TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

AUDIT COMMITTEE MEETING

8:30 a.m.
Thursday, June 14, 2012

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

MEMBERS PRESENT:

LOWELL KEIG, Chair
LESLIE BINGHAM ESCAREÑO
TOM GANN

STAFF PRESENT:

TIMOTHY K. IRVINE, Executive Director
SANDY DONOHO, Director, Internal Audit

AGENDA

P R O C E E D I N G S

MR. KEIG: I'll call to order the meeting of the Audit Committee meeting of the governing board of the Texas Department of Housing and Community Affairs. We will begin with roll call.

Tom Gann?

MR. GANN: Here.

MR. KEIG: Leslie Bingham?

MS. BINGHAM ESCAREÑO: Here.

MR. KEIG: And I am Lowell Keig. We have a quorum.

Our first order of business is Item 1, Presentation, Discussion and Possible Approval of the Audit Committee Minutes for February 16, 2012. They're in your board book.

Are there any questions regarding the minutes?

(No response.)

MR. KEIG: Staff recommends approval of the minutes. We need a motion.

MR. GANN: I make a motion.

MS. BINGHAM ESCAREÑO: I didn't attend so I don't know. Can I second?

MR. KEIG: I think I can -- Chair can second, I think. Second.

All those in favor, say aye.

(A chorus of ayes.)

MR. KEIG: Opposed?

(No response.)

MR. KEIG: Pass, with -- I guess I'll vote to your aye so that we'll have two votes.

MR. GANN: Good.

MR. KEIG: All right. Item 2, Presentation and Discussion of the Status of the Fiscal Year 2012 Internal Audit Work Plan.

Would you like to go ahead and present on that matter?

MS. DONOHO: Sure. Good morning, Chairman Keig, Board members. For the record, I'm Sandy Donoho, director of Internal Audit.

There were eight audits on our plan this year. We've completed five of those and there are three of them that we will discuss under the next agenda item.

We have two audits that are currently under way. We anticipate that one of these, the Section 8 program -- and this is an economy and efficiency audit -- will be completed in early July. We're finishing up code work on that now.

And then there is another audit, HHSP, the Homeless Housing and Services Program, that will be completed hopefully in late August. We've expanded the scope of the number of hours for the Section 8 audit, which is why the report date moved from May to July.

We have one audit left on our plan, which is loan processing. We delayed this audit because of the Department's reorganization and because the Department is currently restructuring the loan process.

As a result, we're not going to get to it this year but it may make sense for us to either move this audit to our 2013 audit plan and look at it when we have enough loan closings and processes have been changed and completed, and give us time to test things, or cancel it entirely and factor it into the risk assessment for next year. So either one of those would do.

In addition, we completed our quality assurance and self-assessment review, our annual revision of the audit charter and board resolutions. We updated our policies and procedures to comply with the new audit standards. We completed our reciprocal peer work. Betsy Schwing and I did that work at the School for the Blind and Visually Impaired.

Our 2013 risk assessment, our self-assessment for our peer review, and our 2012 annual report will be completed in July, August, and September. Except for the processing audit, we are on target to complete our work as planned. In May we lost one FTE so we now have four auditors, including myself, in Internal Audit.

Are there any questions regarding the status of our audit work plan?

MR. KEIG: Yeah. On the loan processing audit, if we, instead of postponing it, cancelled it and put it in the risk assessment, I guess there's a possibility, with priorities, that it might not end up being on the audit work plan --

MS. DONOHO: That's correct.

MR. KEIG: -- but for assessing our overall risk and prioritizing.

Did y'all have any thoughts about -- and we don't have to make a decision but I think she's interested in some input and what we thought about the loan processing audit.

MR. GANN: Just literally putting it off, you mean?

MR. KEIG: Yeah. One is putting it off; the other is -- well, I guess they're both putting it off.

MS. DONOHO: Right.

MR. KEIG: But one is putting it off and going ahead and doing it with the next year and then the other is factoring it into the risk assessment and seeing if we want to do one at all next year.

MS. BINGHAM ESCAREÑO: How high was it on the priority list prior to the time we postponed it? Like, we postponed it just because we were doing an internal kind of reorganization. Would it naturally have fallen fairly close to the end?

MS. DONOHO: That's kind of hard to say because it was not high but we score anything requested by executive management --

MS. BINGHAM ESCAREÑO: Sure.

MS. DONOHO: -- or the Board as high. And so I believe executive management had requested it because they were looking at the loan process. What we talked about was letting them finish that process and then coming back and looking at the controls that they've changed, the things that they've put in place, and test to see how it's working.

But since they're still working on that, it's -- you know, we can't reasonably do it until they finish restructuring the loan process, and I think they're close but then I would want a little bit of time to lapse for us to be able to have some transactions to test and to see how it's really working.

MS. BINGHAM ESCAREÑO: By third quarter -- I mean --

MS. DONOHO: Yeah.

MS. BINGHAM ESCAREÑO: -- if you were to postpone it in the next year.

MS. DONOHO: In the next third or fourth quarter.

MR. GANN: And so what is the big negative, one more time, that you're going to fall off the --

MS. DONOHO: It could fall off the risk assessment if we didn't, but, you know, say they began to request it again --

MS. BINGHAM ESCAREÑO: Yeah, somebody can request it again and it would -- it would be your obligation at least to look at it. Right?

MS. DONOHO: Right.

MR. KEIG: The whole nature of the risk assessment is to see where our biggest problem areas are and try to target those so --

MS. DONOHO: Right.

MR. KEIG: Well, we were just providing you with input. We're not voting on that. Right?

So we defer to what your department decides to do but either option sounds like a good idea.

MS. DONOHO: Okay.

MR. KEIG: Any other questions on Item 2?

(No response.)

MR. KEIG: Item 3, Presentation and Discussion of Recent Internal Audit Reports.

MS. DONOHO: We've released three internal audit reports since our last audit committee meeting. Betsy Schwing, who's the senior internal audit project manager, wants to talk about one of her audits so I'm going to let my staff talk about the audits that they performed, for two of the three.

MS. SCHWING: Good morning.

MS. BINGHAM ESCAREÑO: Good morning.

MS. SCHWING: I'm Betsy Schwing. I'm going to tell you about the audit of website management. We found that the Information Systems Divisions has an effective process in place to manage updates to the Department's website. Controls over the process appear to be operating as intended.

However, we identified one opportunity for improvement. We recommended that the Division revise the procedures for updating the website to ensure that it communicates to the Department's website liaison that it's their responsibility to ensure the updates are accurate and complete and to notify the web developer if changes need to be made. The web liaisons coordinate the updates to the Department's website for their divisions.

Management agrees with this recommendation and it's already been reported as implemented. In addition, the revised policy has been distributed to management and staff.

The objective of this audit was to determine if the Information

Systems Division has a process in place to manage updates to the Department's website. Website management includes performing website updates, providing training and support, performing website maintenance, and processing and completing web projects.

Are there any questions about this audit?

MR. KEIG: No. I want to comment on -- sounds like a good report and we appreciate the work of the audit division and -- we have some IT staff --

MS. DONOHO: Yes.

MR. KEIG: There he is, behind me. Thank you very much.

And for the division heads, I've seen this in a prior job right up front and close about posting things and then, you know, left hand didn't know what the right hand was doing. and you have to get some controls in place to make sure that everybody's talking to everybody, so I'm glad to see that's happening.

All right. HOME Multifamily audit?

MS. DONOHO: Right. The next one is an audit of HOME Multifamily. Home Multifamily generally has processes in place to ensure that HOME program funds are committed and spent appropriately and within the timelines required by HUD.

They also have processes for draw requests processed in accordance with laws and regulations, and contract amendments are approved by executive management and by the governing board as required. You've probably seen these cross the board agenda.

However, we felt like some improvements could be made in the timeliness of draw processing and in the maintenance of supporting documentation for expenditures. We looked at a judgmental sample of 35 project draws and 25 community housing development organization, CHDO, draws. Five of the 35 project draws, 14.3 percent, and six of the 29 CHDO draws, 20.7 percent, were not processed within ten business days of submission as required by the Department's policies and procedures. So this isn't a HUD requirement; this is a TDHCA requirement.

Longer processing times may affect the timely expenditure of funds; the longest processing time for project draws was 24 business days and 16 business days for CHDO draws. The supporting documentation for draws was not always available and was not always adequate to support the draws for both of the times we tested.

Eighteen of 35 project draws, 51.4 percent, and 23 of 29 CHDO draws, 79.3 percent, did not have adequate or complete supporting documentation available. Again, these are Department-wide requirements. HUD merely requires that costs are reasonable and necessary. However, we feel like it's hard to support reasonable and necessary without establishing some criteria and that's what the Department has done in establishing the HOME rule, the Department's internal policies and procedures, and the checklist people who process draws use to verify that all the documentation is there.

Draw documentation is kept in the Housing Contract System which is the electronic system of record, hard copy files, or the HOME

Division's shared electronic files. We looked at all of these places to see if we could find the supporting documentation.

We compared the available draw documentation, the HUD requirement, Departement's statutes, rules, the draw checklist used by the program specialists, and the policies and procedures which were in effect when the draws were processed. We recommended that the Department ensure that the draw requests are not approved until all required supporting documentation is verified and ensure that draw documentation is sufficient to adequately support costs.

If the Department doesn't want to follow their own policies and procedures, the checklist, then we think that those should revised to update what's actually happening.

We also tested a judgmental sample of 15 HOME multifamily contracts. We found that all 15 were awarded according to HUD requirements. The contracts that we tested were 18.2 million which was 49.1 percent of the 37 million in total contract awards.

Two of these contracts had incorrect start and end dates. That increases the risk that draws may be approved or disapproved based on the wrong contract date. One was six days earlier and one was two days later than the start and end dates of the contract.

Contract amendments are not always tracked and the supporting documentation for the amendments are not always maintained. Because the amendments are not always tracked, we weren't able to select a sample of amendments for testing. What we ended up having to do was select a sample of contracts and test the amendments associated with those contracts.

So we tested 37 contract amendments for the 15 contracts that were in our other sample. Those 15 contracts had 33 amendments. They accounted for 21.2 million of the 60.9 million in total amended funds. All of the amendments were missing at least one of the required supporting documentations.

HOME Multifamily should maintain the supporting documentation for contract amendments as required in their policies and procedures. Again, that's a TDHCA requirement. In addition, policies and procedures regarding amended processing haven't been finalized, signed, or dated by management.

Finally, HUD determines the commitment and expenditure deadlines for HOME funds. Generally, the HOME program has five years to expend grant funds after the two years in which they can commit those funds. HOME generally keeps the backup documentation to support the commitments and expenditures, but that's now always been the case.

As a result, we were unable to determine if the commitment deadline was met for 2008 funds, nor were we able to determine if the expenditure deadline was met for 2005 funds. Because of the that, we recommended that HOME maintain the reports that support that these deadlines were met. And, generally, I think, they were doing that but they didn't have all of the ones that we needed for testing.

Are there any questions on this report?

MR. KEIG: One question for you is regarding the Housing Contract System. Were they typos that people -- not typos, but clerical errors that people were putting in the wrong dates or was it the age-old problem of one party signed on X date and another party signed on another date, and then you also have an effective date of the contract?

MS. DONOHO: We were looking at the effective date of the contract and whether the Housing Contract System reflected those dates.

MR. KEIG: And did some people maybe put in one of the dates that they had signed?

MS. DONOHO: Right. Probably.

MR. KEIG: Okay.

MS. DONOHO: I don't know exactly what happened.

MR. KEIG: Don't recall.

MS. DONOHO: But, yeah, probably they were off a little bit. And that I think is probably a fairly minor issue; there were only two, but it could affect whether we paid out funds before the contract was really in effect or paid out funds after the contract had ended.

MR. KEIG: Yeah, at least a slight overlap. Yeah, that's the least of my worries, I think. That's easily tightened up.

Do we have somebody -- who's HOME? Is that Mr. Dorsey?

(Pause.)

MR. DORSEY: Good morning.

MR. KEIG: Good morning. Why don't you go ahead and state your name for the record.

MR. DORSEY: Cameron Dorsey.

MR. KEIG: And I had just a few questions for you --

MR. DORSEY: Sure.

MR. KEIG: -- on the status of implementation. How are we doing on turnaround on processing times.

MR. DORSEY: I think generally we do a really good job on processing times. We've had a transition over the past year with now moving from the HOME Division -- the multifamily function moving from the HOME Division over to the Multifamily Division.

I think that that will ultimately probably help because we have a smaller group working on these draws with a manager that is a subject matter expert, you know. Multifamily is where their knowledge is. So I think those things will ultimately really positively benefit the timeliness of the draws.

MR. KEIG: And do you think missing the deadlines previously was a matter of not having enough staff or was it just a matter of organization?

MR. DORSEY: I think that it was probably a matter of folks trying to juggle a fairly large contract load with many different variations of contracts. Within the HOME program you have five or six different kinds of activities with all different deadlines and different procedures, et cetera, so it could be easy to -- it can be difficult to manage that.

MR. KEIG: Are we getting the ones currently out within the ten business days or --

MR. DORSEY: I believe we are, yes. We are doing that at this point. Like I said, we've got a small group working on it now and so they can really focus their efforts on multifamily and basically be responsive to the needs of the development community.

MR. KEIG: Is -- the ten business days is an internal policy, is it? Right?

MR. DORSEY: Yes. That is right. You know, we've modified the SOP some and we've actually signed it now. We signed it at the end of last month and it's currently in place, and we modified it a little bit. I mean, my goal is that -- if you have the time, I don't want it to sit there; I want it processed in a day, two days, three days --

Whatever kind of goals I set I want them to be difficult to achieve, not easy to achieve. So my expectation is probably than ten days is even too long in most cases.

MR. KEIG: How about the supporting documentation? Is that something that we've made some changes as a result of the audit, and if so, where are those changes?

MR. DORSEY: Yes. So the issues with the draw documentation were more a disconnect between our internal policies and procedures and checklist and what was actually being done, rather than disconnect between the actual, like, federal rules or state rules, that documentation, and so we've tightened up our checklist to clarify when something is needed versus when something isn't needed, just language such as, you know, this item would be needed for a contract under this other set of rules but under the current rules it's not necessary.

So I think that accounted for some of the draw documentation issues. Other than that, again, the subject matter expertise, I think, having it in the Multifamily Division makes a lot of sense because they can focus on this specific activity and build their knowledge base on this specific activity and that's really beneficial.

MR. KEIG: Have we communicated the changes that we made, what we're expecting to stakeholders? If so, how'd we do that?

MR. DORSEY: I think that those changes are communicated through a number of ways. One is through our rules that we have out and those aren't necessary to change because we really were following the rules; it's just that we had internal documentation and checklists that were out there for the public to see and use that didn't jibe as well with the state rules as they should have. And so we have modified our checklist already, like I said, and our internal procedures, to make sure that those better align with what our actual expectations.

MR. KEIG: All right. Any other comments from Audit?

MS. DONOHO: No.

MR. KEIG: All right. Thank you, Cameron.

Do you all have any other questions?

MS. BINGHAM ESCAREÑO: No.

MR. KEIG: All right. Let's go to the audit of Human Resources.

MS. DONOHO: Nicole Elizondo who's the other senior project manager in Internal Audit is going to be talking about her audit of Human Resources.

MS. ELIZONDO: Good morning.

MS. BINGHAM ESCAREÑO: Good morning.

MR. KEIG: Good morning.

MS. ELIZONDO: My name is Nicole Elizondo and I will be speaking on the internal audit of Human Resources and we found during the audit that the Department's Human Resources Division is generally in compliance with selected federal, state, and agency requirements tested. However, improvements can be made in ensuring that all required employment posters are accessible to applicants and in ensuring that the I-9 Forms, which are used to verify an employee's authority to work in the United States, are completed as required.

There are three of the twelve employment posters that are required to be displayed for applicants, in addition to staff, and all three of these were not accessible to applicants. We recommended that the Department ensure that the posters are accessible to applicants as required and the Department was in agreement with this recommendation and has created a link on its current employment listing page on the Department's website to required employment posters.

We tested 311 current employees and found that one did not have an I-9 Form on file and 19 did not have I-9 Forms signed within three business days, as required by federal law. In addition, six did not have evidence that acceptable documentation was reviewed to verify the employee's authority to work. We recommended that the Department ensure that all I-9 Forms are completely accurately and timely and the Department was in agreement with this recommendation as well.

In addition, performance evaluations are not always completed timely and in accordance with Agency policy. We identified 305 of the 311 current employees who should have had a performance evaluation on file and found that 31 did not have a current evaluation on file.

We also determined the policies and procedures governing employee evaluations are inconsistent with the current evaluation forms. We recommended that the Department take steps to ensure that evaluations are completed as required and revise the policies and procedures to conform with the new evaluation form.

We reviewed the security over the personnel records and determined that the Department has the appropriate controls in place to ensure that access to the records are limited to authorized employees and that files are consistently safeguarded during and after business hours.

Are there any questions regarding this?

MR. KEIG: Does HR perform regular, at least annual, reviews itself of its personnel files?

MS. ELIZONDO: I do not believe so but I could ask Gina. My understanding is is that they occasionally do it but it's not a systemic --

MS. ESTEVES: Good morning.

MR. KEIG: Good morning.

MS. ESTEVES: I'm Gina Esteves. I'm the director of Human Resources.

MR. KEIG: First, I want to say this sounds like a good report. Thanks.

MS. ESTEVES: Thank you. Thanks.

(Laughter.)

MS. ESTEVES: I'm sorry. What was the question again?

MR. KEIG: Well, in my prior work, we had -- our HR directors do regular -- depending on how big the size of a facility was but as often as quarterly or semiannually or annually go through and with their checklist make sure they had the I-9 Forms and performance appraisals were current, and things like that.

MS. ESTEVES: Right. We actually provide a monthly evaluation report to the directors on a monthly basis to let them know when evaluations are due for their groups, so they -- for their employees, so they do know. We do provide a report to all directors.

MR. KEIG: And do you do an internal review to make sure things like I-9 Forms are in there?

MS. ESTEVES: We did a review, I believe, back in 2006 where we looked to see -- to make sure that we had all the I-9 Forms from employees on file, but I guess in that review there were a couple of people that did not provide the documents that we needed to be --

MR. KEIG: Right. I would just encourage your section to do that on some type of regular basis because Audit may not be back to see you for a while.

MS. ESTEVES: Right.

MR. KEIG: And we want to make sure we've got all the required documents in there.

MS. ESTEVES: And we do intend to do that.

MR. KEIG: Great. Great.

Do y'all have any questions?

MR. GANN: I'm just -- the charts you were talking about earlier? I don't where you put them in this building. I mean, seeing there's no facing --

(Laughter.)

MR. GANN: So I mean, I'm glad you found some spot but I was -- you know, I think about the problems that that -- you know, we were in two or three buildings here not too long and I'm sure they weren't in those buildings just because we moved into those for a short time and we ramped up and ramped back down in a couple of years.

So I mean, that's problematic for this time frame and I'm glad it's coming all back to one area anyway so it makes it a little easier on your department.

MR. KEIG: And I understand from Mr. Irvine that you and he have put in some new internal procedures in place too.

MS. ESTEVES: Correct.

MR. KEIG: Incentivize managers to make sure that performance appraisals are done timely. Correct?

MS. ESTEVES: Yes. Yes, we have.

MR. KEIG: Okay.

MR. IRVINE: Dis-incentivize charts.

(Laughter.)

MS. DONOHO: And just to clarify, on the employment posters, we went to both buildings and the posters were posted -- all the twelve posters were posted. There are three of them that are also required to be posted for applicants and that's where that hole was.

MR. GANN: It's difficult, though --

MS. ESTEVES: Right.

MR. GANN: -- to find a spot where they can all see them easily too, and that's -- if anybody's --

MR. KEIG: There's a new one every year.

(Laughter.)

MS. DONOHO: And especially when people are applying on line and so that's why they ended up, I think, putting them on electronically --

MR. GANN: Yeah.

MS. DONOHO: -- on the postings so that people --

MR. GANN: That's the new world that we're going to and it's probably a better world.

MS. DONOHO: Right.

MR. GANN: I wasn't being critical. I was just -- saw some situational comedy there.

(Laughter.)

MR. KEIG: Thanks.

All right. Item Number 4, Presentation and Discussion of the Status of External Audits.

MS. DONOHO: Looking at the table in your book, there were eleven external audits reviews or monitoring visits for fiscal year 2012 thus far. Last year we had a total of 16 so we're a little bit behind schedule but if you think about the ARRA funds ramping down, we're probably right where we need to be.

Eight of these are complete. Reports were released on seven of them and we're going to talk about five of them under Agenda Item Number 5. The other two we talked about in February. Three are in reporting. One is a HUD OIG review of the Neighborhood Stabilization Program. We expect a draft report from HUD OIG any day now on that.

One is a closeout review of the alternative housing pilot project by FEMA. This was also known as the Heston project. You might remember that one. The third one is a remote monitoring review of the National Foreclosure Mitigation Counseling Program by Mayer Hoffman McCann, PC, under contract with NeighborWorks. We've received some findings on one of the two subrecipients they reviewed. We're waiting on findings for the other subrecipient and hopefully some sort of closeout report.

In addition, HUD is coming next week to conduct a technical assistance and monitoring review of the Community Housing Development organizations, the CHDOs that we just talked about earlier. This will be our external review number 12 for the year.

Are there are questions on the status of external audits?

MR. KEIG: Is Mayer Hoffman McCann, are they looking at TSHAC records as well? Aren't we doing that in conjunction with TSHAC?

MS. DONOHO: They do a remote monitoring and they select subrecipients. I believe both of the subrecipients they selected this time are ours --

MR. KEIG: Okay.

MS. DONOHO: -- if I'm correct. So that's all they chose to do. Last year they looked and didn't have any problems with any of our stuff so I think that's why they only did two this year.

MR. KEIG: All right. Any other questions?

(No response.)

MR. KEIG: Item 5, Presentation and Discussion of Recent External Audit Reports.

MS. DONOHO: There were five external audit monitoring, or technical assistance, reports released recently. The first one is the 2011 Statewide Single Audit. The federal portion of the Statewide Single Audit was performed by KPMG under contract with the State Auditor's Office. It's the audit of federal grant funds statewide. We talk about this one every year.

This past year KPMG looked at the Community Development Grant Disaster Recovery and Neighbor Stabilization Program, Weatherization Assistance, Tax Credit Assistance, and Homelessness Prevention.

They had three findings. None of these findings had a question of cost. The first one was a noncompliance. The Department used a modified direct cost methodology which allocates expenses for the various federal programs based on full-time equivalent employees assigned to those programs.

The modified direct cost methodology that the Department was using was not submitted to HUD for approval. However, in using the last approved cost methodology to test selected expenses, there was less than $1000 difference between the two methodologies, so that's not material. In addition, the Department did not draw all the funds that would have been available under the last approved methodology; therefore, there were no questioned costs on this one.

The next one was a significant deficiency. The rural track application used by ACS to manage disaster recovery funds had a developer who had access to library code changes into the production environment. As you know, the Disaster Recovery Program is now under the General Land Office. The ACS contract is complete and has been closed out so this won't be an issue for us next year and there's really not anything we can do about it at this point.

The third one is a significant deficiency in material noncompliance, which is -- at statewide classifies findings, fairly serious. The HUD quarterly performance reports for the NSP program were not submitted timely. Only one report was submitted for fiscal year 2011 and that report was 195 days late. It was rejected by HUD.

In addition, the HUD Section 3 Summary Report for NSP was submitted timely but no supporting documentation was maintained to verify the completeness and accuracy of this report. HUD ordered the performance reports in the Disaster Recovery Program were also not submitted timely. They ranged from 28 to 148 days late. This was also the issue for Disaster

Recovery in the statewide report for 2010.

Again, the Disaster Recovery Program is now under GLO so this won't be a finding for us next year. I also understand from what KPMG has told us that this year they will only be auditing the weatherization program.

Are there any questions regarding the statewide report?

MR. KEIG: You mean the Single Audit, Statewide Single Audit?

MS. DONOHO: Right.

MR. KEIG: Yeah, I have a question for Mr. Cervantes, if he has a minute.

MR. CERVANTES: Sure.

(Pause.)

MR. CERVANTES: Good morning.

MR. KEIG: Good morning.

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

MR. KEIG: Mr. Cervantes, have you all received HUD's approval on the revised direct cost methodology yet or is that still pending?

MR. CERVANTES: Actually, the recommendation that the State Auditor's Office made was to give us two options. One was -- if we continued to use the modified method was to move forward and submit -- seek approval from the federal government to continue to use the modified method.

The other option was to use the indirect cost rate agreement and either pursue that particular option, and what we're in the process of doing as we speak, literally, is moving towards the indirect cost rating process. That particular option does not require federal approval so we're literally in the process of implementing this particular item and that entails evaluating the transactions that we have in 2012 so that we can conform to the indirect cost rate method, and probably in July literally converting over to the new process for any new transactions that we'll be experiencing in the future.

So, to answer your question, we have not sought out approval because we're actually -- we're seeking the other option as the implementation method that we'll use in the future.

MR. KEIG: And you're expecting to get that in place maybe by the end of July.

MR. CERVANTES: We think we'll have it done by June, actually.

MR. KEIG: Okay.

MR. CERVANTES: And any transactions for July will be under the new method altogether.

MR. KEIG: Great. Thanks.

MR. CERVANTES: Okay.

MR. KEIG: Congratulations on -- sounded like a good audit.

MR. CERVANTES: Thank you. Appreciate it.

MR. KEIG: I have a question for Ms. Holloway ON NSP.

MS. HOLLOWAY: Good morning. I'm Marni Holloway. I'm the director of the Neighborhood Stabilization Program.

MR. KEIG: On the timeliness of report submissions, how are we doing now on meeting those deadlines?

MS. HOLLOWAY: I think the Board is aware we've added staff in order to take care of this issue. It was an identified problem quite a while ago. Our report for the first quarter of 2012 was actually submitted four days early so we are completely up to date at this point. We have tools and processes in place and have been working closely with HUD to make sure that we don't fall behind again. So I think that that issue has been well handled.

MR. KEIG: Okay. Any other questions?

MR. GANN: That's what we want to hear.

MR. KEIG: Thank you.

Next, I guess, is the DOE financial monitoring report.

MS. DONOHO: Right. DOE conducted a financial monitoring of the Department's ARRA Weatherization Assistance Program or WAP. DOE concluded the Department is in compliance with most of the policies, procedures, and guidance for the program. They had one finding. The payroll time charged against the formula grant was not consistent with budget. The charges were 63 percent below the budgeted personnel costs.

The Department submitted a corrective action plan as required. As the ARRA WAP funding winds down, the Department anticipates more of the payroll cost will shift from the ARRA WAP funding to the formula grant so, essentially, what they were saying here was that we used the ARRA first and that the formula grant wasn't being expended at the rate that we had originally projected.

I don't necessarily see that as a -- my understanding from the program folks is that they feel like now that the ARRA money is pretty well done that they'll catch up on spending the grant funds.

MR. KEIG: Any questions?

MS. BINGHAM ESCAREÑO: No.

MR. KEIG: Section 8, CMAP review.

MS. DONOHO: Section 8 Management Assessment Program Review, or CMAP, is an annual review of the Section 8 program performance. They rated the Department's Section 8 program as a high performer. They scored 100 percent.

MS. BINGHAM ESCAREÑO: Yeah. Awesome.

MR. KEIG: Congratulations.

MS. DONOHO: Are there any questions on that one?

MR. GANN: No.

MR. KEIG: No.

MS. DONOHO: The next one is the SAO report on compliance with the Public Funds Investment Act. The SAO assessed the Department's compliance with Public Funds Investment Act. It was part of the Texas Government --

The Department was determined to be fully compliant with the Public Funds Investment Act as required under the Government Code for certain state agencies, universities, and community colleges to implement controls and policies contracting training, reporting, and reviewing that they have public funds investment.

The Act also requires that compliance with the Act be tested at least every two years by either the State Auditor's Office or by Internal Audit. The State Auditor's Office has always done that for TDHCA. So we were fully compliant, which is good news.

Are there any questions on this one?

MR. KEIG: I've got a lot of questions.

(Laughter.)

MR. KEIG: Now, what? -- the HUD remote monitoring?

MS. DONOHO: Okay. HUD did a remote monitoring of obligations for the Neighborhood Stabilization Program. Their office of Block Grant Assistance reviewed obligations for all of the contracts previously administered by the Department of Rural Affairs as well as they looked at Brownsville Housing Authority, City of Irving, City of Laredo, and Austin Habitat.

These contracts totaled 31.9 million. HUD identified 10.6 million in unsupported obligations for these contracts so about 33.2 percent of what they tested. They stated there were obligations that were reported to HUD in excess of the underlying contracts for several contracts. Also, there was source documentation that was unsigned or undated and did not qualify as an obligation.

Most of the discrepancies are tied to the contracts that were administered by TDRA. About 6.1 million is TDRA and 4.5 million TDHCA, so about 57.8 percent of those 10.6 million were TDRA funds.

Are there any questions regarding this report?

MR. KEIG: Not for you but for management.

Who's -- that would be Marni? Okay.

MS. HOLLOWAY: I'm up again?

MR. KEIG: Yes. I want to say --

Go ahead and state your name for the record.

MS. HOLLOWAY: Mardi Holloway. I'm the director of the Neighborhood Stabilization Program.

MR. KEIG: I want to say I saw a response that we filed on that with HUD. Could you --

MS. HOLLOWAY: Yes.

MR. KEIG: -- address that?

MS. HOLLOWAY: So to provide a little bit of background information, when the TDRA contracts came over to us at the end of August we, of course, went through and looked at everything that was there. In the course of that review, we determined that there was some irregularities in how TDRA had obligated funds.

There were, in fact, on the TDRA obligations they obligated a total entered in DRGR just under $19 million. A big chunk of that were funds that they obligation right at the deadline to two organizations that they didn't have subrecipient contracts with those organizations to support the funds. They did have the property records; they just didn't have the larger contract.

We brought this on ourselves. We reached out to HUD and said there is this irregularity; we would like to have authority to reobligate the funds. That letter went out in October to HUD. Two months later they came back with a request for documentation and let us know they were going to conduct this remote monitoring. We provided them all of the documents that they requested for the TDRA contracts and the four TDHCA contracts that they opted to test.

That was in December and finally in mid-May they came back to us with their conclusions. We have now sent a letter back to them saying there are a number of errors in your calculations; please reconsider.

One of them is -- with the documents that we sent, we sent a spreadsheet that summarized all of the amounts for all of the documents. That spreadsheet doesn't necessarily match up with what was entered in QPR for the obligation deadline for a number of reasons.

On the TDHCA side, several of our subrecipients presented obligation documents that were in excess of their contract amount. We, TDHCA, did not enter the full amount because we didn't have the contract. For instance, the city of Irving presented obligation documents that totaled $4 million; their contract with us was 2.9. We entered 2.9.

So that's part of the concern. That amount -- the difference between the spreadsheet and what was entered in QPR is $3.7 million. In our response we informed HUD that the spreadsheet was provided as a convenience and, you know, as a summary of the documentation. It was not a restatement of our obligations.

Another concern is coming up in HUD's review of some of the TDHCA obligations. They are not including allowable activity, delivery, and contingency charges. There is a good deal of policy guidance out there that says when you have a property you have those -- the property obligation you are also able to obligate your soft costs at the same time. Some of their calculations did not include those amounts.

And finally, the documents that were not dated are all tied to a single TDRA contract. There are purchase contracts and construction contracts that were signed but were not dated. We know the date that they were attached in our Housing Contract System so we know that they had to have been signed prior to the obligation deadline. We have requested that HUD reconsider that also.

The letter that they sent to us that includes all these items that we've asked them to reconsider seeks to recapture $10.6 million. They letter that we've sent back says, no, we think the number is closer to 6.1 but, in fact, we'd like to keep it all and use it in Texas, and I think that we are able to do that, particularly with the assistance of the Multifamily Division.

We don't have an official response yet. I know that the regional office in Fort Worth is very supportive of us but the decision with be made in DC.

MR. KEIG: Did they give any kind of indication of when they might get back to us?

MS. HOLLOWAY: We have informed them that we need to know just as soon as possible. You know, I can't really put a deadline on HUD.

MR. KEIG: Yeah. They haven't told us. Right.

VOICE: The last letter was like six months, though, wasn't it?

MS. HOLLOWAY: Yeah. Well, so it's been eight months since our original request till they finally got us the monitoring letter but my conversations with HUD staff has been very, very clear, that we're coming up on an expenditure deadline in March of 2013. If they don't make the decision very quickly, we're not going to have time to use those funds in Texas.

VOICE: I think Tim Irvine has a comment.

MR. IRVINE: What she just said --

MS. DONOHO: Yeah. And I feel confident that we can use those funds. We have a number of transactions sort of simmering along but we need HUD to make a decision very quickly.

MR. KEIG: Any other questions?

MR. GANN: No more.

MR. KEIG: Great. Thanks. Okay. We're up to what? -- Item 6, Prior Audit Issues.

MS. DONOHO: Okay. There are 30 current prior audit issues. Eight issues previously reported as implemented were verified and closed by Internal Audit. They aren't on the list in your book because we closed them. Three were for the Tax Credit Exchange Program and five were DOE monitoring issues for the Weatherization Program.

There are 17 issues that were reported by management as implemented and are reflected on the attached list. We will verify and close them once we've received the necessary supporting documentation and, again, this is a reminder that's something that we do when we're kind of between fieldwork and audit so we have a little bit of lag time in document requests, so I can't promise you when we will get to those but hopefully by the end of the fiscal year.

Twelve of the 17 are for the NSP program three-year tax credit exchange. One is a contracting audit; one is a website management audit. There are five issues that are still pending. We will verify and close these as soon as they are implemented. For your Neighborhood Stabilization, one is Homeless Prevention Rapid Rehousing Program and one is the Weatherization Assistance Program.

Are there any questions on the prior audit issues?

MR. KEIG: Just for staff, either --

Michael, could you speak to the one on page 28, onsite monitoring of Homeless Prevention and Rapid Rehousing Program. Note says still pending and the report date was back in August of last year. Could you give us a status on that.

MR. DE YOUNG: Sure. Michael De Young, Community Affairs Division Director. The finding relates to the timing of our monitoring reports as they went out. When this finding occurred, we were in the implementation of the program early on. We had new monitoring staff writing reports for a program that previously did not exist.

At the same time HUD is issuing guidance mid-stream. And so we're trying to incorporate it into training and it then has to result in the proper outcome later on when you have the monitoring report that we've now identified the issue correctly. It's management's contention that we think this issue now is resolved and this is a previous finding from another community affairs program as well, and that's why it's been elevated.

We have reviewed the 45-day period. We feel confident that we will meet that standard now that we've worked through all the implementation issues. The HPRP program is also going away at this point in time.

The current status is pending. I apologize. It's probably operator error between -- it's the interface between my chair and my keyboard that's caused the problem.

(Laughter.)

MR. DE YOUNG: I feel like this one should be -- we would say it is implemented and we would ask them to come back and test but I apologize for the interface error.

MR. KEIG: The other one is DOE monitoring of Weatherization Assistance Program. Actually, you know about that as well, don't you?

MR. DE YOUNG: A little bit.

MR. KEIG: A little bit. Can you speak to that?

MR. DE YOUNG. Yeah, sure. This is a finding with -- one DOE monitoring we had an issue with a space heater. DOE requires that when you weatherize a unit if there are unvented space heaters that those unvented space heaters be removed from the property.

Occasionally, from time to time, you have residents who are adamant that they do not want their space heaters removed whether it be for historical purposes -- some elderly folks like the actual look of it. On this individual home, I believe the resident was adamant that they not remove that. DOE took the position that regardless you need to remove it.

We have instructed the community action agency to go back and actually remove it. They have done that and, again, I would apologize for the interface error that occurred. We have the documentation; we have the pictures; we have submitted it to DOE for resolution and they have resolved the finding.

MR. KEIG: Very good. Any other questions on audit or audit issues?

(No response.)

MR. KEIG: Okay. This concludes our agenda items and --

MS. DONOHO: Mr. Keig --

MR. KEIG: Right.

MS. DONOHO: I just wanted to remind the Audit Committee we have some audit training after this meeting that should last maybe about 15 minutes so don't run off after we're finished.

MR. KEIG: All right.

MS. DONOHO: Thank you.

MR. GANN: Okay. Got plenty of time today.

MR. KEIG: And at this time we will reserve some time for public comment. Are there any individuals who'd like to publicly comment?

(No response.)

MR. KEIG: And do any of the Committee members have any matters that we need to go into executive session on?

MS. BINGHAM ESCAREÑO: No.

MR. KEIG: All right. Do I hear a motion to adjourn?

MS. BINGHAM ESCAREÑO: So moved.

MR. GANN: Second.

MR. KEIG: All those in favor, say aye.

(A chorus of ayes.)

MR. KEIG: We are adjourned.

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

C E R T I F I C A T E

IN RE: TDHCA Audit Committee

LOCATION: Austin, Texas

DATE: June 14, 2012

I do hereby certify that the foregoing pages, numbers 1 through 38, 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) (Date)

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