

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

AUDIT COMMITTEE MEETING

Thursday, May 10, 2007
Room 1-111
Travis Building
1701 N. Congress Avenue
Austin, Texas

COMMITTEE MEMBERS:

SHADRICK BOGANY, Chair
SONNY FLORES
GLORIA RAY

STAFF:

MICHAEL GERBER, Executive Director
DAVID GAINES, Director of Internal Audit
KEVIN HAMBY

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[in *medias res*]

MR. GAINES: The next agenda item is let's see. Where are we?

MR. BOGANY: One F.

MR. GAINES: Yes. That is correct. Behind Tab 1F, status of prior audit issues. And this report provides an over the status of prior audit issues that have been reported either by the internal audit division, external auditors, oversight agencies, maybe funding source monitors.

And as management reports these issues as implemented, they are removed from the reports that are provided to you. However, they are retained in a database by the Internal Audit Division until they are independently verified as cleared by either internal audit and external audit group.

What you have in front of you is 27 issues; 19 are being reported as implemented. And while progress appears to be moving along fairly reasonably on the remaining issues, there are a couple of issues or particular items I would like to discuss.

If you will, let's turn to page 9, issue 403. And this relates to one of the Department's subrecipients

under the OCI contract for deed program. That is financed with HOME funds. The subrecipient Community Action Council of South Texas has been servicing its own loans and the Department has been trying to bring those loans in-house to service.

The Department has requested the original loan documentation supporting these funds. And while some of the information is received, there is additional information that is still needed. OCI is in the process of drafting another letter to the subrecipient. I believe it is expected to go out by the end of the week.

And with that, they also intend to conduct a field visit during the month of May, sometime this month in an attempt to resolve this issue. The Department is working to close this contract with Community Action Council of South Texas.

And in the meantime, it is withholding payments on this contract until all matters are resolved regarding the file. And that is just something I kind of wanted to bring to your attention, because it is a little bit sensitive, I believe.

MR. BOGANY: What is the time frame? We give it so in June we get a report on this on OCI.

MR. GAINES: I would minimally suggest that at

the next Audit Committee meeting during the discussion of prior audit issues. And this is something that I have been reporting regularly and me and Bill, recognizing that someone would want to get off our list.

MR. GERBER: And I would just add to the Community Action of South Texas that they are a very troubled community action agency, and we are working with them aggressively to provide assistance. They have recently lost their longtime executive director. They are overextended on a different mission that they took on health care, which is badly needed in the counties that they serve.

But they have a myriad of other problems and we are going to try to provide technical assistance to them.

But there are real capacity questions that exist there. So we are going to be working with them on the community services side of the house as well as on the OCI side, to try to see if we can remedy their issues.

But other state agencies have a wide range of issues with them. And we will be reporting back to you about the outcomes of those. Okay.

MR. GAINES: Okay. And beginning on page 17 of your report --

MR. GERBER: Can I just add?

MR. GAINES: Yes, sir.

MR. GERBER: And the problem is not just necessarily limited to -- I am glad the audit finding came out on the OCI side. But on the community services block grant side we have had some issues with them incorrectly using funds, possibly commingling of funds. And we are working through those issues as well. So there is not an audit finding.

But in the interest of full disclosure, the opportunity actually exists out in South Texas. There is a broader range of issues that we are working through. Sorry. Thank you.

MR. GAINES: Beginning on page 17, there is several issues relating to our recent audit of the Energy Assistance Weatherization Assistance Program. And on these issues, while the target dates for several of the issues have been extended from April to May, it looks like reasonable progress is being made on resolving those issues.

I just kind of wanted to highlight those. And then there is several issues relating to the first audit on the CDBG disaster recovery program I wanted to speak to you briefly. If you would turn to pages 24 and 25 of your report. Issue reference is to 429 and 430.

An expanded version of the project plan has been developed that incorporates input from senior management and program team members in delivering the program. Management reports that the plan is considered complete at this time, and is being monitored on a regular basis. And that was kind of the subject of those two issues.

Issue reference 431, page 26, this related to the recommendation to establish an oversight team. And one was briefly established. However, it has been disbanded with the appointment of the deputy Executive Director for the disaster recovery program.

And management reports that the deputy provides program updates to the executive team on a regular basis and that also the deputy as well as the CDBG program coordinator have identified the necessary resources to deliver the plan and to achieve the goals of the program, including two additional staff members that were recently hired by the Division. And while I don't have any really further comments planned for these issues or any of the other prior audit issues, I will entertain any questions you might have.

MR. BOGANY: Okay. Any questions from the Board?

(No response.)

MR. BOGANY: David, are the ones that you have outlined to us today, what is probably the most important one, or the possibility of really getting out of synch.

MR. GAINES: For the last couple I mentioned was actually highlighting as moving forward and making progress and achieving what we want to achieve. The first one relating to the Community Action Council, I think, is most concerning.

MR. BOGANY: Okay.

MR. GERBER: Mr. Gaines, if I could just -- would you want to touch on Mr. Keel's forthcoming audit on the CDBG program?

MR. GAINES: Well, I will touch on that. And I was planning on touching in with you this afternoon. Because Mr. Gerber and Mr. Dally and myself met with John Keel of the State Auditors Office earlier. They were planning an audit of the CDBG disaster recovery program. And actually, this is a speaking point also here in a moment.

But this audit was planned, I believe that originally, they were coming in March. And we visited with them and told them they might have better results for more information to consider come June. And most recently,

I believe we will be hearing from them towards the end of May, the first of June.

Those were actually some speaking points I was going to speak to. Their goals are to look and see that delivery of the funds were adequate and the information systems surrounding the program are adequate to deliver the program. Those were the subjectives. Those were speaking points I was fixing to get to.

A speaking point that I was just -- not, a non-speaking point is I believe, we need to, with amendment, amended audit plan, get back with Mr. Keel and share our amended audit plan and time frame from my audits, because that is when the considerations we discussed with Mr. Keel at the time.

MR. BOGANY: Any other questions for Mr. Gaines?

(No response.)

MR. BOGANY: Okay.

MR. GAINES: The last agenda item behind Tab 1G is the status of the internal/external audits. And this merely provides an overview of the internal audits and the activities of the Division as well as external audits currently in progress. And I believe that for the most part, I have shared with you the status of internal audit

in discussing the amended audit plan.

There are several external audits going on or planned for the near future that I will touch on briefly.

Let's turn to the last page of the report, page 3, you will note that KPMG's federal single audit plans for fiscal year ending August 31, 2006; well, that is a typo.

That will be 2007, on the last page of your report.

And KPMG has already begun planning on this audit, and I anticipate that they will be beginning their work sometime in the next month or two. During their planning process, they will identify which agencies they are going to, and at those agencies what programs they will be auditing.

And while they haven't announced the programs as of yet, I do anticipate at the Department at least or minimally I suspect the Low Income Housing Energy Assistance Program will be included, because it is a significant dollar size program. And it wasn't included in last year's audit. So minimally, we will see that.

The HOME program, maybe not. Because they included it last year, and we were successful results. The CDBG program, probably not this year, but we can look for that in the future. State Auditors Office is in the process of completing an audit of employee classifications

and are they properly classified according to the State classification table.

Again, they began this within the last month or two, it is based primarily on survey data submitted by all the Department's employees and their supervisors. The results of this review is expected in June.

MR. GERBER: I would just add on that one that all of our employees participated in that; all 275 of them. It was extensive survey that required them to document how they spend their time, down to the 5 percent of their time level.

And then their supervisor go in and review that and complement that information with additional needed material. And we turn that around within three weeks. It was a real team effort to get that done.

We got some initial results from that audit, and there are some outstanding issues that we will be working through. But overall, we were the one medium-sized agency, I believe, that got selected for this audit.

And I was pleased that it was a real testament to our HR team, that people were classified the way they needed to be classified for the most part.

We always have some improvement, as any audit finds. But for the most part, we are in good shape on

that part.

MR. BOGANY: Will the Board ever see a copy of it?

MR. GERBER: Yes. Yes, sir.

MR. BOGANY: Okay.

MR. GERBER: I believe it will be -- they are trying to finish that up in June. So we should go and report that to you. We will send it out over -- report to the Audit Committee but we will also share it at the July meeting.

MR. BOGANY: Okay.

MR. GAINES: Any of the oversight agency reports such as that, or funding source monitor reports were brought to the Audit Committee. The next project you see is the discussion of the SAO audit of the CDBG program that I just brought up a moment ago.

Deloitte and Touche typically begin their interim work on the annual Department's financial statements audit. And that generally begins in the summer. So we expect the audit for 2007 to begin in the near future. And while that pretty much concludes my comments relating to the internal and external audits.

I do want to speak of a vacancy we have in the Internal Audit Division. This became vacant in March.

And it is a senior-level position that I am trying to fill. The position is, as all State positions, has been posted at the Texas Workforce Commission job bank.

I've posted it on the website of the Institute of Internal Auditors, the local chapter. And it is a large local chapter. It is probably pushing close to 200 professionals at this point. Posted it at placement offices of universities throughout the State.

And with that, I have had one applicant that passed the Pass-Fail screening criteria. We have interviewed that applicant, and our Division has interviewed that applicant, and I have offered him a position. And he has almost accepted or declined a couple of times now. Most recently, Tuesday of this week informed me that he wouldn't be able to provide a response until a week after Memorial Day.

And so with that, I would recommend, considering the quality of this applicant, that we wait to hear on that response. Should it be positive, I think he will be a great asset to the Agency. If it is negative, I suggest we need to re-post that position.

MR. BOGANY: Let me ask you this, David, Mr. Flores or Ms. Ray. Why can't we continue to pursue bringing in more applicants and hopefully we get and find

another quality person, so if this one is a negative response -- I would rather see us be aggressive with it, and give you more options or give the Department more options. And if this young man comes through, great. But we can easily tell an applicant who comes to us, whose resume is just as good, we will give you an answer after Memorial Day.

MS. RAY: It sounds like he is job shopping to me.

MR. GAINES: He has been very forthright with me. And he is most definitely job shopping. He right now is a director of internal audit with the Marines in San Diego. Kind of the Southwest Region. He is probably someone I could report to.

High-qualified applicant. I am just able to offer him about two-thirds of his current salary. However, he has been traveling for 20 years, dragging his family around the world. And his wife lives here in the Hill Country, and he wants to establish roots, a home. He is retiring from the military. And this part it is not everything.

And I really believe he has been very forthright. He is very interested in the Agency, I believe, and the mission, I believe he is interested on

the way he perceives the Internal Audit Division to operate.

And so I do think he is being forthright. But yes, he has told me, he has to do what is right for his family, and he is considering some last -- or taking into consideration some last opportunities.

MR. BOGANY: Ii don't know how the Committee feels, but I would truly like for you to continue to pursue it.

MR. GAINES: What I will do in that respect, the position was actually closed. I will check with HR and find out what it takes to reopen that -- if it is actually just turning it back on, or if they have to go back through the paperwork again.

MR. BOGANY: I just think we should keep all our options open.

MR. GAINES: Yes, sir. And I agree with that.

MS. RAY: Mr. Chairman.

MR. BOGANY: Yes, ma'am.

MS. RAY: I would like to certainly go on the record as agreeing with the Chairman in that regard. Leaving San Diego, California, to come back to Texas is kind of hard. He probably has children, if he is retired, that are becoming adults. And I think it would be more

prudent on the part of the Department to certainly keep the search open.

MR. GAINES: Yes, ma'am.

MS. RAY: You may not -- if he accepts the job, good. If he doesn't accept the job, at least we will be positioned to move forward.

MR. GAINES: Yes, ma'am.

MS. RAY: But I think it would be prudent to do exactly what the Chairman recommended.

MR. GAINES: And I believe I will probably need to extend my marketing efforts somewhat, because that hasn't been --

MS. RAY: One Pass-Fail is really troubling to me.

MR. GAINES: I am sorry.

MS. RAY: Of all the people that you know, obviously widely advertised and you only had one applicant to come through Pass or Fail. That is troubling.

MR. GAINES: Yes. And I am kind of questioning my Pass-Fail criteria. Maybe I had it a little bit aggressive. I was looking in Pass-Fail criteria to see that our certified internal auditor, maybe at that pay range, that is asking a little much. And maybe I can find a well-qualified applicant that doesn't necessarily have

the certification.

MR. GERBER: I would just add to the Committee that we will be talking about this during the Board meeting, but as you know, Mr. Gaines is retiring. And as such, there will be an extensive marketing effort for that position, which we will begin to assess during the Board meeting. But we can perhaps improve our marketing of this position.

Because certainly, we would like to do a nationwide search. Austin is an attractive place to move to, and we think our salary is commensurate with what a high quality auditor should expect to make. So we would hope to -- we will partner with internal audit at your direction to try to expand that applicant pool. Yes, sir.

MR. FLORES: Mr. Chairman, what is our role in hiring personnel. I thought we hired the director and then, from then on, it was his business. What is our role here? Either as a member of this particular Committee or as a member of the Board?

MR. GERBER: Your role is, Mr. Flores, if I may answer it?

MR. BOGANY: Yes.

MR. GERBER: You hire the Executive Director and you are also have responsibility for hiring the

internal auditor. Those are the two Board employees.

MR. FLORES: Only two.

MR. GERBER: Only two.

MR. FLORES: Okay. And this person that we are looking for, I thought he was an employee of the internal auditor.

MR. GERBER: He is an employee of the Internal Audit Division.

MR. FLORES: Why is this subject matter being brought up to us?

MR. HAMBY: I just -- I was actually in the conversation anyway, because it is not on the agenda anywhere. I was getting troubled by the direction it was going. It was becoming too detailed of a discussion, as opposed to a general oversight, but --

MR. FLORES: I am new to this Committee and I have some pretty basic questions, is why I am here. In fact, I don't know that I am here -- you know, I volunteered for this thing. I did not volunteer for it short --

MR. GERBER: And if I may, I think the example is because there is some transition going on in internal audit to give you a sense of that transition and the staff that we have in place, and just keep you apprised.

Because since they do report directly to you, and we do have some very complex audits going on with some fairly new staff, I think we just want to keep you apprised of those recruiting efforts.

MR. FLORES: Okay. So it was just a -- it wasn't an up or down vote.

(Simultaneous discussion.)

MR. GERBER: But I think the Committee was expressing its clear will that we should move aggressively until we actually have a candidate that we have gotten a firm offer to, and that offer has been accepted, that we should continue to pursue all avenues to try to find an appropriate --

MR. HAMBY: And Mr. Flores, I think, just from the general direction, because you have the two employees that are in your -- it is the same that you would have if you were -- this is a key position in Mr. Gaines' department. And so just as you would be notified of a deputy Executive Director hiring or a financial or General Counsel hiring, you would also get notification of this, as opposed to a staff auditor. It is a key function.

But they are two separate entities, even though we work, the Department works administratively with them. Your independent auditor is also your employee and has no

reporting responsibilities to Mr. Gerber. As a matter of fact, they are, as you know, structurally set up to be parallel tracks, so that you can have insight into the operations of the Department apart from what Mr. Gerber chooses to tell you.

MR. BOGANY: Thank you, Counsel.

MR. HAMBY: It was a joke.

MR. FLORES: David, and thank you for the courtesy of giving us information. I thought you were asking for an up or down vote. Coming up here. That was --

MR. GAINES: No.

MR. FLORES: Thank you.

MR. GAINES: It was in the context of discussing the status of the Division which is another agenda item.

MR. BOGANY: Sure.

MR. GAINES: That concludes my comment.

MR. BOGANY: Mr. Gaines, I want to thank you. Great report as always, and keeping us up on the internal matters of the Department. Can I get a motion to adjourn?

MS. RAY: Mr. Chairman, before you adjourn, I just want to congratulate Mr. Gaines on his decision to retire.

MR. GAINES: Thank you, Ms. Ray.

MR. BOGANY: I am not doing that.

MS. RAY: Congratulations, David.

MR. GAINES: Thank you.

MS. RAY: Mr. Chairman, I move that the meeting be adjourned.

MR. BOGANY: Oh, we have one more comment.

MR. GERBER: Board members, I just want to mention to you, that you might be wondering. There is a large contingent of TDHCA staff here from our Information Systems and from our Financial Administration, and Budget and Payroll, Accounting, and other functions within the Department that were very involved with PeopleSoft, and its development and implementation. And we are going to be talking about that at the very beginning of the Board meeting.

But you may be wondering why several TDHCA staff might be coming up to greet you, and I hope they will. We are very pleased that they are here. We will talk about their accomplishments again, in just a few minutes. But we just wanted to make sure you knew that they were here and hope you will introduce yourselves to them and they to you.

MR. BOGANY: Okay. Can I get a motion to

adjourn?

MS. RAY: So moved, Mr. Chairman.

MR. FLORES: Second.

MR. BOGANY: Thank you. The meeting is
adjourned.

(Whereupon, at 9:20 a.m., the meeting was
concluded.)

C E R T I F I C A T E

IN RE: TDHCA Audit Committee Meeting
LOCATION: Austin, Texas
DATE: May 10, 2007

I do hereby certify that the foregoing pages, numbers 1 through 23, inclusive, are the true, accurate, and complete transcript prepared from the verbal recording made by electronic recording by Stacey Harris before the Texas Department of Housing and Community Affairs.

(Transcriber) 5/07/2007
(Date)

On the Record Reporting
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