

AFFAIRS TEXAS DEPARTMENT OF HOUSING AND COMMUNITY

AUDIT COMMITTEE MEETING

5:00 p.m.
Wednesday,
July 15, 2009

TDHCA Headquarters
221 East 11th Street
Conference Room 116
Austin, Texas 78701

MEMBERS PRESENT:

GLORIA RAY, Chair
TOM H. GANN, Member

STAFF PRESENT:

MICHAEL GERBER, Executive Director
TIMOTHY K. LEVINE, Deputy Executive Director
SANDY DONOHO, Director, Internal Audit Division

ON THE RECORD REPORTING
(512) 450-0342

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PROCEEDINGS

MS. RAY: Good morning. Welcome to the Audit Committee meeting. For those of you that don't know who I am -- and there are a couple that do not -- I'm Gloria Ray, I'm vice chair of the Board and chairman of the Audit Committee. And I am so pleased to be able to introduce our newest Audit Committee member, Mr. Tom Gann.

MR. GANN: Thank you.

(Applause.)

MS. RAY: And so he's probably, besides Sandy, the most important person here today because without him we couldn't have a meeting.

MR. GANN: I feel really important.

MR. IRVINE: Madame Chair, for the record, would you mind reading his appointment into the record?

MS. RAY: I would be happy to.

MR. IRVINE: Thank you.

MS. RAY: Mr. Tom Gann, who is the newest member of the TDHCA Board, has been appointed to serve on the Audit Committee, and I have a letter from the chairman of the Governing Board which reads -- it's addressed to Gloria Ray -- it says:

"Dear Gloria, Thank you for your great work as chairman of the TDHCA Audit Committee. As you are aware, there is a vacancy on the Audit Committee with the resignation of Tom Cardenas. To fill this vacancy as of today, under the authority given to me under the Texas Government Code 2306.056, I have appointed Thomas Gann to replace him as a voting member of the Audit Committee. I look forward to hearing the results of y our

committee at our next Board meeting. Sincerely, C. Kent Conine, Chairman of the Governing Board."

At this time I'd like to introduce our internal auditor, Sandy Donoho, and give her an opportunity to introduce her staff before we move around the table to introduce the remainder of the staff. Sandy, if you would.

MS. DONOHO: Great. Thank you.

As you know, we've been short-staffed in Internal Audit for a while trying to find some more auditors that met our stringent criteria for auditors. We have three new auditors in the Internal Audit Division:

Betsy Schwing. Betsy is our newest project manager. She started with us in March, she came from UTMB Internal Audit by way of HHSC. Betsy knows a lot about housing because she's lost two homes to hurricanes, one Hurricane Rita and the other one Hurricane Ike. She's a certified public accountant with 14 years of audit experience.

Jill Borkman is an entry-level auditor. She started with us in May, she's a December 2008 graduate of Texas State University with a B.B.A. in accounting. She completed an audit internship at Padgett, Stratemann in San Antonio, so we were really happy to steal her from one of those big audit firms. She's working on her master's degree in accounting information technology, so we're going to turn her into an IT auditor.

Derrick Miller [phonetic] back here is also an entry-level auditor. He started in June. He's a May 2009 graduate of Texas State University with a BBA in accounting. He previously worked for Pedernales Electric Cooperative, and we are very happy to have Derrick. We called and offered him a job while he was at commencement on his cell phone.

MR. GERBER: He was probably happy too.

(General talking and laughter.)

MS. DONOHO: And you remember Harriet Fortson who has been with us for a little over a year now.

So that's our new audit team. We have two additional positions that we will hopefully be filling sometime next year that are related to our ARRA funding. So at that point we will have doubled the size of Internal Audit.

MS. RAY: And beginning with Mr. Michael Gerber, who is the head honcho of this prestigious operation, Mike, if you would introduce yourself and then go around the table and I'd like to hear the other staff members introduce themselves.

MR. GERBER: Sure. I'm Mike Gerber. I'm the executive director of TDHCA. And I'd like to let everyone just not only give their names but sort of explain where they fit into the organization.

MR. IRVINE: I'm Tim Irvine. I'm chief of staff. That means I am a utility infielder.

(Laughter.)

MS. BOSTON: I'm Brooke Boston. I'm the deputy for Community Based programs and I'm involved in ARRA oversight. Aside from the ARRA activities, I work with Trust Fund, Community Affairs, Neighborhood Stabilization Program, and Housing Resource Center.

MS. RAY: We sure are glad to have you back.

MS. BOSTON: Thanks.

MR. GOURIS: I'm Tom Gouris. I'm the other deputy director for housing programs, and under my area are the Tax Credit Program, the

new tax credit like programs, TCAP and exchange, the HOME Program, the Real Estate Analysis Division, OCI, Office of Colonia Initiatives, and the new Program Support area.

MS. RAY: I hope you got a big raise when they gave you all of this responsibility.

MR. GOURIS: I'm fine.

MR. GERBER: He got everything the state will allow.

(General laughter.)

MS. MEYER: Robbye Meyer, the director of Multifamily Finance. I administer the Tax Credit Program and Multifamily Bond, and 4% Credits.

MS. MURPHY: I'm Patricia Murphy. I'm the chief of Compliance and Asset Oversight, and we make sure that the people that everybody funds follows the rules and complies with the program.

MR. DALLY: Bill Dally, chief of Agency Administration. My areas are the Budget and Accounting, HR, Information Systems, Bond Finance.

MR. GERBER: And the new Texas Home Ownership programs that include the Down Payment Program which is rolled out and helping a lot of Texans get into their first-time homes.

MS. MYRICK: Good afternoon. I'm Laura Myrick [phonetic]. I am the director of Program Services, and our area will be processing Davis Bacon, environmentals, quality assurance, draws and the loan closings for all of our federal programs, existing federal programs that we have, and all of the ARRA monies that are coming in.

MS. RAY: Have I met you before, Laura?

MS. MYRICK: Yes. I used to be with the HOME Program and previously before the HOME Program I worked in portfolio management and compliance.

MS. RAY: So this is a promotion for you.

MS. MYRICK: Yes, ma'am, it is.

MS. RAY: Congratulations. I'm happy for you.

MS. MYRICK: Thank you very much.

MR. GERBER: And of interest to you all, this is a new division within the Department. That's really because of the cross-cutting nature of draws, environmental, Davis Bacon, setup rates and other issues, and because it really is kind of sort of a number of different divisions, we created its own division.

Those functions have largely been in HOME and Laura did a great job as the performance manager in the HOME Division, now she'll take the lead in this new Program Services Division that will, again, really be cross-cutting because so many of those skill sets are of service to other parts of the Department such as Disaster Recovery, Multifamily. So it's an exciting new range of things. So we're glad Laura has taken it on.

MS. RAY: Well, we want to congratulate you on your new assignment, and looking forward to you helping us to understand the business better so we can serve the citizens of Texas.

MS. MYRICK: Thank you, and I will do my best every day.

MS. RAY: I know you will.

MS. ARELLANO: Jeannie Arellano. I'm the director of the

HOME Program Division and we administer the HOME Program.

MR. CERVANTES: I'm David Cervantes, director of Financial Administration, and within Financial Administration you have an Accounting Operations unit that pretty much handles the accounting for most of the governmental programs and state programs that we have with the agency. There's also a Financial Services section that handles the Multifamily and Single Family bond programs that we have, along with in-house servicing that we do.

And besides that we have a budget component, a travel component, a procurement component, and I guess included there is also a staff services unit that we have within the division. And those are the primary areas of my division.

MS. RAY: Besides when we hear David speak to us about budget in our formal meetings, I guess, Tom, the most interaction we personally get out of his organization is in travel. I want you to know, sir, they take good care of us. We're very pleased with the support that we get from your staff.

MR. CERVANTES: Well, I'll pass that word on to them, to Linda and to Laura.

MS. NEWSOM: Sara Newsom, and I'm deputy executive director of Disaster. We are administering funding under the Rita program and Ike, so we kind of have our hands full right now.

MS. RAY: Okay, Sara, thank you. Good to see you again.

MS. NEWSOM: Thanks.

MS. CRAWFORD: I'm Kelly Crawford, I'm director for Disaster

Recovery.

MR. ANGUIANO: I'm Joe Anguiano with the Disaster Recovery Division, executive assistant to Kelly Crawford and Sara Newsom.

MS. RAY: And a dear friend of this Board at every Board meeting.

(General laughter.)

MR. GUDEMAN: I'm Will Gudeman, I'm with the OCI and I run the Self Help Center Program.

MS. HIROMS: I'm Nidia Hiroms and I work with Mike in Exec, and I'm responsible for that large Board book you get.

MS. RAY: Thank you so much for sending it to me on a disk.

MR. LYTTLE: Well, if Tim is the utility infielder, I'm the PA announcer.

(General laughter.)

MR. LYTTLE: My name is Michael Lyttle. I'm the director of Policy and Public Affairs, and my responsibilities entail dealing with the state legislature and with Congress, providing them information as required and asked for, and also overseeing our public relations and media marketing efforts for the agency.

MS. RAY: Thank you very much. Is that everybody? With that, I would like to call the roll, the official roll call for the Audit Committee meeting. I'm Gloria Ray, vice chair of the Governing Board and chair of the Audit Committee, and I'm present. And Mr. Tom Gann?

MR. GANN: Present.

MS. RAY: Ms. Leslie Bingham is absent, and as you heard

earlier in the letter, Mr. Tomas Cardenas has resigned, so he is no longer a member of the Board. There are two of us present and that is a quorum.

And with that, at the beginning of each Board meeting we have an opportunity for public comment. I don't see anyone in the room beyond staff members, but I'll give you an opportunity for public comment if there is any. There being none --

MR. GERBER: Good decision.

(General laughter.)

MS. RAY: -- I would like to at this time recognize Ms. Sandy Donoho, the director of Internal Audit for our agenda items, report items.

MS. DONOHO: Item 1 is: Presentation, Discussion and Possible Approval of Audit Committee Minutes for February 5, 2009. Staff is recommending approval of those minutes.

MR. GANN: I'd like to make a motion to accept the minutes.

MS. RAY: And I would second that. It has been moved and seconded to accept the minutes of the February 5 Audit Committee meeting. All those in favor say yes.

(A chorus of ayes.)

MS. RAY: Those opposed, no.

(No response.)

MS. RAY: The ayes have it and the minutes for the Audit Committee meeting for February 5 have been approved.

Next item?

MS. DONOHO: Item 2 is: Presentation, Discussion and Possible Approval of the Revised Fiscal Year 2009 Audit Plan.

As I mentioned earlier, we lost two staff to advancement opportunities this year, so as a result, for seven of the past ten months we've been short-staffed by 25 to 50 percent. At one point it was just Harriet and me in the Internal Audit Division. So we were recently able to fill two vacant positions and added a new position in preparation for an increase in our responsibilities in the Department.

As you know, we're getting additional federal funds from the ARRA Act, the Department is adding some new programs and expanding some existing programs, for example, the Neighborhood Stabilization Program and the Tax Credit and exchange Programs. Also, there have been several external audits that have provided coverage over programs that were on our original work plan.

So as a result of these factors, we need to make some adjustments to our Internal Audit work plan. So there were three audits that were taken off the proposed work plan.

The first one is the audit of setups and draws and subrecipient monitoring for Disaster Recovery Program. The State Auditor's Office just finished a followup of their 2007 audit on Disaster Recovery, and they audited both of those areas pretty heavily and they found no issues in those areas, so there's not a lot of point in Internal Audit coming back and looking at it again.

There was an audit on the plan of the Section 8 Housing Choice Voucher Program's revised policies and procedures. We'd also like to cancel that one. The revision of the policies and procedures was delayed because management has been really busy with the ARRA things and we've had some changes in management in the agency, so those policies and

procedures are not available for us to audit at this point, and there's not a lot of point in auditing something that they're intending to change, so we want to take that one off.

We've added two activities. One is to provide support for the Department in reviewing issues to the ARRA funds, and to support and advise the Department's management in developing internal controls over these funds. This includes serving as a point of contact for the Government Accountability Office, the GAO, in their ongoing review of ARRA funds.

For example, at management's request, we recently completed a review of the policies and processes for the Mortgage Advantage Program. We were able to recommend some changes to the processing of the loans as well as to the loan documents themselves in order to further strengthen the controls in that area. So we're doing a lot of activities related to ARRA that aren't really audits but are audit support of the agency.

MR. GERBER: And Sandy, I would just mention that the Mortgage Advantage Program, of course, is that effort by the Department to monetize that \$8,000 tax credit provided for in ARRA and to provide a loan from the Department on a short-term basis for up to \$6,000 or \$7,000, depending upon which program you're in, for down payment and closing costs with the hope of rapid repayment. Just to clarify.

MS. DONOHO: Okay, thank you.

MR. GERBER: Sure.

MS. DONOHO: The other thing is that we're up for our peer review this year -- which we'll talk about later -- but we have to do a self-assessment for the peer review and that's required as part of our peer review

which is due this fall. The peer review process is a reciprocal process with other auditors from other agencies, so that means that we have to provide about three weeks of work to other agencies for their peer review.

I recently served as a team leader on a peer review for the General Land Office; Betsy is going to serve as a team member on the peer review of the Higher Ed Coordinating Board this fall, so that will help with our peer review but it takes time away from our audit work.

Also, there's been an increase in the workload associated with coordinating with external auditors and providing support for these external auditors. Last year we had eight groups of external auditors at the Department. So far this year we've had eleven groups of external auditors and we anticipate a few more coming in before the end of the year.

We're also currently working on the follow up of the Office of Colonia Initiative programs from last fall. That was something that the Board requested a followup in six months. We anticipate completing that work in late July and we'll be starting the audit of the 4% Tax Credit Program -- which is also on our existing plan -- in late July.

So those are the changes that we want to make to the audit plan. Are there any questions?

MS. RAY: There are no questions, but I did get a copy of a letter on the 9th of July. It was addressed from the State Auditor's Office to Michael Gerber. It's a representation letter from the followup audit of Hurricane Recovery funds administered by the Department of Housing and Community Affairs and the Office of Rural Community Affairs. This is just a representation letter?

MS. DONOHO: Right, that's just a copy for you of the letter that we take care of. It was signed by management and sent back actually today to the State Auditor's Office.

MR. GERBER: It's a required letter at the point when an audit is about ready to be wrapped up -- as this one is -- just to reaffirm that the Department has given everything truthfully and there's a list of items, and myself, as well as about seven or eight other members of the team assembled here and throughout the building, signed it just to affirm that we've very up front with you and given you everything that we have.

And that audit will be coming out and we're looking forward to that. I think we can safely say, while we can't divulge what the audit says, in general, they have not found issues that point to any problems with use of funds, which is very encouraging, given the size and scope of the Recovery programs.

MS. DONOHO: We have a draft of that audit but it's confidential until it's publicly released or released to the Board, and we anticipate that that will happen about mid August, so the next time the committee meets, I'll cover that report with you.

MS. RAY: Thank you for that clarification. I appreciate it.

MS. DONOHO: Sure. So staff recommends approval of the revised Fiscal Year 2009 Audit Work Plan.

MS. RAY: I don't have any additional questions about that audit plan. Mr. Gann?

MR. GANN: No, I do not.

MS. RAY: Then the chair would entertain a motion to accept.

MR. GANN: I make the motion to accept staff's recommendation.

MS. RAY: And I second. It has been moved and seconded to accept staff's recommendation. Those in favor please say aye.

(A chorus of ayes.)

MS. RAY: Those opposed, no.

(No response.)

MS. RAY: The ayes have it and we have accepted staff's recommendation for revision of the audit plan.

Item number 3.

MS. DONOHO: Item number 3 is: Presentation and Discussion of the Status of External Audits. These are all of the external auditors I was just talking about that come to visit us during the year. There are three external audit groups that have completed their field work but for which we have not yet received reports. The State Auditor's Office followup of the Disaster Recovery Program, we have the draft but that one is not final yet.

MS. RAY: That's the one that we expect to hear from in August?

MS. DONOHO: Yes, ma'am. The State Auditor's Office reviewed the program specialist job classification, and actually that one was released today, so we'll talk about that one next time too, but basically there were eight positions under program specialist job classification that were misclassified, and those, I understand, have been corrected.

The Texas Workforce Commission came to look at access controls over the unemployment insurance data which is automated data used

by Section 8 staff to determine income verification, and we have not received a report on that one yet. I hope to be able to talk about all of these at the next Audit Committee meeting.

There are three audits that are currently underway and two that will be starting soon. HUD is reviewing Round 2 of the Disaster Recovery Program, HUD OIG is also reviewing Round 2 of the Disaster Recovery Program, so the Disaster Recovery people had HUD, HUD OIG and SAO all auditing them at the same time.

The Government Accountability Office is conducting an ongoing monitoring of ARRA funding. Their first report did not address any issues related to the Department specifically; it was more of a report about Texas.

MR. GERBER: But it is fair to say on that one that the governor has self-identified Texas as a high risk state because of the amount of funds coming in, and he has opened the doors -- as is appropriate -- to greater scrutiny from the GAO. There are 16 states in that category and so we've had many visits from the GAO and they have been very interested in the Weatherization Program because of the risks attendant with that.

MS. RAY: And a lot of money came in.

MR. GERBER: That's right. And the most recent GAO report that came out did identify the issue of the challenge of swallowing that much in additional funds but that we were working through the systems and developing strong procedures. So it continues to be an area of high risk and they'll follow that one closely through implementation.

MS. DONOHO: And that report is a report to the federal government from the GAO and it came out just a couple of days ago.

MS. RAY: Is that going to be an ongoing audit through the end of this year?

MS. DONOHO: Pretty much.

MS. RAY: And how often do you expect to hear from them?

MR. GERBER: It's going to be quarterly. It's been quarterly at Congress's request, and with submissions to Congress it was April, July, so that seems to be a quarterly time frame that they're on. And I suspect we'll continue to see Weatherization be prominently featured there. Brooke has been taking the lead on ARRA issues, and we have twice weekly meetings in the Governor's Office with other state agencies that are also administering large amounts of stimulus funds.

Any other higher profile issues from our agency that you're seeing identified? Obviously, the education agency and health and human service agency issues are enormous areas and TxDOT as well. Other things that you're hearing about?

MS. BROOKE: No, but timewise I guess I've been given the impression that they're going to be tracking these 16 states pretty much for the life of the ARRA funds, potentially quarterly. So they're just kind of almost like an ongoing presence now.

MS. RAY: Help me refresh my memory in terms of the scope of the amount of money we got, not how much, but relative to the other 16 states, where does Texas stand in the amount of money that came to the states?

MS. BOSTON: We're the first largest for Weatherization and then I think we're second largest for most of the other money because most of

the other ones tend to be population-based.

MS. RAY: I would have expected California to be higher than we were for Weatherization.

MS. BOSTON: They are except for the Weatherization money also is based on kind of a needs usage that correlates with hot weather and cold weather areas.

MS. RAY: And they're moderate.

MS. BOSTON: So the northeast gets a lot and then the hot states, and we're really showing how hot we are these days.

(General laughter.)

MS. BOSTON: But that's a really good question and it would be interesting for us to include that on our update just to kind of show where we fall nationally for each pot of funds, because I can't answer your question very well.

MS. RAY: You gave me a quite complete answer, that's what I was asking for -- even though I didn't know it's what I was asking for.

MS. DONOHO: I also wanted to mention that the Department has been really good about including Internal Audit the ARRA meetings that they've had and the discussions that they've had about putting these programs together so that can help them think about what controls they need to put in place on the front end before the programs are rolled out or expanded. So we've been working closely with the Department on those issues, and also I've been working with the GAO as a point of contact from when they have requests or documents they need.

The other two that we expect to happen soon or have actually

already started is KPMG -- which is the annual Statewide Audit -- is going to be reviewing the LIHEAP Program, the Low Income Home Energy Assistance Program, and also the Community Services Block Grant as part of statewide, and they have some ARRA-related activities that they're going to be auditing as well.

And then Deloitte is starting their annual financial report -- I think they started the IT this week on that. So those two audits are starting up too.

MR. GERBER: And it's fair to say LIHEAP is usually included in the Statewide Single Audit?

MS. DONOHO: They have a financial threshold and it depends on how much money we have, but the ARRA money has pretty much pitched a lot of things into Statewide that haven't been in previous years. I think they had originally planned on doing the HOME Program too but other agencies got more money and that pushed us down, so HOME dropped off the list.

MR. GERBER: And of comfort on CSBG is that we had an audit or monitoring visit about a year ago, and the reports there were that we had strong procedures in place with our community action agencies. I mean, there's always problem children, but in general, that gives us a good sense of confidence as we walk into a greater level of scrutiny through the Statewide Audit.

MS. DONOHO: And there are two audits that had recently issued reports and I'll discuss those under agenda item number 6. So are there any questions on the status of external audits?

MS. RAY: I have no questions. Mr. Gann?

MR. GANN: I have no questions.

MS. DONOHO: Okay, item 4 is: Presentation --

MS. RAY: Wait a minute, if you don't mind.

MS. DONOHO: Sure.

MS. RAY: I'd like for us to go ahead and just keep it orderly so that we can vote on each individual item, because we're at number 3. Right?

MS. DONOHO: Yes. None of these other items need a vote.

MS. RAY: Okay. But they have a staff recommendation, do they not?

MS. DONOHO: No.

MS. RAY: Okay, moving on.

MS. DONOHO: Item 4 is the status of prior audit issues. If you'll recall from February, we had the prior audit issues database and we finally cleared all of the 457 prior audit issues that I inherited when I took over.

We have a new prior audit issues database which is now up and running. We have recently requested responses from management regarding the status of these issues. The issues in the new database are issues from internal and external audit reports that were released since September of 2007.

There are 100 issues in the new database, and we have new numbers from what's in your Board book because we cleared 16 more issues since the Board book was posted. So of the remaining 84 issues, 48 have been reported by management as implemented. We'll be verifying and closing these issues as time allows.

MS. RAY: That's a lot of items.

MS. DONOHO: We have 13 that were reported as pending or action delayed, and we'll close and verify those issues when they're reported as implemented. And there's a document in your Board book that lists each individual issue.

There's one issue that was reported as not implemented and some of that has to do with the timing with some other things, rules and rule changes and things that the Board is approving. There are 13 issues that we have not yet gotten responses on, and there are nine issues which are recently new and we've requested responses on those. So we're trying to clear out prior audit issues so that we don't end up with a backlog like we had in the past.

Are there any question regarding the prior audit issues?

MS. RAY: Not that I know of. And no action is required. Is that correct?

MS. DONOHO: Right.

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

MR. GANN: No, I have no questions. Thank you.

MS. DONOHO: Item number 5 is: Presentation and Discussion of Recent Internal Audit Reports. The two reports I'm going to talk about were both released in May.

The first one is an audit of loan servicing and recycling of program income in the HOME Division. Since September of 2005, HOME has recycled \$12 million in program income. The program income funds were recycled to provide housing assistance to more low income Texans. Since the

Department began tracking program income in 1993, \$28.8 million has been recycled. So that's money that came back in to the Department from loan payments and sales of homes that were in our program that have gone back out to other people.

The accuracy of the Department's records needs some improvement. In five of 23 zero-balance Homebuyer Assistance loans, the Department did not collect the correct amount from the borrower when the property was sold. There were three borrowers out of our testing sample that were due money that had not been paid.

In addition, there were six of six contract for deed files that had closing costs that were less than estimated. Although unused funds are returned to the appropriate HOME program year, sometimes it takes as long as a year to reduce the homeowner's loan balance, and the risk there is if the property is sold or that sort of thing that the loan balance may not be correct.

But generally when documentation was available, the loan files that we looked at complied with laws, regulations and the contract provisions, and we felt like the Department had sufficient processes in place to ensure that the period of affordability was met for loans that required a period of affordability under the HUD period of affordability rules.

Are there any questions on this audit?

MS. RAY: No, I don't have any questions, but Jeannie, do you have any comments that you'd like to make?

MR. GERBER: Or David.

MS. RAY: I thought it was HOME.

MS. DONOHO: It's HOME.

MS. RAY: They're joined together at the hip on that one.

MR. GERBER: They are, and Laura has been very involved in parts of this as well. So any comments?

MS. RAY: You don't have to make any comments if there's none to be made, I'm just curious.

MR. CARDENAS: I think the only comment I would have is that we do appreciate the information and feedback that we got from the Internal Audit Division. I think the primary emphasis was on accuracy and improvement on that, and we're always looking to find opportunities to improve our processes.

So I think my comment would be that we're proceeding with making the adjustments necessary to improve our processes and enhance what we're doing right now, and just to assure the Committee that we're following the recommendations, and we've done so already, so we feel very good about implementation of the suggestions and improvement of our processes.

MS. RAY: Mr. Cervantes, that is so the right answer.

(General laughter.)

MS. RAY: Thank you very much.

MS. ARELLANO: And just from our perspective, we quickly implemented changes in our SOPs, our standard operating procedures, for any of the issues that were identified to just make sure that anyplace that there was what might be a crack in the process, we got that all filled up and clarified.

MS. MYRICK: We worked with David and some of the loan

servicing staff to make sure that we were all on the same page and changed all of our processes, and as Jeannie said, the SOPs to reflect those changes that were recommended.

MS. RAY: Thank you very much. No action required.

MS. DONOHO: The next one is a report on the Internal Audit Division's quality assurance and improvement program.

Many people want to know who audits the auditors, and that actually happens. We have audit standards that we live by, the Institute of Internal Auditors has professional practices framework which we refer to as the standards.

Those were recently updated in January 2009 -- we talked about those at the February Board meeting in terms of when we revised our charter and our Board resolutions. Those standards also require that I develop and maintain a quality assurance and improvement program and that that program include internal and external assessments.

So it's always required in external assessment which is our every-three-year peer review, but it also requires us to have a quality assurance and improvement program which we do have and have had, but it also requires us to do a self-assessment and to report annually to the Board on that self-assessment. So those are the two biggest changes.

The objective of the self-assessments is to evaluate our conformance with the definition of internal auditing, the standards and our code of ethics. So the way that we did that this year, since it's new to all auditors, was we asked Betsy Schwing -- who is our newest project manger and has 14 years of experience in internal audit -- to look at four of the audits

that we did last year and to do an assessment of those audits and see if she thought that we complied with the standards because since she wasn't involved in that work, it kind of gave us a fresh look at that.

Based on her review of the working papers and discussions with staff, she felt like the Internal Audit Division fully complies with the definition of internal auditing, the standards and the code of ethics. This means that our policies, procedures and practices are in place to implement the standards and meet the requirements necessary to ensure that we're independent, objective, proficient, and that the shop is running the way it should.

So the real tests of that is our external peer review which is scheduled for this fall, so we'll have more on that then. Are there any questions on our self-assessment?

MS. RAY: No, I don't have any questions. Mr. Gann?

MR. GANN: I don't have any questions.

MS. DONOHO: Okay. Item 6 is: Presentation and Discussion of Recent External Audit Reports, so these are all those visiting auditors that come to see us.

The first one is HUD did an affordable housing and financial monitoring and technical assistance visit for the HOME Program, and we got the report in April of this year. Their comments about overall performance were that from 1992 to 2008, HOME received allocations of \$639.4 million, that the Department committed 89.2 percent of those funds and disbursed 74.7 percent, and HUD didn't feel like that was an acceptable rate of spending that money.

They thought that to improve our overall commitment and disbursement rates, the Department should work with various recipients, subrecipients and the community housing development organizations and to increase the recapture of funds from poor or non-performing recipients.

Just a quick overview of some of the findings. The Department has numerous open contracts with recipients and subrecipients that date back to 1993. HUD recommended that the state identify those contracts with uncommitted and/or undisbursed funds and to get these projects completed and the funds drawn, or the projects canceled and the funds reallocated.

They also commented that the Department was not accounting for recapture of funds separately from program income -- this was something that Internal Audit also noticed in the program income audit that we did, but HUD reported on it so we didn't -- that recaptured funds are required to be deposited in the participating jurisdiction's HOME investment trust fund local account, and instead the recaptured funds are accounted for as program income.

HUD wants the Department to provide detailed spreadsheets for January 1 of 2005 to the current date that distinguish the recaptured funds from program income.

The other issue was HOME funds which are drawn down have to be expended within 15 days or returned to HUD. They charge interest on these funds that has to be repaid to the Treasury. HUD looked at 26 indexes and found five that maintained cash balances beyond the 15 allowable days, and they also noted \$209,381 in HOME funds was used by the Department to offset funding shortages in Disaster Recovery, and that's not an acceptable

practice for HUD.

They requested that we not use HOME funds to pay the shortages of other programs and to calculate and repay any interest lost to the Treasury as a result of that. They felt like the project completion data needed improvement. There's a maximum 120-day allowable time to enter project completion data; there were ten projects that exceeded that limit. HUD asked that we either repay \$483,115 drawn to cover project costs for one of the projects, or to request a reduction to the 2005 grant.

Also, they pointed out that there were numerous multifamily projects that were out of compliance with the HOME Program requirements, and some of the deficiencies and violations could result in the state being requested to repay this money if the projects can't be brought into compliance in a reasonable period of time. They identified 24 projects that total \$14.5 million that were out of compliance and/or at risk of repayment, but there could be more projects in that category.

MR. GERBER: And these are properties that cut across a wide range of sizes and some are very small unit properties, some are much larger.

MS. DONOHO: They identified and questioned an unsupported cost in the amount of \$152,495, as well as other discrepancies. They feel like we should reimburse the ineligible or unsupported costs or provide documentation for support of these costs.

There was some good news in this report.

MS. RAY: Sounds pretty bad.

MR. GANN: I missed it.

(General laughter.)

MS. DONOHO: Saved the good news for last. The Department's performance in the American Dream Down Payment Initiative was deemed acceptable by HUD, and the Department was in compliance with the 90 percent rule -- that's where 90 percent of rental assistance or rental units must be initially occupied by persons or families below 60 percent of AMFI. In addition, HUD commended the Department for their efforts to ensure that matched funds were from eligible sources.

They also commended the Department for improvement to the cash management process. They were able to tie funds drawn back to specific general ledger entries. That was a problem that they had identified in last year's audit of Disaster Recovery and that problem was corrected.

I think management may wish to comment on their responses to this audit.

MR. GERBER: I'll ask Jeannie to visit in just a moment, but HOME -- and Tom as well -- but HOME is one of our most complicated programs.

MS. RAY: It's very volatile too; there's a lot of movement.

MR. GERBER: Lots of movement, lots of changes to the rules, lots of things you can do with it, but there's also great challenges and requirements in using these dollars, and the state puts further requirements on us because we're only able to use 95 percent of these funds in rural Texas, 5 percent of the funds can be used anywhere in the state to serve persons with disabilities.

And we use HOME dollars for a variety of purposes: we use them, in large part, because of choices that have been encouraged of this

Department by local officials in rural Texas. We use the largest portion of these funds for owner-occupied rehab, dealing with some of the most challenging homes in rural communities that are desperately poor homes and that are just a very, very difficult populations to serve and communities without a lot of capacity that we have struggled with.

We also use it for multifamily development in rural communities as well, we have a Tenant-Based Rental Assistance Program, kind of a short-term voucher that you can use for up to two years with the goal of hopefully getting that individual moved toward self-sufficiency, and then we also use it for Homebuyer Assistance, each of which has their own unique set of rules attendant with it.

And in blending these funds and using them for those myriad purposes and in trying to work with folks who have limited capacity to administer the funds, coupled with the very limited capacity of the end recipient of the funds, it does make for some very, very challenging circumstances that Jeannie and Laura have really had to struggle with.

And it was one of the big reasons why HOME has been sort of a work in progress in the Department for the last several years as we've created a Performance Division which Laura headed to try to hopefully, once the awards were made, help move people to success.

There is certainly cleanup to be done, and we respect what HUD said, and Melanie Hubbard, the monitor who came, is a very seasoned HUD professional and gave us a lot of good guidance and thoughts that we've really taken to heart as we move through development of additional procedures and processes to deal with problems that are here. But there are

problems and we're working through them.

I think you will find that some of the older problems that have been harder to solve have been addressed in new SOPs and in new HOME rules that have been developed in the last several years, and I think we will avoid some of these pitfalls down the road because of policy choices that the Board has made over the last three years -- which have been difficult.

One example is the whole grants versus loans and preserving affordability issue which you're very familiar with; another is making sure that consultants actually prove up that they have the capacity to do what they say they're going to do when they work with a city and support that community in applying for these funds, making sure it's an issue that will come up tomorrow, making sure, because it's a reimbursement program, that there are actually real reserves there to provide reimbursement to contractors in a timely way. Those are some of the ongoing issues that we struggle with.

And if I could turn to Tom and to Jeannie and others to chime in on the discussion.

MR. GOURIS: A couple of things that have been challenging for the HOME Program over the last couple of years, there are some changes that HUD has implemented in the way that they look at our program income and the way that we've had to account for our program income, and the way that that's been recast for us last year caused us to have a lot more funds available to have to have been spent prior to our additional or our new allocations being spent. So the way that we've had to look at that added roughly --

MS. ARELLANO: \$26 million.

MR. GOURIS: -- \$26 million, somewhere in the neighborhood, of additional funding, a couple of years back we had a double allocation round that kind of had a lot more load going through the pipeline at one time. We've changed how we do that so that we have a much more smooth pattern of getting things through, but that load a lot of that has had to come back because it was too much for the system to take, for the subgrantees to take, and so a lot of that has been returned and it had to be reprogrammed.

All that being said, there is something on the order of --

MS. ARELLANO: \$60 million.

MR. GOURIS: -- \$60 million -- am I stealing your thunder here -- but there's something like \$60 million in funding that needed to be spent by May 31, and that was as of like last November.

MS. ARELLANO: October-November.

MR. GOURIS: We normally get about \$40 million a year, so spending more than what we normally get in a year is a significant task, and a lot of the things that were put in place prior to October we're already targeting trying to get those funds spent. A great success story can be told because we actually did get those monies allocated.

In fact, more than that \$60 million was allocated in that time period before the May 31 deadline, so we've made great progress. That was one of the big items in their audit that there was this unexpended balance that we needed to attack. Now we need to continue the process in getting those funds actually, now that they've been allocated and obligated, now they need to be spent.

Some of the things that we've done to try to obligate and get

them spent faster is getting the contracts turned around quicker. It would take us anywhere from a month to several months to get a contract after an award was made by the Board to get that out and signed and back and forth, and we've turned that now within a couple of days of the award we've been sending those contracts out and getting them executed and getting the process started a lot faster.

Again, the performance management process that they've implemented over the last year or so has really emphasized we're not meeting our benchmarks; how are we going to meet the benchmarks file and obligated and get that process moving faster?

So we feel pretty good about where we are as far as what we need to be doing, the problem is there is still a big -- if you think of it as a snake gobbling up a creature, we've got this big lump holding up all the way through the process. All right, not such a great analogy, but that's the only think I could think of is we're digesting a lot of activity. And we think, we believe that we've got the right team and right process in place to help us digest that as it goes down.

MR. GERBER: That you saw over the late fall and in the spring a huge number of NOFAs. Each month we were making a point of today you've given approval to hundreds of additional units across a variety of different categories, and it's been an effort to really push dollars through.

Maybe just to tweak some of the things that Tom said, and move to you, Jeannie and to Laura, talk a little bit about some of the problems attendant with that load that remains and how we're sort of -- tell us about some of those problems, what we're kind of dealing with.

MS. RAY: Well, before you get into your dialogue about that, one of the things that really struck a little terror in my heart when you were giving your presentation, Sandy, was that if you don't do that, we're going to take some money, you're going to pay us back. Kind of keep us abreast of where we stand.

I appreciate what you told us that we were able to get some of the programs executed by the end of May, more than the requirement before the end of May, but I'm really concerned about where do we stand in potentially having to make a repayment to HUD, give some money back, or how it will impact some of our future programs.

MS. ARELLANO: Okay. Well, first I'd like to say that having been involved with the program for many years, even when I was here with the Department before, this audit -- which came out while I was on maternity leave, so now you know why I was out on maternity leave --

(General laughter.)

MS. RAY: You did it on purpose.

MS. ARELLANO: -- was actually one of the best -- if I can use that word -- best monitoring or audit reports that we've gotten because I can take you over to my office and I can show you where audit reports were like two binders full of audit reports, so this actually looked very good when it came out.

MS. RAY: Everything is relative. Right?

MS. ARELLANO: Relative. Another thing I wanted to say is that when I came back from maternity leave, one of the first things I started on was trying to provide this response to HUD, and I want to say thank you to

everyone across the agency that helped in preparing the response so that we could present one united response back to HUD.

And it made a world of difference to me in getting a response pulled together and being able to respond to HUD with some things that were already taken care of and things that we already provided documentation to them on that we already resolved. So I want to express a lot of appreciation to the areas that helped make sure that we could get that response in.

As it relates to what is left here in unsupported costs or what we might owe back to HUD, we have already started working on trying to resolve some of those issues. The big sore is the multifamily properties and what to do with the non-compliance issues on those, and I think we've kind of forged forward with a plan to try to get some more HUD guidance or find a way that we can make this be a win-win for both us and HUD, because they want the affordable units and we've tried to invoke any opportunities that we have to try to bring them into compliance.

There is along list of properties but they're at a variety of stages of what we've tried to do. Some of them we've sent staff out to provide TA, whether it's income eligibility that the property management company needs help with. Then there are some more difficult issues like the physical aspects of the project at the time. So I think those are things that we're going to still continue to work on and still dialogue with HUD, and that's certainly what we left things open with HUD to continue down that road with those.

The other unsupported costs we are still researching and they fall into a couple of categories. Some of it is just in the reporting itself and how the funds were reported and we need to get corrections made in HUD's

system, the huge IDIS system that is very complicated, and this is data that's been in there for years and years that went through a couple of transitions in how the data is reported and what was required before and even the method of how it was reported before because you had a lot of human element in there that cause some human errors.

So some of it's just corrections which we've already identified for them, and one file in particular -- which is a quite dated file -- we are still trying to research to obtain the documentation in order to submit that to HUD.

So I don't think that we're at a point yet where we're having to send money back to HUD, and I don't think that that's what HUD wants anyway, HUD wants to make sure that we have these affordable units out there and in place.

MR. GOURIS: We did send, though, three warrants back, small amounts for some small adjustments that they identified and we clarified some and others we recognized that there was an error, so there was a \$1,000 warrant and a \$200 warrant, I think, and a third warrant that I don't recall the amount.

MS. MYRICK: \$1,440, \$1,850, and \$168.

MR. GOURIS: Thank you.

MR. IRVINE: Could I make sort of a high-level comment about the Multifamily portfolio -- or actually more than a comment, just more of an explanation. And for the record, it's Tim Irvine.

When you are developing a multifamily property with HOME funds, the first thing is you've got to build what you said you would build. That may be new construction; it may be rehabilitation, whatever. With the HOME

program, because of the nature of it, you really need to be scrupulous about following through on correct construction and we need to be very much on top of it. And some of these, I think, are older properties that just never got off on the right foot. The work that they said that they would do didn't get done. So that's an issue.

It's especially an issue under the HOME Program, because once you've advanced HOME funds on a project, the general HUD rule is no more HOME money for that project. This isn't like a bank where you put half a million dollars into something and you say, Oh, my gosh, they need another \$100,000; I'll just loan them another \$100,000 rather than charging off my half million. So financially, it's a little bit of an irrational program.

The second thing is these properties are affordable housing and they can be very good projects but they aren't uniformly good projects, and over a long affordability period, any property is going to have ongoing costs, costs of maintenance, and it's not just enough to create safe, decent and affordable housing; you've got to maintain it, and HUD is intent on the fact that for the required affordability period you've got to keep the property up.

And the third thing is documentation. This isn't like the guy that lives in the free unit downstairs and just collects the rent and sends a check to the owner every month. This is something where you've got to keep scrupulous records that shows that the tenants that are there were the tenants that met our requirements, that the rents were within our requirements, and really that it was documented affordability given to the targeted population we serve.

So you've got these three things that all make it very difficult to

maintain HOME affordability.

Until very recently, we didn't have a whole lot of tools to deal with that. We were, I think, more than accommodating and continue to be more than accommodating in terms of the training that we offer. Our compliance training is wonderful. It's free. Just come on; sign up; come take it.

But these properties tend not to have a lot of stability in the people that are in there doing the day-to-day work, and they tend not to have always well-trained people on site maintaining all the records -- that's a problem. And then properties do tend to get kind of behind the eight ball on maintenance and these other kinds of issues.

One of the things that's been given us is administrative penalties, and we are scheduling these non-compliant properties very quickly to bring them in front of our enforcement committee and sit down there and really shake them out and say, All right, what can you do to address these problems? Is there a way that we can work with you?

And we need to identify when people either cannot comply or will not comply, and if they cannot comply or will not comply, we need to find other solutions, and that maybe negotiating taking back the property and giving it to somebody else that can comply.

These are some very complex things, but so far we've had very good luck in using this enforcement dialogue, and frankly, the threat of administrative penalties to get some responsiveness.

I will tell you just this morning we were talking with somebody who has had a couple of projects dating from 1995, during the course of the

last two years our Compliance and Asset Oversight area has written them 13 letters saying: You're in material non-compliance.

And we finally got their attention when they applied for some competitively awarded funds under another program and we said, No, you're in material non-compliance; you're not the kind of people we can do business with; we've got a Board rule that says you waive the right to compete for other funds until you fix your existing problems.

So we're really putting a lot of pressure on these people to address their existing problems, but honestly and unfortunately, there are going to be situations where they just can't do it, and in those limited situations, we're going to need to develop some policy recommendations that are going to have to be really thoughtful and think mainly about the impact to Texans but also about the possible ultimate tab and we're going to have to look at the possibility of taking these properties back and perhaps even giving them to someone else who can put in the necessary investment, assure us that they've got the trained people in there to do the documentation, maintain the properties in a high level of compliance, and then give us that affordability period under a new land use restriction agreement looking forward.

And one of the nice things about HUD is they really do want the affordability, so the possibility of a reset on some of these more troublesome properties is a very real possibility.

MS. RAY: Thank you, Tim.

MR. GERBER: That case was particularly difficult because the organization that was applying for the funds would have been a lock for \$5.7 million, and a \$250,000 hiring of a contractor to fix those properties is going to

cost them that. We now have their attention, and hopefully they'll do the right thing and fix that property, and they're still going to be brought before the enforcement committee in the next month or two to address the issue. But it's been the desire of the Board to draw a pretty hard line on enforcement issues, and they're unpleasant but that's really been the key to really remedying some of this.

Some of this, though, in all fairness, is not being able to reinvest more HOME dollars when there wasn't enough money on the front end in the first place, and so you have people who were telling the Department -- back in 1995 or before or shortly thereafter -- we can fix this property for X dollars, when they really needed X times three. And Patricia, whose team does an able job out in the field, sees that over and over again, and maintenance is the first to go, and it doesn't take long for disrepair to show up.

Patricia, anything you want to add to it?

MS. MURPHY: We are doing everything we can to get these portfolio properties into compliance, and as Tim said, the referral to the administrative penalties committee has been very successful in some cases where there's been longstanding problems and letter after letter you need to fix this, and once you put a dollar amount on that, they're fixing it.

MR. GERBER: And HUD knows that, so there's not the pressure to make a payment tomorrow, but certainly I think they're expecting that they will hear often from us and we call them to let them know what we're doing.

MS. RAY: I think that's important because as HUD threatens to

take money from the state, that impacts the extent to which we're able to serve the citizens of the State of Texas. That's our concern, not so much of it's taking so much out of our checkbook or out of our balance sheet, but when they do something as dramatic as force major payments -- small ones, we can live with that -- but my concern is always how does it impact the citizens of the State of Texas. And I appreciate the explanation.

And they left you to do the dirty work, didn't they, Sandy?

(General laughter.)

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

MR. GANN: I don't have any questions.

MS. RAY: All right. Thank you.

MS. ARELLANO: Could I make two more comments just to try to end this HUD audit on a positive note?

MS. RAY: Sure.

MS. ARELLANO: One is that, back to Tom's analogy, the snake analogy --

MS. RAY: I think what I was thinking in my mind was a sausage, but snake --

(General laughter.)

MS. ARELLANO: -- we have been working on and have seen these issues coming, as it relates to our expenditures and our commitments, for a couple of years, and we had a double whammy in that we had the treatment of program income was changed by HUD in '07, and on top of that, we were really trying to make sure that the administrators that do our programs, especially on the Single Family side, were actually getting the job

done out there and making sure that the homes were being reconstructed, rehabbed, that we were getting assistance out for Tenant-Based Rental Assistance, Homebuyer Assistance.

We went through some iterations of rule changes to make sure that we had performance benchmarks in place, we set up the performance team that Laura headed up in October of '07, so we had some money coming back to us because people weren't performing. So we had this big \$26 million in program income and then lots of de-obligations that were occurring, so we had this big glut of money that we were trying to get reprogrammed and back out which we successfully did in reprogramming funds.

They just came to visit right before we were going to realize that, and since the visit in May, we did, again, meet our commitment requirement and went beyond that. So recently -- we annually have to submit a report to HUD that reports to them our performance on units and our commitment and expenditures, and it's a performance report to them that was submitted earlier this year.

But I received the response, the initial response from them late last night which indicates there are several comments in there that are commending us, and even the word "excellent" was even used, and commending us for the work that had been done, but you couldn't see at the time that they came out. So I was very happy to see that.

They've also, I guess, softened up -- I guess you could say -- in trying to provide just some more technical assistance on what they'd like to see. They acknowledged a lot of work that we've done and how much work we have done to fix the things in the reporting and the information that we

have in their system, their IDIS system. So I was very glad to see that come out.

And besides the rental properties and besides the unsupported costs, we have addressed, tried to address any other guidance or best practices or tip that they've tried to give us, we've taken that into consideration and already made adjustments for that in how we do business in administering the HOME Program.

So I just wanted to end on a positive note that we took to heart what they've sent to us and reported to us and we've really, I think across the entire department, made great efforts to address those issues. It includes changes in financial administration and the program income and things like that.

MS. RAY: I think communication is key always, and I think the fact that we're implementing changes is critically important and we communicate the actions that we're taking. And I think you'll always get a positive response when you let an agency such as HUD or an auditor or anyone else that's working with you that's trying to improve your processes, let them know that you hear them and you're implementing what they've asked you to do, and I think you'll have a positive outcome if you do that.

MS. ARELLANO: And they did recognize that in what they responded to us on the CAPER -- is what it's called -- they even referenced the report, so they truly recognize that.

MR. GERBER: It was on page 57 of the 94-page report.

(General laughter.)

MR. GERBER: Madame Chair, just so you also know, on the

problem properties, once a settlement suggestion has been determined, we would bring that to you and the Board and that would be a subject for executive session to determine whether or not those terms would be approved and acceptable to you.

MS. RAY: Thank you very much. Sandy?

MS. DONOHO: I'd also like to add that as an auditor I can only tell you what HUD said, and I can't speak to other things that I personally have not audited. But I will tell you that I did participate in some discussions with management about their responses to the HUD audit. I reviewed their responses just to have an opportunity to read them before they went to HUD.

I do think the Department took the HUD audit very seriously, and at least from my perspective, it appeared that they jumped right on it and made some changes and tried to address some of these issues and there were a lot of discussions that went on as a result of that. So just my opinion as an auditor is they took it seriously and are attempting to rectify these things. So I can't speak to whether that's happened or not but I think the effort is there.

MS. RAY: Thank you very much. Do you have any other reporting?

MS. DONOHO: Yes, I have one more report I need to talk about. This one will be very fast. The Statewide Single Audit Report for the Year Ended August 31, 2008 -- that one came out in April of 2009. I mentioned this earlier, the state every year does a basic financial opinion -- and opinion audit of the state's basic financial statements is what it is. It's conducted by the State Auditor's Office and they contract most of that work to

KPMG.

This is also called the Statewide Audit, and any agency that receives federal funds is subject to this audit. This included a review of the internal controls at selected agencies and they select those based on how much you get in federal funds. The federal compliance portion of this audit covered the LIHEAP program and they had no findings for the Department.

And as I mentioned earlier, they're starting that cycle again, so they just finished reporting in April and they've already sent us stuff that they'll be out again in October to start looking at the LIHEAP program again, even though they had no findings for last year. So that was the second audit. Any questions on that one?

MR. GANN: I have no questions.

MS. RAY: I have no questions.

MS. DONOHO: Okay, then that's pretty much all I have to tell you.

MS. RAY: Before we conclude the meeting, Mr. Gerber, I really do appreciate seeing your leadership at the staff level participating in this Audit Committee meeting today. I know you people are trying to get ready to go home, but the good news is the traffic is going to be died down.

This is the first Audit Committee meeting that I have participated in that we've had the roundtable staff participation in, and that allows me to share my personal view of how important the Internal Audit agency is within the Department. All of you realize, of course, that the Internal Audit Department is separate and independent from staff, but I do appreciate very much how well our internal auditor is working with management as we

progress through the challenges of managing such dynamic programs.

I believe that the position of the internal auditor is not to be a tattletale, is not to give you a hard time, but the most important thing the internal auditor does is continuous process improvement, and it is critical -- even though she doesn't work for Mike, it is critical that management and all levels of management work harmoniously with the internal auditor so that we have the best processes available so that we can continue to serve the citizens of the State of Texas.

And I'm so happy to have you all here today, and I thank you very much, Sandy, for your reports and the dialogue that we've been able to have around the table. I want you to know I learned a lot here today because you all were here, and I know Mr. Gann is newer than I am and I feel certain he learned a lot as well.

Tom, do you have anything you'd like to add?

MR. GANN: I do have a comment. I think I agree with everything you just said, and I appreciate all the comments. Sandy, your last comments I really did enjoy -- gave me a comfort level. Thank you.

MS. RAY: Mr. Gerber.

MR. GERBER: Thank you for coming the night before the Board meeting. It's going to be a long day tomorrow and I appreciate your comments about the roundtable approach. Maybe there's some value in trying to do something similar, if that's what the committee would like to do, in the future.

And I would just note that for all staff cooperation with the audit team is a prerequisite of working here, and so we have every expectation of

full disclosure and cooperation with our auditors. And I appreciate the partnership and I appreciate the independence because it gives us to improve our processes.

We're not perfect, as with any organization, but we grow and we improve as we go along, and appreciate your guidance and efforts to keep track on an ever-increasing volume of work. So thanks for coming in early.

MS. RAY: Sandy, do you have anything further?

MS. DONOHO: No.

MS. RAY: Does anyone else in the room have anything?

MR. IRVINE: I do. I know it's prudent to let the executive director and the chair have the last word --

(General laughter.)

MR. IRVINE: -- but this guy is the guy that's in the cross-hairs all the time, and he's the guy that I think it's appropriate in a setting like this to say on behalf of this entire team that today is a great example -- when he was faced with a challenge how forcefully do I support compliance; how forcefully do I support the things that this Board has told us to stand for? And I'm proud to say it was 100 percent, and it's nice.

MR. GERBER: Do you agree, Patricia?

MS. MURPHY: Absolutely.

(General laughter.)

MS. RAY: With that, let the record show that the Audit Committee of July 15 is adjourned. Thank you so much.

(Whereupon, at 6:15 p.m., the meeting was concluded.)

C E R T I F I C A T E

MEETING OF: TDHCA Audit Committee

LOCATION: Austin, Texas

DATE: July 15, 2009

I do hereby certify that the foregoing pages, numbers 1 through 47, inclusive, are the true, accurate, and complete transcript prepared from the verbal recording made by electronic recording by Nancy King before the Texas Department of Housing and Community Affairs.

7/21/2009

(Transcriber) (Date)

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