

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS  
AUDIT COMMITTEE MEETING

9:00 a.m.  
Thursday,  
June 26, 2008

Capitol Auditorium  
Capital Extension  
1500 N. Congress Ave.  
Austin, Texas

COMMITTEE MEMBERS:

GLORIA RAY, Chair  
TOM CARDENAS  
LESLIE BINGHAM-ESCARENO

STAFF PRESENT:

MICHAEL GERBER, Executive Director

A G E N D A

<u>ITEM</u>	<u>PAGE :</u>
CALL TO ORDER, ROLL CALL	3
CERTIFICATION OF QUORUM	3
Item 1 - Presentation, Discussion and Possible Approval of Minutes of Audit Committee Meeting, September 13, 2007	4
Item 2 - Presentation, Discussion of Internal Audit Report on Draw Processing and Monitoring, Community Affairs Division	6
Item 3 - Presentation, Discussion of DOE Monitoring Report on Weatherization Assistance Program	13
Item 4 - Status of TDHCA Fraud Hotline	14
Item 5 - Status of Prior Audit Issues	16
Item 6 - Status of Internal Audit Division's Fiscal Year 2008 Work Plan	19
Item 7 - Status of External Audits	22
EXECUTIVE SESSION	
ADJOURN	25

P R O C E E D I N G S

MS. RAY: I'd like to call the roll. Gloria Ray, Chair. Present. Leslie Bingham-Escareno -- I don't think she's here. Absent.

Tom Cardenas?

MR. CARDENAS: Here.

MR. GERBER: There being a three-person committee and two of us here, that constitutes a quorum.

I'd like to welcome all of you to the Audit Committee. I'd like to give you my perspective of what Audit means to TDHCA, and it's very, very, very succinct:

The audit organization is the organization that saves us from ourselves.

I see the audit organization as that organization that does the hard work to make sure that we're doing the things that we are charged to do by the government of the State of Texas, and certainly, by extension, the federal government.

I'd like to thank the audit organization and certainly the Director of Audit, Ms. Sandy Donoho, for the work that they've done in preparation for this Audit Committee meeting, and I'd also like to introduce you to a brand-new member to the Audit Committee, and that is Mr. Tomas Cardenas.

Mr. Cardenas, do you have anything that you'd like to say to the Board, per se?

MR. CARDENAS: Thank you very much. This is my third or fourth TDHCA meeting, my first Audit Committee meeting. I'm really looking forward; I really enjoyed my time so far and I'm really looking forward to being of assistance. Thank you.

MS. RAY: Thank you very much. And with that, the meeting is only scheduled to be about 30 minutes; we have much material to cover. I'd like to go ahead and get started.

Sandy, if you would, please.

MS. DONOHO: The first item on the agenda is the approval of the September 17, 2007 Audit Committee Meeting minutes. Our December 2007 meeting was part of the full Board meeting, so that doesn't count as separate minutes.

MS. RAY: Don't need to do that over?

MS. DONOHO: No --

MS. RAY: Okay. Item Number 1 is Approval of the September 13, 2007, Audit Committee Meeting minutes, the December 2007 meeting was part of the full Board, so there are no minutes for that one.

So we're seeking approval of those minutes.

VOICE: The Chair would entertain a motion to approve.

MR. CARDENAS: I move that we approve this Number 13 from Audit Committee.

MS. RAY: It has been moved, and I guess I'll have to second it.

MR. CARDENAS: I guess, yes.

MS. RAY: We've been moved and properly seconded, that we accept the minutes of the September 13 Audit Committee meeting. Those in favor, please say aye.

(A chorus of ayes.)

MS. RAY: Those opposed, no.

(No response.)

MS. RAY: The ayes have it, and the minutes are approved.

MS. DONOHO: Okay. The next item on my agenda is to introduce our staff to the Audit Committee, since we have some new members. To my right is Harriet Fortson; Harriet is our newest project manager. She came to us from the State Auditor's Office.

She has a Master's degree in public accountancy, is a certified government auditing professional, she's working on her CPA and she has 30 years of accounting experience, many of those years in

home-related activities.

Greg Magness is not with us today, he had a family emergency. He's another one of our project managers. He's been with us for about a year and a half. he's a certified internal auditor, and a certified government auditing professional. He has a Bachelor's degree in accounting.

Colleen Bauer, last but not least, has been with us the longest; she's one of our auditors. She's worked for the Audit Department for about two and a half years. She has a Bachelor's degree in accounting, and she's working on her certified fraud examiner designation.

So that's our audit team.

Item 2 is the Presentation and Discussion of the Internal Audit Report on Draw Processing and Monitoring Functions of the Community Affairs Division's Community Services Block Grant, also known as CSBG, and Emergency Shelter Grant Program, which is ESGP.

In summary, the department has good controls over how the funds are allocated and the frequency with which sub-recipients are monitored, but improvements should be made in the manner in which these programs are administered.

We recommend increased accountability and

consistency in monitoring and draw processing. There were a few significant findings I want to go over; the training and technical assistance provided to sub-recipients is paid for using administrative funds. That's not currently on the list of activities of funds that can be used under the Texas Administrative Code, and it may not be allowable under the federal rules that govern the CSBG program.

The Department, I believe, is seeking a Board-approved change to the Administrative Code, and is in the process of obtaining clarification from the Department of Health & Human Services.

The next one is, CSBG Fund should be spent on a timely basis. At the end of each program year, there's approximately \$1 million in available administrative funds remaining; the federal guidance regarding the timeline for spending these funds is unclear.

The Department should seek federal guidance regarding whether the funds set aside for administration should be expended within the two-year period, and consider reallocating many unliquidated funds to sub-recipients for use in serving clients.

Monitoring the sub-recipients needs improvement in order to ensure that laws and program rules are followed, and sub-recipients' financial status is

reviewed. Closer attention should be paid to comparing budgets to actual expenditures; some sub-recipients may be receiving more than a 30-day supply of funds, which is not allowable under the program rules.

Monitors should obtain and review additional financial information, including the sub-recipients' annual financial report, management letters, bank account information, and general ledgers. All program and expenditure requirements should be reviewed during onsite monitoring visits, and monitoring reports should be completed on a timely basis.

Inconsistencies in the process used to identify and categorize the monitoring results were noted; as a result there are some issues that are identified as notes; some as recommended improvements; and others as findings.

We found issues that were recommended improvements for sub-recipients, and as findings for other sub-recipients. We felt like there needed to be some consistency in this process. So we're recommending that the Department provide program officers who monitor these programs, with a guide for the designation and disposition of common monitoring issues, and apply the criteria consistently to all their sub-recipients.

The criteria used to decide what sanctions to



apply to sub-recipients when they have significant or repeated monitoring findings is not consistent, and we feel like the Department should define a range of sanctions that can be used for various types of monitoring findings or issues of non-compliance.

The Department does not verify the information submitted by sub-recipients in support of the performance awards that have previously been awarded; we randomly selected 30 families who were submitted as support for the program year 2006 performance awards; we were unable to verify that 18, or 60 percent of these families met the criteria for having transitioned out of poverty.

In addition, 12 of the award winners did not meet the criteria for receiving an award. So we feel like the Department should verify the information used to support for the performance awards if they continue to give these awards, develop and enforce the standard methodology for calculating income, and develop and enforce standardized rules and eligibility criteria for the performance awards.

We also performed follow-up work on 13 prior audit issues, and found that 12, or 92 percent had been implemented.

Are there any questions on this audit?

MS. RAY: We have no questions at this time.

MS. DONOHO: Okay. Item Number 3 is Presentation and Discussion of the Department of Energy's Monitoring Report on the Weatherization Assistance Program --

MR. GERBER: Madam Chair? With your indulgence, if management could just quickly share with the Committee that we very much appreciate what the audit team prepared, and it has given us a good road map from which to follow in making significant improvements in the Community Affairs Division.

We are in the process, and you'll see in today's Board materials, a rule request -- a rule change request to make sure that we are -- if the Department of Health & Human Services at the federal level will allow us to do, technical assistance and training, that we will be in adherence with our State Texas Administrative Code; and so we're seeking approval from that today, so we'll address that issue.

The biggest issues that we're working with from the management side is trying to make sure that our Committee Action Network, which does so much work in the field, understands very clearly from the Department what's expected of them, and that we have clear guidelines and

understand, really, what's expected of us, based on the policy choices that this Board makes.

It's important for our sub-recipients to know clearly what they're being monitored for; that there's consistency in what a finding is and what a note is and what a recommendation is; that we have better controls and procedures in place within TDHCA, and create in fact a guide, so that we work with our partners in the Community Action Network together to develop, so that everyone really understands what the playing field is.

These programs are -- the Community Services Block Grant Program is remarkable in its flexibility, and the Department certainly wants to preserve that flexibility. What it really is, is it's money that is used to anchor community action agencies all across the state.

And that small investment that we make of CSBG funds oftentimes goes to be the administrative underpinnings of really, you know, \$15, \$20 million agencies that may do a variety of different social services, based on the unique needs of those communities.

We don't want to lose that flexibility, and we want to make sure that it's in fact enhanced if we can. But we want to make sure that the Community Action Network

provides us with the necessary budgets and materials, you know, on the front end so that we know exactly what they're going to do; we want to make sure that they have in place a good, strategic planning and budgeting process so that we understand what they're going to do, and that they have the management controls in place.

Likewise, within the Department itself, we need to make sure that we've laid out clearly what those expectations are, and we're going to be partnering, and there's a good contingent today, from the Texas Association of Community Action Agencies, headed up by Stella Rodriguez, who is here as the executive director of that group, who I know will speak a little later perhaps during the Board meeting.

But working with our partners in the Action Network, to make sure that we have that shared understanding of what's expected. These are big programs, that help literally hundreds of thousands of Texans, and we want to make sure that we're best in the nation in how we approach that.

And we really, again, appreciate how Sandy and her team really went about this audit, and it's given us a very good road map from which to follow. And there's a lot of work to be done here, but I just wanted to make

sure that's --

MS. RAY: Along those lines, and since we do have a contingent, I'd like to see if -- would the representatives of the community services network please, let me see a show of hands; could you stand up and let us see who you are?

We want to thank you for the work that you've done over the years in serving the citizens of the State of Texas; we appreciate very much your support, and your willingness to work with the Audit Committee, and the staff that runs this program here at the State, so that we can come up with processes, and improve processes, to better serve the citizens of Texas.

Mr. Cardenas, did you have anything that you'd like to add at this time?

MR. CARDENAS: No, thank you.

MS. RAY: Well, thank you very much for being here. We do appreciate it.

And the Audit Committee would like to give the public to understand that we're going through this very rapidly, but that we have looked at the full audit in great detail prior to this meeting. So I don't want to give you the impression that we're rushing through, because we're not.

And I'd also like to commend staff of the Department for working with the agencies, to discuss and have open dialogue about the audit prior to this meeting, prior to coming, I think that was a very good strategic plan on the part of the Department, so that we could get input prior to this meeting.

So with that, Sandy if you would please proceed.

MS. DONOHO: Okay. Item 3 is the Presentation and Discussion of the Department of Energy's Monitoring Report on the Weatherization Assistance Program. This audit from the federal external auditors had no findings, there were just some minor recommendations for improvement.

These were primarily at the sub-recipient level, and they included improvements in the use of the energy audit tool, which is -- personally I think our staff does that; increased training for both Department staff and sub-recipients; and monitoring of the field guides and the state plan to ensure that the sub-grantees are performing as required.

Are there any questions on the weatherization audit?

MS. RAY: There are no questions at this time,

but the Chair would like to take this opportunity to welcome our third member, Leslie Bingham-Escareno, who is present, so we do have a --

MS. BINGHAM-ESCARENO: Thank you, Madam Chair. I apologize for being late.

MS. RAY: Would you claim a seat. Thank you so much for being here.

If you will proceed, then.

MS. DONOHO: Okay. Item 4 is the Status of the TDHCA Fraud Hotline. You probably remember from prior Board meetings that we were talking about implementing a fraud hotline, so that people could call if they had complaints about fraud, waste or abuse related to TDHCA.

There's information on the hotline on our webpage, and that information is also, a copy, in your Board Book.

We are purchasing posters for the break rooms, brochures for the public, and Mr. Gerber just recently sent out a letter to all staff in support of the hotline.

So the hotline is up and running, and we're hoping that it helps us get more confidential, anonymous information that -- on anything in the Agency that needs attention.

MS. RAY: One of the things that I found working with TDHCA, the industry polices itself fairly

well, and I think the fraud abuse hotline will certainly help us do our job better, and hopefully improve our processes.

MS. DONOHO: Okay.

MS. RAY: I'm very pleased to hear that it is up and running.

MS. DONOHO: Okay. And the hotline is available not only for TDHCA employees but also for the general public, just so you know.

MS. RAY: Mr. Cardenas?

MR. CARDENAS: No, no comment.

MR. GERBER: And Madam Chair, I would just mention that it's being featured on our website, it will be always displayed on the front page of the website, and TDHCA has a zero tolerance stand for fraud or abuse of its programs, both within and without.

And so we take all issues in that regard very, very seriously, and we're pleased that this is really an extension, we think, of R.P. 36, the Governor's Fraud, Waste and Abuse Directive, and just continues to keep TDHCA at the cutting edge of really trying to make sure that we have the systems and tools in place to root out any of those kinds of problems.

We've experienced them as an agency a long time



ago; we don't want to -- we want to make sure that those systems and controls are firmly in place, because we're never going back there.

MS. RAY: Thank you very much, Mr. Gerber.

Ms. Bingham-Escareno?

MS. BINGHAM-ESCARENO: Okay, Item --

MS. RAY: -- to proceed?

MS. BINGHAM-ESCARENO: Thank you. Item 5 is the Status of Prior Audit Issues. Internal Audit maintains a database where we track prior audit issues. These are findings from either internal or external audits of the Department. There are 25 current issues that are issues that we've been paying attention to because they were pretty much current audits.

Seven of the 25 current issues have been reported as implemented. And there is a list in your Board Book of those 25 current issues, and you can see the ones that have the code that they've been implemented.

Most of the 18 outstanding issues are from audit work that we've performed in the past year. So that's what I mean by those being the current issues. In addition, we've verified and cleared about a third of the 220 old prior audit issues that existed when I started here ten months ago.

We will continue verifying and closing these issues as time allows; the Department has provided us with the information to hopefully close -- verify and close these issues, and we've been working through those as we've had time to do it. We hope to have them all cleared this year.

Are there any questions about the prior audit issues?

MR. CARDENAS: [inaudible]

MS. RAY: Mr. Cardenas?

MR. CARDENAS: When do you plan to have them all -- or to be caught up with everything?

MS. BINGHAM-ESCARENO: Well, that's a good question. I had hoped to have them done by the end of the fiscal year, which would be August. But we've had some staffing issues, we've lost a staff member, we have a staff member who's currently out on extended medical leave; so I would think it might be more like the end of the year.

MR. CARDENAS: Thank you.

MS. RAY: Will we get into a little bit more discussion on that as we address the work plan?

MS. BINGHAM-ESCARENO: Yes.

MS. RAY: Okay.

MS. BINGHAM-ESCARENO: Okay.

MS. RAY: Mr. Gerber?

MR. GERBER: Madam Chair, I would just note also that there's -- the burden of that also falls on management staff as well. And I know we've been systematically working through that.

One of the things that Sandy has done that I think she should really -- continues to take credit for is, I think that some of the outstanding audit issues were scattered a bit, and she's really sort of pulled that together, so that staff really understands very clearly what needs to go back and be verified by the internal auditor, or where things may have lapsed in addressing some outstanding audit issues.

And we're working through those, and I know that staff really takes very seriously getting that addressed, and -- but the list has gotten a little longer, before -- you know, with that compilation.

So we're working through it, and Sandy, I don't know if there's anything you'd want to add on that, if there's any issues that you're experiencing, just getting information. But I think most staff is getting it to you as quickly as they can, or --

MS. DONOHO: Right. We've -- the staff has

been very cooperative, we've, you know, had to go and follow-up or ask for information to do testing to independently verify some things, and they've been very helpful about giving us what we need.

We -- the list, the number of prior audit issues changes on a regular basis because as we do audit work, those issues get added into the database. So I think last year we had 13, now we're up to 25; when we add in the Community Affairs audit, that will add another 25 (laughs).

So that number is kind of -- changes a lot. But, you know, we're plugging away, trying to make sure that they all get cleared.

MS. RAY: Thank you very much.

MS. DONOHO: Item 6 is the Status of the Internal Audit Division's Fiscal Year 2008 Work Plan. We just completed the Community Affairs audit, which took us a lot longer than we thought it would. We had a couple of issues in that audit that we looked at, at the request of management. Also, it was a much larger audit than we normally do, so that took a while.

But now that we're done with that, we are currently working on audits on the Board of Field Offices, and the Bootstrap Program in the Office of Colonia

Initiatives. We expect to finish both of these audits in August, but that may change due to our staffing issues.

We plan to start the last two audits on our fiscal year 2008 work plan around the end of the fiscal year. These are audits of the Round One Disaster Recovery Program; our scope and timing may have to change slightly depending up a recent, and another upcoming HUD review of those programs. We don't want to duplicate any of the work that they did.

We are also working on developing a 2009 Audit Plan, and in July and August we'll be contacting you for input on that plan, and hopefully seeking to get it approved in September.

Are there any questions on the current work plan?

MS. RAY: Do you find that your staffing issues are going to negatively impact the work plan? As I mentioned when we established the work plan at the beginning, it was a very ambitious work plan. Could you give me some feedback on how your staffing issues are going to impact that.

MS. DONOHO: Well, we lost a staff in January, and it took us about three months to hire a replacement, so that impacted our work plan somewhat. We have another

staff who's out on extended medical leave, and we don't know how long that's going to take; if he's out for a couple of months, then out of four of us, that's a quarter of our staff, so that could impact the plan.

We have seven audits on the work plan; we will have started at least -- if things go the way I think they're going to, we will have started all seven of those audits or completed them, during this year. So, you know, it was an ambitious plan, you're right. But we -- you know, I think the Internal Audit Division did maybe five audits in the last two years.

So I wanted to try and reach a little further and see if we could some more audit work.

MS. RAY: You bit off a huge chunk --

MS. DONOHO: Yes, we have.

MS. RAY: -- and you're chewing it well.

MS. DONOHO: Thank you.

(Laughter.)

MS. RAY: Thank you.

MS. DONOHO: Okay. Item Number 7 is the Status of External Audits. One of the things that surprised me most when I came to TDHCA ten months ago was the number of external auditors that we have on a regular basis at the Department.

That's, I think, a good thing, but it takes a lot of our time to coordinate and work with those auditors and attend the various meetings, and make sure that they have what they need.

So we've had nine groups of external auditors in the ten months that I've been at the Agency, so sometimes we've had as many as three at a time, so it's been kind of crazy.

The following audits are currently underway, or were recently completed. KPMG is starting an audit of the Energy Assistance Program, as part of the statewide Annual Financial Report. This is the State's annual financial report, so they're looking at the Energy Assistance Program at the Department for that.

Deloitte is starting their Internal Control work for the Department's 2008 Annual Financial Report and the annual audit of the bond program.

The State Auditor's Office is finishing up an audit of the Single-Family Mortgage Revenue Bond program. We expect to see that report in August.

The Comptroller's Office recently completed a post-payment review of travel and purchasing. And they have not yet issued a report, but we've been told that they don't have any findings for the Department.

The Department of Housing & Urban Development recently completed a review of the Department's Disaster Recovery Program; they've not yet issued a report, but they've indicated that they'll be returning in July for additional work. That's the disaster recovery that we'll -- may impact our work plan somewhat.

We anticipate that the Department of Health & Human Services will be arriving early this fall to look at the Community Services Block Grant Program, and that HUD will be arriving in August to audit the Emergency Shelter Grant program. Both of these programs were covered in our recent audit of the Community Services section of Community Affairs.

So hopefully, if we've started fixing some of the things that Internal Audit identified, that will put us in good shape for when the federal auditors come in.

There were also three audits that were completed last fall, that I've already briefed you on; they're, the State Auditor's Office Hurricane Recovery Program; the AFRM Bond Audits for 2007 from Deloitte; and the work that KPMG did following up on some testing from the prior audit year.

Are there any questions?

MS. RAY: Mr. Cardenas?



(No response.)

MS. RAY: Mr. Gerber?

(No response.)

MS. RAY: No, there are not.

MS. DONOHO: Okay.

MS. RAY: We want to thank you so much. Do you have anything further to bring before the Committee?

MS. DONOHO: No. I think that's it.

MS. RAY: On behalf of the entire Audit Committee, the Chair wishes to commend the members of the audit agency, internal audit agency, for the extraordinary work that you have done. And I'd like to especially commend Ms. Sandy Donoho, who has not been on staff very long, who certainly hit the ground running, took on a huge responsibility in the extraordinary audit of the Community Services portion -- Community Affairs portion of our business.

And I'd like to commend management for instituting that audit. And we appreciate you helping us to improve our processes, so that we do our work better, and we've worked more in concert with the people that help us to run our business across the State.

We'd like to thank you for working with us, and working with our Audit Committee, to make this audit as

comprehensive as it has been; we still have action items that are open that we'll still be looking at, and we expect you to help us improve our processes, and we thank you, Ms. Donoho, Ms. Harriet Fortson, and Ms. Colleen Bauer.

And please give our regards to Greg, and with some extraordinary work that you've put into this report, and we thank you very much.

And if there are no further comments --

Mr. Gerber, do you have any further comments at this time?

MR. GERBER: No, ma'am.

MS. RAY: Mr. Cardenas?

(No response.)

MS. RAY: The meeting is adjourned.

(Whereupon, at 9:30 a.m., the meeting was adjourned.)

C E R T I F I C A T E

IN RE: TDHCA Audit Committee Meeting  
LOCATION: Austin, Texas  
DATE: June 26, 2008

I do hereby certify that the foregoing pages, numbers 1 through 27, inclusive, are the true, accurate, and complete transcript prepared from the verbal recording made by electronic recording by Penny Bynum before the Texas Department of Housing and Community Affairs.

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(Transcriber) 7/02/2008  
(Date)

On the Record Reporting  
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