIG: That's going to help for next time when we come --

(Laughter.)

MS. DONOHO: One of our goals is -- I think we've talked at previous meetings about the fact that we're changing and we're going to start using our TeamMate software, a new edition of our TeamMate audit software to track these. And so one of my directives to my staff recently was, we need to close out everything before we switch to that new database because --

MS. BINGHAM ESCAREÑO: It's a good --

MS. DONOHO: -- everything that we don't close out will have to be entered by hand.

MS. BINGHAM ESCAREÑO: Right. That's a good plan.

MS. DONOHO: And we don't want to have to type all these in.

MS. BINGHAM ESCAREÑO: Yeah, that's motivation.

MS. DONOHO: Yes. So that's our motivation. So that's one of my goals is to have --

MS. BINGHAM ESCAREÑO: And when do you want to do that? When do you want to go to the new program?

MS. DONOHO: Well, we've been having a few IT issues.

MS. BINGHAM ESCAREÑO: Uh-huh.

MS. DONOHO: As soon as they have worked those out -- what they want to do is roll out that version of the

software along with PMC who also uses it, or Patricia's group.

And so they've been having some conflict issues and some other issues.

As soon as they've rectified those, then we'll go to that 9.0 version and then we'll be able to set that up --

MS. BINGHAM ESCAREÑO: Uh-huh.

MS. DONOHO: -- because it's a piece that we did not have. Because of a server issue, we weren't able to have --

MS. BINGHAM ESCAREÑO: So you think you're looking at six months or so.

MS. DONOHO: We were hoping for later on this summer.

MS. BINGHAM ESCAREÑO: Okay.

MS. DONOHO: So my goal is to have all of these done and that up and running maybe in the fall, at the latest.

MS. BOSTON: And, Mr. Keig, to also clarify, out of the 22 that are shown as in the process of implementation which would be the only ones that management hasn't reported as implemented, 20 of those are from the audits in this book today, from NSP and WAP.

MS. BINGHAM ESCAREÑO: Got you.

MS. BOSTON: So only two are "moldy," using

your --

(Laughter.)

MS. BOSTON: So that's pretty good.

MR. KEIG: Great. That's good news.

MS. DONOHO: Two moldies and one of them's IT and one of them's probably compliance?

MS. BOSTON: Yeah.

MS. DONOHO: And you can also -- the lower the number, the older it is, so the Neighborhood Stabilization Program that we just finished are 189.

MR. KEIG: Okay.

MS. DONOHO: You know, some of these older ones are 40.

MS. BINGHAM ESCAREÑO: That's a good hint, too.

MS. DONOHO: That's another way you can tell.

MS. BINGHAM ESCAREÑO: Very good. Any other questions for Sandy on the prior audit issues, Item 6?

(No response.)

MS. BINGHAM ESCAREÑO: Any further business for the audit committee?

(No response.)

MS. BINGHAM ESCAREÑO: We have no issues for executive session. All right. Thank you guys very much.

MR. GERBER: Thank you.

MS. BINGHAM ESCAREÑO: Meeting adjourned.

(Whereupon, at 8:27 a.m., the meeting was concluded.)

CERTIFICATE

IN RE: TDHCA Audit Committee

LOCATION: Austin, Texas

DATE: May 5, 2011

I do hereby certify that the foregoing pages, numbers 1 through 50, inclusive, are the true, accurate, and complete transcript prepared from the verbal recording made by electronic recording by Nancy H. King before the Texas Department of Housing and Community Affairs.

(Transcriber) 5/11/2011 (Date)

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