

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

AUDIT COMMITTEE  
2006 STATE OF TEXAS

Wednesday, January 18, 2006  
1100 Congress Avenue  
Capitol Extension Room E1.012  
Austin, Texas

PRESIDING OFFICER:

SHADRICK BOGANY

PANEL MEMBERS:

PATRICK GORDON  
NORBERTO SALINAS

STAFF:

EDWINA CARRINGTON, Executive Director

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P R O C E E D I N G S

MR. BOGANY: Good morning. We are calling together the Audit Committee meeting, Wednesday, January 18. The time now is 8:35. The Audit Committee of the Board of the Texas Department of Housing will solicit for public comment at the beginning of the meeting, and will also provide public comment on each agenda item after presentation made by Department staff, and the motions made by the Committee.

The Audit Committee of the Board of the Texas Department of Housing and Community Affairs will meet, and consider and possibly act on the following items. Let's do a roll call right quick. Make sure we have got a quorum. Patrick Gordon?

MR. GORDON: Here.

MR. BOGANY: Norberto Salinas?

(No response.)

MR. BOGANY: Shadrick Bogany. We do have a quorum. At this time, we will call David Gaines. Before we call David up, have we all had an opportunity to look at the minutes from the Audit Committee meeting on October 13?

MR. GORDON: We have.

MR. BOGANY: Okay. I would like to get a

motion to approve the minutes on the Audit Committee meeting, October 13.

MR. GORDON: Motion to approve.

MR. BOGANY: Second. All those in favor.

(A chorus of ayes.)

MR. BOGANY: At this point, we will call David Gaines, and we are going to go on the reported items. First item, current year goals and prior years' achievements for RP336, Texas Department of Housing risk management program.

MR. GAINES: David Gaines, Director of Internal Audit. Good morning, Chair.

MR. BOGANY: Good morning.

MR. GAINES: Good morning, Mr. Gordon. Ms. Carrington.

MS. CARRINGTON: Promote me, David.

MR. GAINES: Yes, ma'am. Before we get started this morning, I would like to introduce Colleen Bauer who has joined us with Internal Audit. In the middle. Wave to everyone, Colleen.

Colleen started with us last Monday. She is a recent graduate from UT Arlington, a major in accounting and graduated in four and half years with a strong grade point average while working full time.

She has worked at the U.S. Attorney's office for the last, since June of 2002. So I figure anyone that can work with attorneys that long has something to offer.

And I am looking forward to that experience. I know who to send upstairs now.

MR. GORDON: Are you going to sit for the exam?

MR. GAINES: Planning on certifications, pursuing those for CPA and CIA I think is her initial goals.

MR. GORDON: Good luck.

MR. GAINES: Yes. We are real glad to have her. She was on the Dean's list the last three years. And so we are really excited. And she has begun her first audit. And we are moving forward with that. We'll talk about that momentarily.

MR. BOGANY: Welcome aboard.

MR. GAINES: Yes. And Lori Lopez and Kelly Crawford make the full division. With that, the first agenda item and 6(a) relates to the Department's risk management program. And I wanted to bring this to you to discuss the goals for the year, and while I was doing that, I thought it might be a good idea to recognize some of the achievements over the last year.

And the goals for the current year include

completing a survey that is due to the Governor's Office by the end of the month. The State Office of Risk Management is actually doing the intake and processing of this. But this is a survey that the Governor is having all state agencies complete, is designed to assist agencies in assessing and reporting the status of their risk management programs, or RP36 programs.

Of course, one of the goals is to communicate the goals to the agency and staff. We are planning on a rollout meeting with the directors, managers and facilitators and the RP36 team to communicate the Department's goals for the year, and strategies for the year, to achieve those goals and to celebrate last year's achievements and accomplishments.

We have agreed that a reasonable goal would be for each division to conduct a minimum of one assessment every two months of the various processes. We would of course like to see those processes prioritized, which we have done to some extent. And so out of those, one assessment every two months.

To develop action plans for those unacceptable and inadequately controlled risks that were identified last year during the risk assessments that were conducted. We have identified them; now what are we going to do

about them.

We have agreed that a certification of controls would be appropriate from each of the directors, at testing or certifying that the controls that have been assessed, the risk assessments that have been done, that those controls were adequate, considering their action plans and where they have taken action to correct any deficiencies that may have been noted during that assessment. And finally, we have agreed to establish an anonymous reporting hotline.

Right now the Department is planning on entering into a third party agreement; a third party will be responsible for the intake and reporting of fraud, waste and abuse and other illegal acts. There is services in the private sector that provide these services. They will establish hotlines.

Of course, the responsibilities from our end will be promoting the program and informing employees of the program. And what the service does is, does the intake. They are skilled interviewers on getting information. And with that information, they will provide reports to the Department to take action on.

MR. BOGANY: When do you think this would be implemented, David?

MR. GAINES: Well, it is a goal for the current year. We have looked into the prices. There is very reasonable prices for these services; less than \$2,000 a year.

And really at this point, it is a matter of issuing a purchase order and request to get someone on board to provide those services. We have narrowed it down to two different parties and we feel like we know the one we want to go with.

MR. BOGANY: Okay. And so anybody could call if they saw something, or saw something that they thought needed to be addressed and wanted to remain anonymous. They would just pick the phone up.

MR. GAINES: Yes. So that is right. And initially, we are planning on restricting input to just the Department staff and employees until we see how well that works, and then consider external parties in the future.

MR. BOGANY: Okay.

MR. GAINES: Some of last year's accomplishments, and I think first off, and it is real significant -- the Department expanded its considerations of the risk of the RP36 program to include operating risks of the Department. So beyond just the waste, fraud and

abuse, but any of the operating risk relating to the Department.

The Department has identified its processes and has ranked them as high, medium or low impact if they were to fail. What is the impact on the agency, as a strategy to start prioritizing those. It has developed and adopted a risk assessment methodology that is being applied in conducting the assessments.

Standard operating procedure has been issued, defining responsibilities for all levels of staff relating to the RP36 risk management program. We have trained 23 staff facilitators; these are staff employees that have been volunteered or volunteered to actually conduct the risk assessments and to facilitate that process.

The Executive Director issued a directive relating that requires job duties to include related responsibilities, so those job descriptions of all staff include the related responsibilities to the program. And finally, during last year we conducted risk assessments of 49 of the 52 mission critical processes that have been identified by directors and managers. So I think that is just a great year.

That was the first year of the program. And we pretty much learned to walk. I feel like with the

Department achieving the goals for the current year, we will be up and running real well, by the end of the year.

Any questions relating to that program?

MR. GORDON: I think it is good.

MR. GAINES: Next agenda item, that would be 6(b) in your materials. This item relates to the recently completed audit work performed by the Department's external auditors, Deloitte and Touche.

And Greg [sic] Scott, manager and partner of the audit is here, as well as Tracy Guidry, senior manager. I believe Mr. Scott is going to present to the Audit Committee this morning; then he has another appointment, and Tracy will remain for the full board.

MR. SCOTT: Good morning.

MR. BOGANY: Good morning.

MR. SCOTT: I am George Scott. I am a partner with Deloitte and Touche, and was responsible for the audit this year. With me is Tracy Guidry, and she was the senior manager. And actually, she will always tell you she did all the work. So she is going to be the person with all the answers.

Again, it is a pleasure to be with you this morning to review the audit reports with you. There are several that I would like to discuss with you. Our

opinion on the financial statements are contained right in front of -- there is actually two sets of financial statements.

One is the basic financial statements of the agency and the other is just specifically on the revenue bond program. But in both cases, those reports that we have rendered are clean opinions. And our opinion of the financial statements do present fairly the financial position as of the fiscal year.

In order to recheck that conclusion, we test a variety of records and documents, interview individuals throughout the organization. During the course of that process, there were no restrictions placed on any access to records, access to individuals. We received complete cooperation throughout that process.

And, you know, as I am sure everyone knows that going through an audit is not an easy process to experience, and the cooperation and courtesies extended to our staff is greatly appreciated. It certainly makes the process go easier.

One of the things as the external auditor I am required to do is to walk through what is called required communications with an audit committee and that reviews just the process of the audit results. And I can answer

any questions you might have for us as far as that audit process.

And as I did say, the audit was performed in accordance with generally accepted auditing standards, and also government auditing standards, as required by the state. And since you are in receipt of significant federal assistance, you also are required to go through all those standards. They are very similar; there is a few variances, but they are very similar.

And as I did state earlier, our audit did result in a clean opinion, an unqualified opinion. In the preparation of the financial statements of the Department, numerous judgments and estimates are used. One of our responsibilities to determine whether those estimates and judgments are consistent with prior years, and they have been. There have been no significant changes in how those are used.

During the course of the audit, we identified no audit adjustments that needed to be booked, and so there would be obviously no adjustments which were identified that were not booked that we would recommend. So there were none involved in that area. As far as significant accounting policies, the application of accounting policies are consistent with those of the prior

year.

There are two new disclosures in the financial statements. As you review those, I would call it to your attention. One is increased disclosure around the risk of investments. One of the recent requirements that the Governmental Accounting Standards Board and financial reporting has required is that governments improve and expand how they disclose the type of investments they hold, and what type of risks are around those investments, besides just what is called custodial risks.

So it would be more like credit risk, rating risk and so forth. Interest rate risk, those type of things. And those are disclosed in your financial statements for the first time this year.

Also, the organization entered into interest rate swaps to prevent spikes, or hopefully control spikes and interest costs around the variable rate debt. And that is disclosed in the financial statements for the first time. During the course of the year, there were no discussions about alternative accounting treatments.

Obviously, accounting and reporting, there are various alternatives, but we had no such discussions this year. In the course of reviewing the financial statements, there are elements of the financial statements

that are covered at a different level, as we do the audits, such as the management, discussion and analysis. We did review that.

We looked for significant variations between that and the financial statements and found none. During the course of the year, there also was no disagreements with management as to the proper application of accounting policies and procedures. We also did not identify during the year any consultation with other accounting firms on accounting issues.

That is something that is also required for us to disclose to you if that comes to our attention. During the course of the year, we did have routine discussions around accounting issues and reporting matters. Nothing out of the ordinary that would be required to be discussed and disclosed here.

As I mentioned earlier, there were no difficulties involved in performing the audit. We did receive outstanding cooperation throughout the organization. And during the year, our services consisted of financial audit services; those were the only services that we provided to the Department.

Also as we performed the audit, we reviewed and considered the internal control, the control structure of

the organization as it existed in the year. And we identified no situation that we believe is a material weakness in the control environment, as it operated in the last fiscal year under audit.

With that, I would be happy to answer any questions you might have about the audit process.

MR. BOGANY: Okay. Patrick, do you have any?

MR. GORDON: I don't have any questions about the audit process, but I have questions in a minute.

MR. BOGANY: Okay. Neither do I. Okay.

MR. GORDON: Can I ask a couple of questions on the report?

MR. SCOTT: Sure. I know the financial folks are here, and they may have to help me with the answers.

MR. GORDON: Okay. Well, these are just kind of general stuff. I was noticing in the financial highlights that our net assets decreased \$18.5 million for the fiscal year. And it looked like most of that decline was a result of an operating loss, primarily due to, it looks like there was an explanation of the costs.

We had operating expenses that went up, as well as interest expense. Was that the decline in the net assets? Is that what caused the decline?

MR. SCOTT: Well, a big part of the decline was

the decrease in fair value of investments.

MR. GORDON: Okay. So it is an unrealized.

MR. SCOTT: It is an unrealized. And you know, because now you have to report all of your investments at fair value, you can have a very significant swing from one year to the next. And so that was a big part of that, a big part of that change. And, David, or anyone else -- do you have anything else that you want to add to that?

MR. GORDON: So basically it is because interests rates are going up?

MR. SCOTT: Right.

MR. GORDON: Okay.

MR. SCOTT: Right.

MR. GORDON: Okay. That was really my only question on that. I appreciate it. Very good.

MS. CARRINGTON: Thank you.

MR. SCOTT: Thank you very much.

MR. BOGANY: Thank you.

MR. GAINES: Behind Tab 6© is the status of the central database. And before I actually discuss the status of the central database, I wanted to discuss the status of the Central Database Steering Committee.

As you may know, I have been the non-voting chair of the Steering Committee since October 2001, and

the Committee's responsibilities have been limited to considerations relating to the central database.

With the database now in use as the Department's system of record for its housing programs, with the exception of the remaining modules that we'll be discussing momentarily, and considering there is other important IT projects under development, other IT projects on the drawing board, we have -- there is a general consensus that the composition of the Committee, its responsibilities, and its leadership needs to be revisited. There is a general consensus that the Committee should be replaced with an IT steering committee that would encompass consideration of all of the Department's IT needs, including IT development projects in process, and those planned for development or acquisition projects in the future.

MR. BOGANY: David, could you tell us what the composition of the Committee is now?

MR. GAINES: Currently, I am serving as non-voting Chair, which facilitates the process. And we have chief of agency administration Bill Bowling [phonetic] and director of portfolio management and compliance, Ruth Cedilla. Brooke Boston, multi-family, Eric Pike, single-family, Homer Cabello, office of colonias initiatives.

Curtis Howe, while not on the Committee, is very active and involved in providing guidance and advice.

Tom Gouris, Director of real estate analysis. Michael Lydell, policy and public affairs, who generally has designated one of his key staff persons to participate. I believe that might be it.

MR. BOGANY: And what is your suggestion, and why are you guys suggesting that they change the composition to IT? Is it because central database is IT, pretty much?

MR. GAINES: Well, that leadership has a direct interest in central database and various modules relating to that database. And with the future IT projects planned, there may be other people that may need to be involved, the director of community affairs.

We need participation on the Committee that focuses more around the nature of projects, either in process or planned. It needs to be senior level management, because they are the ones that can come to the table with the priorities, how to best allocate resources.

Now, while all those I mentioned were senior level, maybe not all of them necessarily need to be at the table, depending on the direction of the Department's IT development projects and plans.

MR. BOGANY: So are you wanting to expand it or eliminate some. Add some?

MR. GAINES: Right.

MR. BOGANY: I realize you want to add some IT. So are we going to expand or eliminate some senior management there?

MR. GAINES: I could certainly consider that, Mr. Bogany. And this is really at the threshold. We just began this discussion. I did want to bring it to you all's attention, as those plans fully materialize. We can bring those back to you.

A significant part of the discussion up to this point has really related to my role on the Committee. There is a general consensus that it is really a management function, and Internal Audit is certainly glad to assist in any reasonable fashion. Maybe it is something that management wants to more fully assume, some of those roles and responsibilities.

That has been the general discussion. Having said that, I have also let key personnel know that we will continue to serve the Committee, Internal Audit. But to the extent we do, we would really like a reiteration of roles, responsibilities in that respect. Again, we are at the threshold of those discussions, and the Chair of the

Board has brought this up.

I really -- hats off to Ms. Anderson. We had this discussion at the last steering committee in December, and agreed that is something we wanted to do, and within a couple of weeks, as though Ms. Anderson had been sitting there, sent me an e-mail suggesting the same thing; that we needed to revisit.

And just revisit to confirm, if nothing else, what we are doing and why we are doing it. But again, a fresh look, and try to take a look at what we should be doing and where we should be going with that.

MR. BOGANY: Okay.

MR. GAINES: Again, as those changes materialize, I will report back to you with that. And with those changes in mind, I wasn't really currently anticipating any further reporting to the Audit Committee on the status of the central database. I believe by the time another status report is warranted, we will have those decisions made, and we will bring those to you at that time.

MR. BOGANY: Okay.

MR. GAINES: Now for this month's report on the status of the central database. The summary plan status report, the first portion of your materials, this

highlights the time line and percent completed, central database projects that are currently planned or under development, major milestones within those modules, and the percent complete for each module and each major milestone. The checks in the second left-hand column are how I completed work, and the note icon in that column represents additional information that is provided following that page of the report.

You will note that since the report is considerably less lengthy than it has been in the past, and this is because modules and historical information that are no longer relevant on a forward basis have been removed from the report. So completed modules have been removed, and the history relating to those modules have been removed from the status report.

I will just highlight some of the more significant issues here. You will note that the first line of the report is reported as complete. This represents various enhancements to the contract monitoring and tracking system that was planned for and completed during fiscal year 2005.

This line item, being reported as completed, and with the goal of being as concise as possible in the future, we won't bring this back to you in the future.

The program monitoring module is the module that you see there. This will provide portfolio management staff with a central database system to track risk associated with subrecipients that will allow for scheduling of monitoring review, and provide functionality relating to subrecipient monitoring and single audit review process.

The planned release date of this program monitoring module of December 2005 previously reported to you has been delayed until May 2006. ISD, or the Information Systems Division, had to reassign one of its developer resources to a higher priority project that portfolio management requested relating to changes in certain reporting requirements to the IRS.

As this project is completed, I believe, anticipated at the end of this month, that resource, that developer will be reassigned back to the program monitoring module. We also had delays resulting from the reallocation of IT resources to the Department's Hurricane Katrina and Rita efforts.

And finally, the composition of the business team, the users of this module have changed. The leadership of that has changed. And this has required an orientation and startup period, causing further delays on that module.

With that module, or once that module is delivered in May, the Information Systems Division will begin on the final component of the central database project as we have it defined, which is reported on the last two rows of your summary report. This is the multi-family module release two. You will note the line immediately prior to that, release one was deployed in August 2005.

Release two includes the functionality originally intended for the application module, which at one time was a separate line item on your report. And this module had previously been reported to you as beginning work in September 2005 for the delay, for the reasons I have just mentioned a moment ago. That has been delayed.

In this case, the delay has caused missed opportunities for the Information Systems Division to work with the multi-family staff in finalizing the module specifications. And that was kind of a big milestone that we have been trying to get to.

With those missed opportunities, this report, IS is planning on working with the business users after completion of the program module, which again is estimated in May. However, the business team, multi-family business

team has expressed concern that it is going to be able to meet with IT staff at that time because of the awards cycle.

And for those reasons, the IT staff and the multi-family business users need to revisit this schedule and confirm the plan, the target dates for completion. Until those specifications can be confirmed, and an agreement reached on the best time period to do that, these dates are a little bit in question.

MR. BOGANY: What are your thoughts as far as being able to achieve this in a timely manner? I mean, what is reasonable to believe that multi-family -- because if you talk to multi-family, they are always busy. And we still have to get this done.

And so, I am more comfortable giving a date, and saying you guys get together by this date and then report versus leaving it open for them to get it when they can.

MR. GAINES: I understand those concerns. Of course nobody knows multi-family's priorities better than they do. Historically, history would tend to indicate that confirming these specifications is going to be difficult until after the awards cycle. That period we missed in the fall, presumably based on what I have

understood up to this point, it is going to be the same period we are shooting for again, to do this. Now --

MR. BOGANY: So are you saying we should put this in the closet until the awards cycle?

MR. GAINES: I am reluctant to say what management should be doing with this, because again, they know their priorities. They know what -- maybe this isn't at the top of their list. And it is just real hard for me, a real need for the server, to place too much expectation.

It is really, what do the users need. The number one question, do they need and want this module? If they do, presumably they will make the time to do the work necessary to get there.

I am not real sure if we have anyone with multi-family with us. The most recent e-mails I have seen have just indicated concerns whether they are going to be able to meet during the May time frame, which to me means they probably will not be able to until late August or early September time frame.

MR. BOGANY: Okay.

MR. GAINES: And so, as a reasonable target date, we would say, hey, by the end of the fiscal year, let's have our specifications confirmed. But again, I

think that is something they really need to come to the table with, and tell us if that is reasonable or not.

MR. BOGANY: So we, as a board, are we out of place by requiring them to have this finished by the end of the year? I guess my thing is, that when you leave it open, I get to it when I get to it, then it will be on the list next year again, about this same time again.

MR. GAINES: Right.

MR. BOGANY: And until you give somebody deadlines that say this is what I am holding you accountable to, it is never going to get done. And because multi-family, since I have been on this board, has been busy from January all the way through the end of the year.

So I really don't ever see an opportunity for them. And if they are not interested in the module and they don't think it will improve the business practice, then maybe we need to take it off the list and move on.

MR. GAINES: Yes, sir. And I don't think it is necessarily unreasonable to say, by this time line let's have it. I think it would be reasonable and prudent of the business users to come back to the table and say, if that is the case, we will be glad to accommodate you, and if necessary, what do you want us to drop from our list.

You know, there may not -- you either adjust the calendar, or you adjust resources, or you adjust the functionality of the system. And so it is a three-sided triangle, where something has to give if you start forcing it.

MR. BOGANY: Okay.

MR. GAINES: But I really believe, and what I understand also, and if I am not mistaken, we are really talking about a couple of weeks of the business users' time. So maybe the last couple of weeks in August after the tax cycle is reasonable.

MR. BOGANY: Okay.

MR. GAINES: And before they start having to gear up for the next QAP.

MR. BOGANY: Okay. Ms. Carrington or Patrick, do you think we are being unreasonable about trying to get some sort of deadline, or some sort of goal to shoot for?

MR. GORDON: It has been my experience that if you don't try to set some kind of deadline goal, it is a never moving target. We need to be sensitive to the work at hand to get these programs out as well. Was there very much progress made last year?

MR. GAINES: From what I understand, last year the specifications were accumulated from working with the business team. They actually went through a confirmation

process of those specifications. And then there was during that confirmation process, some additional things surfaced.

And it is those additional things that need to be confirmed. Am I pretty close, Curtis? Okay. And so in that respect, I think that is why we are down to two weeks rather than compiling and confirming all those specifications. It is really the exception items at this point that we need to finalize.

And until that happens, it is difficult for the IT team to move forward. So at this point, IT is fully engaged through the program monitoring module, which is the end of May.

So that does beg the question if IT Division can stay productive during that interim period. And that is something that we would need to just factor in to the overall goals and plans. But I think that is something that Curtis and the multi-family team need to work through.

MR. BOGANY: All right. Is it possible, and I guess, Curtis, to get a deadline after you talk to multi-family and discuss it with them, and get their input, by next board meeting, that we will have an idea that this is the deadline that we feel that we can meet our goals and

at least review the module.

MR. GAINES: Yes, sir.

MR. BOGANY: Okay. All right. So we can at least get some idea with some input from them, and then next meeting, hopefully you will be able to say this is the deadline, September 15, or September 30, we should be able to put that to bed.

MR. GAINES: I think it is very reasonable requesting a deadline for the deadline.

MR. BOGANY: Okay. All right.

MR. GAINES: Okay. Following the summary schedule is a summary report of our outstanding issues, and we are really down to one remaining issue that needs to be resolved. This relates to standardizing processes for entering multi-family data into the database. As reported there, that is near completion.

We have a draft standard operating procedure. I would just like to emphasize the importance of quality control over this data. We have spent a huge amount of time cleaning up data from the legacy systems. And so in that respect, unless we have solid quality control processes going forward on data entry, we will be dealing with those problems again in the future.

Following that is the status of funds report.

And the only thing I really wanted to highlight here is that we did have unexpended balances that were not used for the database. On a forward basis, going forward, finalizing development of the database is going to be performed by Department staff. And the related expense would be financed out of the Department's operating budget, the IT operating budget.

And so accordingly, I am highlighting this, and bringing it to your attention. I don't see a lot of value in this report on a forward basis.

Any questions relating to the central database?

MR. BOGANY: No.

MR. GAINES: Okay. Agenda item 6(d), behind Tab 6(d). This is staff's prior audit issues. And the report for you has 21 prior audit issues being reported. Ten of these reported as implemented, fully implemented. Ten are in the process of being implemented and in the process of resolution. And one is reported as partially implement, no further actions intended.

And you will note that the report has lengthened considerably since the last time you saw it. And this relates primarily to the addition of the HUD monitoring visit that focused on the Department's environmental monitoring responsibilities. HUD had

requested that the Department develop and submit to HUD for its approval procedures for an environmental monitoring and enforcement program. The Department responded to HUD.

This was reported to you, the monitoring report, at the June Committee meeting. And the Department responded to HUD June 30 with a copy of its monitoring and enforcement program or plan for HUD's review and approval. And since that time, HUD has requested clarifications and elaborations on the manual.

The Department has worked with HUD since that time. The 1/31 target date you see in front of you is the current date that the revised manual will be submitted to HUD for approval. So that is the target date for getting it back on their desk at this point.

There are two additional items that are in the process of resolution, with the remaining issues being reported as implemented. And that is really all I had planned, unless you would like to discuss further those issues. Both of those are target dates for completion are in the near future; I believe the latest one is in May.

MR. BOGANY: Okay.

MR. GAINES: So as these are reported as fully implemented, in this case ten of the 21 are, they will be

removed from future reports.

The final agenda item, behind Tab 6(e), status of internal external audits. The first row reference the Deloitte and Touche audit work that was discussed earlier this morning. We have KPMG's audit of the state's -- federal single audit of the state, which considers all federal funds of the state. The auditors, KPMG, considered the HOME program, the Section 8 program, and the Department's LIHEAP program during this year's review, and have done audit work on each of those programs.

The report that includes the results of all state agencies is usually released in the February March time frame. And KPMG at this point has identified three findings at the Department, which is not too bad, considering historical standards, historical history of findings issue. At the time that report is issued, that will of course be brought to you, and we will discuss those issues.

The next section relates to internal audits, and if you will note under subrecipient monitoring, we had three projects underway. And we expect to begin the portfolio management and compliance onsite monitoring project by the end of the month. So we will have more audits going than auditors, which is a good thing, because

oftentimes, you are in a wait mode, and you can move back and forth.

Next is the -- you will notice that the Homeowners Recovery Trust Fund, this is an audit that was requested by the director at the Manufactured Housing Division. Colleen, our newest team member, began that audit last week.

The remainder of the projects are either ongoing projects, or are planned for later in the year. And I will be glad to discuss anything relating to this item or otherwise. Any questions?

(No response.)

MR. GAINES: Okay. Well, thank you very much.

MR. BOGANY: Thank you. Thank you, David. Great job. The staff's doing a great job. You guys have really -- seem to have come a long way since I have been on the Board. It seems like progress is being made.

MR. GAINES: Yes, sir. Thank you.

MR. BOGANY: We are going to go into executive session. On this day, January 18, 2006, the Audit Committee meeting of the Governing Board of the Texas Department of Housing and Community Affairs held in Austin, the Audit Committee adjourns to go into a closed

executive session as evidenced by the following. The Audit Committee will begin its executive session today, January 18, 2006 at 9:15.

The subject of this matter, of this Audit Committee executive session deliberation is as follows: the Board may go to an executive session and close this meeting to the public on any agenda if appropriate and authorized by the Open Meetings Act of Texas Government Code Chapter 551. The Board may go into executive session pursuant to the Texas Government Code 551.074 for the purpose of discussing personnel matters, including to deliberate the appointment, employment, evaluation, reassignment, duties, discipline or dismissal of a public officer or employee, or hear a complaint or a charge against the officer or an employee of TDHCA.

Texas Department Code of Performance, Evaluation or for internal audit, David Gaines. And we would be -- the Audit Committee has completed. We will go into executive session.

(Whereupon, the Committee adjourned to Executive Session.)

MR. BOGANY: It is 10:00 a.m. I hereby certify that this agenda of the executive session of the Audit Committee of the Governing Board of the Texas Department

of Housing and Community Affairs was properly authorized, pursuant to the Texas Government Code. The agenda was posted at the Secretary of State office seven days prior to the meeting, pursuant to Texas Government Code 551.044, that all members of the Audit Committee was present with the exception of Norberto Salinas.

And that is a true and correct record of proceedings, pursuant to the Texas Open Meetings Act, Chapter 551, Texas Government Code. Okay. We are going to be calling the Audit Committee meeting back in order. Our absent member, Norberto Salinas, is back. Glad to have you back.

MR. SALINAS: Thank you.

MR. BOGANY: We had an evaluation of our state audit, David Gaines. We did recommend a pay increase for Mr. Gaines pursuant at the increase on his evaluation -- whatever is stated on his evaluation. Any comments?

MR. GORDON: No. I think that the evaluation also is the evaluation that we discussed, and that is the written evaluation required by the rules.

MR. BOGANY: And it has been passed on to the Executive Director. At this point, we need to get a motion from the floor to approve --

MR. GORDON: I have a motion to approve the

evaluation as well as the pay increase as stated therein.

MR. SALINAS: No, sir.

MR. GORDON: I will second it, if it is okay.

MR. BOGANY: We have got a motion on the floor.

It has been seconded. All those in favor, will you say aye.

(A chorus of ayes.)

MR. BOGANY: At this point in time, I would like to end the Audit Committee meeting.

MR. GORDON: Motion to adjourn.

MR. SALINAS: Second.

MR. BOGANY: All those in favor.

(A chorus of ayes.)

MR. BOGANY: Thank you.

(Whereupon the hearing was adjourned.)

C E R T I F I C A T E

IN RE: TDHCA Audit Committee Meeting  
LOCATION: Austin, Texas  
DATE: January 18, 2006

I do hereby certify that the foregoing pages, numbers 1 through 37, inclusive, are the true, accurate, and complete transcript prepared from the verbal recording made by electronic recording by Marian Stasney before the Texas Department of Housing and Community Affairs.

\_\_\_\_\_  
(Transcriber) 1/27/2006  
(Date)

On the Record Reporting  
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