

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

AUDIT COMMITTEE MEETING

9:00 a.m.
Thursday
January 17, 2013

Room 3.102
Thompson Conference Center
2405 East Campus Drive
Austin, Texas

COMMITTEE MEMBERS PRESENT:

LOWELL KEIG, Chair
LESLIE BINGHAM ESCAREÑO
TOM GANN

STAFF PRESENT:

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

AGENDA

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PROCEEDINGS

MR. KEIG: The Texas Department of Housing and Community Affairs Audit Committee is hereby called to order.

We'll start with roll call. I am present, Lowell Keig.

Leslie Bingham Escareño?

MS. BINGHAM ESCAREÑO: Here.

MR. KEIG: Tom Gann?

MR. GANN: Here.

MR. KEIG: We've got three present, zero absent.

The first item on our agenda is: Presentation, discussion and possible approval of the Audit Committee minutes for September 6, 2012.

The Audit Committee minutes for September 6 are in your board book. Are there any questions regarding the minutes or any corrections?

(No response.)

MR. KEIG: Staff recommends approval. I need a motion and a second.

MR. GANN: I so move.

MS. BINGHAM ESCAREÑO: I'll second.

MR. KEIG: All those in favor say aye.

(A chorus of ayes.)

MR. KEIG: Opposed nay.

(No response.)

MR. KEIG: Item number 2 is: Presentation, discussion and possible action on acceptance of the 2012 audit results from the State

Auditor's Office. Ms. Donoho, would you like to speak to that?

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

As you know, the department's governing statutes require an annual audit of the department's books and accounts, an annual audit of the Housing Trust Fund, and an audit of the financial statements of the Housing Finance Division and the supplemental bond schedules. That's required by the department's bond indentures.

This year, as last year, the State Auditor's Office did this work for us under contract with the department. Verma Elliott, audit manager, and Tony Rose, managing senior auditor, are here from the State Auditor's Office to discuss the results of this work.

MR. KEIG: Ms. Elliott and Mr. Rose, welcome. Thank you for all your hard work on this audit.

MS. ELLIOTT: We appreciate it, Mr. Chairman. For the record, my name is Verma Elliott and I'm the audit manager of this engagement. We appreciate all of your staff and their hard work and everything they did to make this happen for us in a timely fashion. With me is Tony Rose, and he's going to go over a few items with you all based on the information in the packet.

MR. KEIG: All right. Thank you.

MR. ROSE: Good morning, Mr. Chairman, committee members. My name is Tony Rose with the State Auditor's Office. I was the

assistant project manager on this year's audit of the department for 2012.

As a result of our audit, we issued clean, unqualified opinions on the financial statements of the department, of its Revenue Bond Program Enterprise Fund for Fiscal Year 2012. Both of these financial statement reports were materially correct and presented in accordance with Generally Accepted Accounting Principles.

We also issued a clean opinion on the department's computation of unencumbered fund balances of the Housing Finance Division for Fiscal Year 2012, concluding that the computation was materially correct and complied with relevant sections of the Texas Government Code.

In addition, we tested the department's compliance with the Public Funds Investment act and issued a letter stating that we identified no instances of noncompliance with the Act.

We also performed agreed upon procedures on data submitted to the Department of Housing and Urban Development's Real Estate Assessment Center system, and concluded that all items agreed with relevant hard copy or alternative supporting documentation.

In accordance with auditing standards, we issued a report on internal controls over financial reporting and on compliance and other matters, and stated that we did not identify any deficiencies in internal control over financial reporting that we considered to be material weaknesses.

After completion of the above work, we issued a summary report to the Legislative Audit Committee that described the work performed and the results.

Finally, to comply with auditing standards, we prepared a communication of certain information related to our audit to those charged with governance, which includes the board for the department. Among the items included in this communication are that we did identify some adjustments that the department corrected, we communicated certain issues that were not material or significant to the audit objective in writing to the department management, and we did not encounter any disagreements with management during the audit.

I'd be happy to answer any questions you might have about our work.

MR. KEIG: Any questions?

(No response.)

MR. KEIG: All right. We need a motion to accept their reports.

MS. BINGHAM ESCAREÑO: So moved.

MR. GANN: Second.

MR. KEIG: Any discussion? All those in favor say aye.

(A chorus of ayes.)

MR. KEIG: Opposed nay.

(No response.)

MR. KEIG: It passes. Thank you very much for your reports and all your work, and for coming this morning.

MR. ROSE: Thank you.

MS. ELLIOTT: Thank you very much.

MR. KEIG: All right. Item number 3 is: Presentation, discussion and possible action on the 2013 internal audit charter and Board Resolution Number 13-019. Ms. Donoho, would you like to address that issue?

MS. DONOHO: Sure. The Audit Standards require we have an annual discussion regarding the definition of internal auditing, the auditing standards, our code of ethics, and auditor independence. These issues are also addressed in the charter and the board resolutions.

So starting with the definition of internal audit, I'll just read this to you because it's sort of a mouthful. Internal audit is an independent objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

The Internal Audit Division follows the Institute for Internal Auditors International Standards for the Practice of Internal Auditing, and the U.S. Government Accountability Office's Government Auditing Standards on every audit we do. The standards are required by the charter and by the Internal Auditing Act and they ensure that the division's work is independent, thorough, accurate, reliable and objective.

The Internal Audit Division has adopted and complies with the code of ethics from the Institute for Internal Auditors. This is also a requirement of the charter. The code of ethics requires us to uphold the

principles of integrity, objectivity, confidentiality and competency, as well as twelve rules of conduct related to these principles.

Organizational independence requires Internal Audit to report to a level in the department that allows us to fulfill our responsibilities without interference from management and to be free of operational and management responsibilities that would impair our independence. Our charter assures our organizational independence by requiring that I report to the Audit Committee and to the Board. Individual independence requires the Audit staff and myself to have an impartial and unbiased attitude and to avoid conflicts of interest.

The Internal Audit Division meets the independence requirements. The standards also require annual approval of the charter and the board resolutions regarding Internal Audit. So we have for you this time a revised charter and board resolutions. The content of the charter and the resolutions hasn't changed significantly since they were first developed in the early '90s and since their last approval in February 2012.

The biggest changes are to the charter. The latest version of the IAA standards requires that the Audit Committee and the Governing Board approve the operating budget for the Internal Audit Division. In addition, the standards now require Internal Audit to periodically assess the achievement of management's strategic objectives. So both of those changes are included in the revisions to the charter.

There are redline copies of both the charter and the board resolutions in your board book and these documents are also on the consent agenda for the full Board meeting.

Are there any questions on the charter, the board resolutions, the definition of internal auditing, standards, code of ethics, or auditor independence?

MR. KEIG: No. I'll entertain a motion for approval.

MR. GANN: I move we approve the internal audit charter and Board Resolution 13-019, as presented.

MR. KEIG: Moved by Mr. Gann.

MS. BINGHAM ESCAREÑO: Second.

MR. KEIG: Seconded by Ms. Bingham. All those in favor say aye.

(A chorus of ayes.)

MR. KEIG: Opposed nay.

(No response.)

MR. KEIG: Passes.

Item number 4 is: Presentation and discussion of the Internal Audit peer review results. Ms. Donoho, would you address that item?

MS. DONOHO: The internal audit standards in the Internal Auditing Act require that we undergo a peer review every three years. The peer review this time was performed by representatives from the State Agency Internal Audit Forum, Bill Lawler and Trey Wood from the Department of Motor Vehicles, who performed our peer review in November. We appreciate all of the effort they went to on our behalf to help ensure we're in compliance with the standards. A copy of the peer review report is included in your audit book.

During a peer review they select a sample of our working

papers and go through those audits and reports and working papers to make sure that all of them comply with the standards. They look at our policies and procedures, they interview our staff, they do a survey of management, they do quite a bit of work that goes into the peer review before they issue their opinion.

The Internal Audit Division received a rating of pass which is the highest possible rating. The other ratings are pass with deficiencies and fail, so as like auditors, we're pretty hard on ourselves. In addition, the peer review did not identify any areas for improvement, which is highly unusual. This is the second peer review we've had where that's happened where we've had no areas for improvement identified.

They identified several best practices which include our great working relationship with the Board and with executive and division management, our high number of professional certifications and advanced degrees, our tracking system for prior audit issues, policies and procedures manual, and our thorough audit planning process.

Are there any questions on the peer review?

MR. KEIG: No. In addition to me being interviewed, I wanted to thank J. Paul Oxe for taking the hot seat, as well, and being interviewed by the auditors. I'd also like to thank our staff and Ms. Donoho's staff, as well, for all of their hard work and cooperation with the peer review auditors.

We do not need a motion or anything in this respect. Right?

MS. DONOHO: Right.

Okay. We'll move on to item number 5: Presentation and

discussion of the status of Fiscal Year 2013 Internal Audit work plan. Ms. Donoho.

MS. DONOHO: There are six audits on the plan this year. We have completed two of them, two are underway and we have two that we haven't yet started. We'll discuss one of the completed audits under agenda item 6.

We're currently working on an audit of Asset Management and an audit of the Bond Program. We're just over four months into the fiscal year and we're a third of the way through our plan, or actually slightly more than a third of the way, so I believe if we maintain our current staffing levels, we'll be on track to complete the plan as written.

In addition, we've completed most of the non-audit requirements that are on our audit plan, including our annual review of the charter and the board resolutions that we just talked about, updating our policies and procedures to comply with the new internal auditing standards, and completing the peer review. New auditing standards tend to come out every year or two, and the two standards that we follow, they'll release one and then six months or a year later the other one seems to come out, so we're constantly updating our policies and procedures.

Finally, in September I promised you we would provide training to the department's directors and managers on the audit process and what to expect during an audit. This work wasn't on our plan but I'm happy to report the training was held this past Monday.

In addition, I also completed a peer review of the Office of the

Governor, which was not on our plan. That review only took a couple of days of my time. They have a small audit area. They did, however, have a few areas for improvement.

Are there any questions on the status of the 2013 audit plan and the work we've performed?

MR. KEIG: There being no questions, we'll move to item number 6: Presentation and discussion of recent Internal Audit reports. Ms. Donoho.

MS. DONOHO: The audit we want to talk about today is an audit of Program Services. We looked at Program Services, they perform the quality assurance reviews of draws that are requested by contract administrators for HOME, the Housing Trust Fund, and the Neighborhood Stabilization programs. The Program Services Division's quality assurance activity ensures that programs are adhering to and processing draws in accordance with state, federal and program requirements. We looked at 120 draws and we found that 114 of those contained all of the necessary documentation to ensure that the draw requirements were met, which was 95 percent accurate. In addition, they formally disapproved 13 draws due to deficiencies in the required supporting documentation; eleven of those draws were subsequently corrected and approved. So I think they're doing a good job of making sure that before those draws are paid that the documentation to support them is present.

We didn't identify any issues or findings during this audit. That's pretty unusual. I think we've only done that on one other audit in the

six years I've been with the agency. Therefore, there are no management responses in that report because there were no findings.

The other audit we completed was an audit of the Manufactured Housing Division. The results of this audit are reported separately to their board, and we'll be talking to their board I believe in April on that audit.

Are there any questions regarding the audit of Program Services?

MR. KEIG: I'll just comment that this is really good news from our perspective, and we want to thank Program Services staff and Brenda Hull for all their good work and having a clean report.

Item number 7: Presentation and discussion of the status of external audits. Ms. Donoho.

MS. DONOHO: There are four external audits or monitoring visits that have either been completed, scheduled or are underway. The SAO completed their work on our annual financial reports which you heard about under agenda item number 2.

KPMG finished their work on our portion of the statewide audit of federal funds. This year they looked at the Weatherization Assistance Program. We don't have a report on that yet. Hopefully at the next Audit Committee meeting we'll talk about that report. They have, however, told us there will be no reportable findings for the department. That's really good news. This is probably the first time since I've been here that we haven't had any statewide audit findings. The statewide audit report will be issued in March, so we'll talk about that next time.

The Department of Public Safety is looking at the Section 8 Program's use of their Department of Public Safety's criminal history records. That audit is currently underway, they were working on their field work this week.

The Department of Energy will be here the week of February 11 for an onsite monitoring of the Weatherization Assistance Program.

Are there any questions regarding the status of external audits?

MR. KEIG: No questions.

I'd like to congratulate Michael DeYoung -- there he is -- and your Weatherization staff for not having any statewide findings. Thanks.

Let's see, item number 8: Presentation and discussion of recent external audit reports. Ms. Donoho.

MS. DONOHO: There are four external audits from last fiscal year, and they're not on the table from the last item because they were completed in last fiscal year but we got the reports after the time that we prepared for the September Audit Committee meeting and then management responses were due, so those have just recently been finalized.

The first one is the Comptroller's post payment audit. The Comptroller's Office reviewed the department's purchasing, travel and payroll expenditures to determine if they complied with state laws and rules regarding expenditure requirements, as well as with the Uniform Statewide Payroll Personnel System -- which we refer to as USAS -- processing requirements.

Purchase transactions, refund of revenue transactions, and fixed assets, they did not identify any errors in any of these areas.

Payroll transactions and deductions, they identified one incorrect longevity payment that resulted in an underpayment of \$100 to an employee, and there were three personnel files missing prior state service documentation.

They looked at travel transactions. There were seven transactions that were paid early resulting in a total loss to the treasury of \$1.52 in interest. I'm sure they'll be glad to get that back.

Internal controls, one employee had the ability to adjust payee instructions and approve paper vouchers and one required confidentiality form was not signed timely -- it's my understanding it was signed, it just wasn't signed timely -- by the employee.

The department provided management responses and a corrective action plan for each of the findings listed.

Are there any questions regarding this report?

MR. KEIG: Just a couple for Mr. Cervantes. On the internal controls, I believe I remember seeing something to the effect that with regard to the access to the system we've changed it to read only. Is that correct?

MR. CERVANTES: That is correct.

MR. KEIG: Any other reports on these internal controls in terms of corrective action?

MR. CERVANTES: I can bring you up to date on the internal controls. The items that were brought to our attention were kind of as a result of some transitional staffing measures that we had at the agency. One of the key staff members within our division, who was the security coordinator at the

time, retired. And so in the process of bringing in a new person to take over that role, in the early stages, in terms of issuing new security to one of the new employees that we had at the agency, they were given enter/update information on the Texas Identification Numbering System. And so as a result of that, the auditor pointed out to us that there could be a vulnerability there because the staff member could possibly change a mail code which could issue out a transaction that could go through specific routing data.

We felt when the audit was taking place that we would have detected it afterwards, because had that transaction made its way around, we would have probably caught it on the backside, however, the auditor pointed out to us that, of course, in terms of improvement on controls that the preventative measure would be best. So since then we have done some more training to the staff member that is in the security role, we have changed it to inquiry only, and so we feel fairly confident that in the future we're also going to run independent control reports from the State Comptroller to review security control, probably every quarter, to make sure that there's nothing unusual taking place in terms of our security measures at the agency. So those are the steps that we've taken so far.

In terms of the forms that were missing, again, we had an employee that left the department. We felt we had the forms in the file; when we went through our review, there was that one form that was not present. So now the form has been completed, has been filed. And again, we will do periodic reviews on our files to make sure all files are in place. And so that's where we are.

MR. KEIG: Great. All right. Any questions for Mr. Cervantes?

MS. BINGHAM ESCAREÑO: No.

MR. CERVANTES: Thank you so much.

MS. DONOHO: The next one is FEMA closeout monitoring of the alternative housing pilot project. This was the project that we called Heston. You may recall from the Disaster Recovery Program when it was under TDHCA they identified three issues that were related to procurement, contracting and questioned costs, however, all three of those issues were resolved based on the department's responses to the findings. Documents were submitted to FEMA to complete the grant closeout process, so the good news is hopefully we're done with the Heston project.

Are there any questions regarding this report?

MR. KEIG: I'd just like to check with David Cervantes on the status of closing out the grant.

MR. CERVANTES: As Sandy just noted, good news in terms of closing out the grant. There's been one final communication that was our final communication to FEMA to gain confirmation that everything was in order. We have gained that confirmation, however, there's one last step and it's the official communication back to the department that these accounts have been closed out and such.

There's been a delay simply because of the disaster relief that's been provided in New York on Sandy, so some of their key staff has been pushed away to that matter over there, and so we've been put on hold for a

little bit. But all indications are that all documentation, all our information is in order, and we're just waiting for one final piece of communication to technically close the grant out.

MR. KEIG: And in terms of lessons learned, is my understanding correct that in terms of procurement and running the contracts through the Finance Department, that will happen and we will have that centralized. Is that correct?

MR. CERVANTES: Yes. When we were running some of the disaster recovery initiatives, there were instances where there was an inconsistency in terms of where some of the binding agreements were developed, and when the FEMA group came in, they strongly suggested that for the sake of consistency that we adjust our methods to make sure that we were going to run through our centralized processing which is our Procurement Department, Julie Dumbeck and her staff, run it through there. And so as indicated in the report, we've stated that we will, in fact, comply with those measures in the future and show that there's consistency in procurement measures overall as an agency.

MR. KEIG: Great. All right. Thank you.

MS. DONOHO: The HUD technical assistance and monitoring review of the HOME Program's Uniform Relocation Act, these got switched in our board book so this one is actually C on the agenda but in the writeup it's the other way, so we can talk about whichever, but this one, since it's C, I guess we can go ahead and do if you're okay with that.

HUD conducted a monitoring review for compliance with the

Uniform Relocation Assistance and Real Property Acquisition Policies Act, which is a mouthful, but at the department we refer to it as URA. HUD identified three findings and one concern. The findings were relocation notices were not provided in a timely manner. One of the properties HUD reviewed didn't provide the proper notices as required. The department's application and procedures manual doesn't contain guidance on determining whether the URA applies and the department's monitoring function doesn't monitor URA technical compliance.

HUD stated the attempts to locate and advise former occupants of their eligibility must be documented in their files. Eligibility or ineligibility for relocation assistance must be determined for each former occupant who is located. In addition, policies and procedures must be developed for implementing and monitoring compliance with URA.

The next finding was incorrect replacement housing payment calculations, improper disbursement and lack of evidence to show receipt of replacement housing payments, not providing referrals to decent, safe and sanitary replacement dwellings and not ensuring relocation to such housing, and the department did not provide technical assistance to the subrecipient and does not monitor for technical compliance. These findings are related to when they went out and looked at certain projects. The subrecipient did not do these things, and HUD's thought, I guess, is we should have provided technical assistance or we should have provided forms or manuals, documents, that sort of thing to assist them in that process.

HUD required the department to recalculate the replacement

housing payments for two units and to develop a process in which all replacement and moving payments are approved by staff.

The third one was noncompliance with one-for-one replacement and relocation requirements for certain demolition and reconstruction projects.

A project HUD reviewed resulted in the net loss of 14 low income units in the community because the reconstruction proposal included fewer units than were originally there. The department does not monitor for the one-for-one replacement and relocation requirements.

HUD required the department to provide evidence that the subrecipient made required payments or reimbursements and that the department examined each tenant's eligibility for a replacement housing gap payment. In addition, the department must make public and submit to HUD a one-for-one replacement plan for this project and develop policies and procedures for monitoring compliance.

The concern was that acquisitions for projects undertaken by an entity that receives federal assistance but does not have authority to acquire property by eminent domain did not disclose information as required. Often program applicants submit a purchase order or a contract as evidence of site control. HUD did not find any evidence that there were disclosures to the seller as required. HUD stated the failure to ensure that applicants comply with this requirement was an oversight, so they didn't feel like it was intentional, and I'm assuming that's why it was a concern rather than a finding.

The department provided explanations and/or corrective actions for all of the findings identified in this report.

Are there any questions about this report?

MR. KEIG: No questions.

MS. DONOHO: HUD technical assistance and monitoring review of the HOME Program. HUD reviewed the state's affordable housing programs in the HOME Division. They overall concluded that the department has the continuing capacity to implement and deliver its affordable housing and rehabilitation programs at current levels and to manage its financial responsibilities. They noted that the department has significantly improved the quality of its monitoring and has implemented a process to complete the annual required monitoring of subrecipients and community housing development organizations, also called CHDOs. HUD identified six findings and six concerns. The department provided explanations and/or corrective actions for all of the findings in this report.

The first finding was that one of the five recipients reviewed selected a grant administrator that was also involved in preparing the city's application to the department for HOME funds. HUD required the department to ensure that its recipients be required to comply with the federal regulations for procurement and that the department incorporate this requirement into its policies and procedures as well as into its monitoring of entities receiving HOME funds.

There are numerous projects that are out of compliance with the HOME Program requirements. This was the second finding. This is an open finding from their 2009 monitoring report, so they're carrying this one forward. Two of the 29 properties that were not in compliance in that report

remain unresolved. HUD stated the department needs to complete these corrections before February 28, 2013 or repay HUD from non-federal funds for these projects. I believe the total for those two projects is a little over \$800,000.

The department has not established a minimum rent contribution as required by the Code of Federal Regulations. HUD required the department to immediately establish a minimum tenant contribution to rent and to make applicable adjustments upon renewal or issuance of a new lease.

The actual bid amount for one project selected for review could not be determined and cost reasonableness could not be verified. The cost estimate in the file was not signed or dated. It exactly totaled the department's cap of the lesser of \$73 a square foot or \$80,000, and included \$37,000 in unidentified miscellaneous costs. Only one bid was received for this project.

HUD required the department to complete a review and analysis of this contract and provide documentation regarding the cost reasonableness of this project. HUD also required the department to provide information on how the process will be changed or amended to review and document cost reasonableness, eligibility and allowability of costs.

The fifth finding was there was no or insufficient documentation that contractors and/or subcontractors were cleared through the excluded parties list system under their business or doing business as names, and under the individual names of the owners and all principals associated with the business. HUD stated this was a non-correctable finding for the projects that

have already been completed. We can't go back and fix that, obviously. The department, its subrecipients and CHDOs need to review contractors and subcontractors against the list of debarred, suspended or ineligible contractors.

And the final finding was the department has not corrected is not correctly calculating the after rehabilitation value of owner-occupied units that are reconstructed. This was also a non-correctable finding for the projects that have already been completed. HUD required the department to provide the process or method it will use to determine the estimated aftermarket value of reconstructed units.

Their concerns were that the department has numerous open contracts and there are undisbursed funds remaining available from allocations dating back to 2005. HUD recommended the department follow up and identify subrecipients that have funds uncommitted or undisbursed and to take action to get these projects completed, drawn, canceled or reallocated.

The department has not met its statutory cumulative CHDO reservation requirement. They recommended that the department get the set-aside reserved and work with the CHDOs to get funds committed and expended.

The department has a significant amount of CHDO operating and reserve funds that remain uncommitted and/or undisbursed. Again, they want the department to go back and look at the open contracts, cancel and reallocate funds, work with the CHDOs to try and get those funds committed.

And no program income has been receipted in HUD's Integrated Disbursement and Information System, IDIS, by the department in

Fiscal Years 2011 and 2012. HUD recommended the department review its records and make corrections and adjustments in the system as necessary.

Also, there are still numerous activities for which final draws have been made but project completion data has not been entered, and activities have been funded in 2012 and prior fiscal years for which no draws have been made. They recommended the department implement a process to track the progress of its subrecipients and research why funds aren't being drawn in a timely manner.

Grant administrator awards were made by subrecipients when only one response to the original solicitation was received. HUD recommended that the department ensure that the subrecipients are conducting adequate outreach to increase the competition for these grant administrator contracts.

Are there any questions regarding this report?

MR. KEIG: Yes. First a comment is that it seems like most of the concerns relate to lack of sufficient activity and low expenditure rates in the HOME Program, and so I'm not sure if this is a micro level or more of a macro level, and perhaps we as a board need to work with staff to try to determine how we can be more efficient and get the funds expended, and maybe even the Strategic Planning Committee might be interested in looking at that in the future.

As far as do we have an update on the status of trying to meet that February 28 deadline?

MS. DONOHO:

MS. MOLINARI: Jennifer Molinari, acting director for HOME.

I'm going to first address, I guess, the comment about the expenditures and what was noted in the HUD monitoring report. Since that report has come out, our staff worked very, very diligently to close out some old activities in our IDIS system, and it's actually contributed to us moving from a ranking nationwide of 42, I believe, to 29 at the last quarterly report. So we believe that that's significant progress toward addressing that finding, and we are looking forward to the next quarterly report which will capture our status as of the end of December in the next couple of weeks is what we understand.

MR. KEIG: Well, that's good news.

MS. MOLINARI: It is very good news.

MR. KEIG: Do you think that we can make even more progress some of the more details in terms of handling those, or do you think that there's hurdles to try to get these funds spent that we need to look at on a more macro level?

MS. MOLINARI: It appears to me that our movement from a system where we award contracts to grantees toward our current reservation system has been tremendously helpful in that respect, and we are seeing a draw-down and expenditure of funds at a pace that we like to see. We have already met our expenditure deadline for the HOME funds and we are confident that we will also meet our commitment deadline which is in June of this year. As far as the CHDO reservation, which Cameron can speak to in a little more detail, we should also be able to meet that at this Board meeting if the Board does approve the awards that we will be putting forth.

MR. GANN: On the \$800,000, roughly, that February 28 it was due, where are we on that particular item, two items?

MR. KEIG: I think Mr. Gouris will have to address that. Right?

MR. GOURIS: That's the Asset Management issue. Tom Gouris, deputy executive director for Asset Analysis and Management.

So that is the issue of some older transactions that we were involved with that we were foreclosed out of our position. There's actually a slightly larger number than just those two that we're working to address and have been working to reduce. Unfortunately, those two and one other are properties that not only were we foreclosed out of our position, but we don't see an avenue for repurchase or reacquisition of the property to reinstate a LURA or any restriction because the property has changed use or it's changed zoning or it's changed in a way that we won't be able to regain access. So for those two our options will be either to look at a grant reduction in a future year or to come up with non-federal funds to repay that amount.

MR. KEIG: And that amount, have you settled upon an amount? I'm not going to push you.

MR. GOURIS: The third one is another, all three combined total \$1,034,000. There are some other deals that we're working on. There's a whole slew -- not a whole slew, but there's a number of transactions that we're working on and we're working through them and working them down. But these two and a third one are ones that we think the ultimate solution will be a grant reduction or some source of non-federal fund repayment.

MR. KEIG: More questions on that?

MR. GANN: That's the first time I remember that happening since I've been here. I may be wrong there.

MR. GOURIS: Well, it is and it isn't. One of those properties is one that we have known for a long time has been a loss for us or something we wouldn't be able to repay. In fact, we've attempted to request a reduction previously several years ago, but it wasn't consummated for whatever reason, and so it stays up there. All three of these transactions are transactions that were done 10, 15, 20 years ago and just have taken a long time to matriculate to this stage.

MR. IRVINE: These are older transactions, as Tom pointed out, and one of the things that I would say about the way we're addressing them is in prior years it was a cobbled together effort but as part of our reorganization we very intentionally said let's create Asset Management and task it with managing this portfolio as effectively as possible, and they've had a lot of successes. You know, when you're dealing with resolution of old distressed loans and foreclosed LRE, you're going to have some challenges, and those challenges, frankly, are kind of multiplied when you've got no capital to work with.

And I think Tom has done a really fine job of focusing on this portfolio, and frankly, reducing the exposure by about half. We continue to work on these but on several of these assets we just have to admit that we're running out of options.

MR. KEIG: Thank you, Tom.

Item number 9: Presentation and discussion of the status of prior audit issues.

MS. DONOHO: We have some updated numbers for you which are not reflected on the list in the board book. We found out, quite by accident, on Tuesday that the emails that go out from our software requesting updates for prior audit issues were caught up in our anti-virus software on the server that houses our software, and staff did not have an opportunity to update those prior audit issues until yesterday, so please go easy on them when you ask questions because it is, unfortunately, our fault.

Of the 30 prior audit issues, 23 were reported by management as implemented. These will be verified and closed by Internal Audit once we've reviewed the supporting documentation. Of these, 15 are from the Neighborhood Stabilization Program -- and just as a reminder, we're not planning on clearing those issues, we will be closing them in March when the funding ends -- four are from HOME Multifamily, two from Community Affairs, one from Financial Administration and one from Compliance.

There are only seven issues that are pending and are not all reflected on the attached list. Internal Audit will verify and close these issues once they're reported as implemented. Of these, two are from NSP -- and again, those will just close out when the program ends -- four are from Homeless Housing and Services Program, and one from HOME Multifamily.

Are there any questions regarding prior audit issues?

MR. KEIG: Yes. Do you know what the -- well, let's see, is anybody here for Homeless Housing and Services Program?

MS. DONOHO: That would be Michael DeYoung.

MR. KEIG: Michael DeYoung, what's the status on those four items?

MR. DeYOUNG: Okay. There are four items from the audit last summer. The first item has to do with the draw management process. I will tell you kind of an overarching comment for this is that we are merging contracts today, we have a new reporting system going into effect when those new contracts take effect, we'll be signing the contracts tomorrow. So three of the four prior audit issues will be resolved when we implement the new contracts with final signatures. So my intent is that we sign tomorrow with Tim's final signature, and then on Monday I would report the first three of the four as implemented.

And then the fourth issue is a compliance issue that deals with monitoring. I'd be happy to evade and dodge your questions on that. But the fourth issue, Patricia, do you want to address it?

MS. MURPHY: I'll evade and dodge as well.

(General laughter.)

MR. DeYOUNG: I'll go ahead and evade and dodge for Patricia as well.

MR. KEIG: Yes, please, let's hear from Ms. Murphy.

MS. MURPHY: Patricia Murphy, chief of Compliance.

We were to have this implemented by February and we're now looking at an April date, so we are working on a monitoring tool to get these contracts monitored.

MR. KEIG: Promise.

MS. MURPHY: Promise.

MR. KEIG: Okay. What's the age of that HOME Multifamily issue? When was it they said that they had that done? When was the audit?

MS. DONOHO: The audit was last year.

MR. KEIG: Last year?

MS. DONOHO: Last summer maybe.

MR. KEIG: Oh, last year being 2012. Okay.

MS. DONOHO: Less than a year.

MR. DORSEY: I think the report that I looked at had 281 days outstanding.

MR. KEIG: All right. Mr. Dorsey, would you please tell us the status of getting that wrapped up.

MR. DORSEY: Sure. Sandy, do you mind letting me know -- a couple of days ago the number was different, so I want to make sure I'm talking about the correct audit issue.

MS. DONOHO: And I have to figure out which one that is and it might take a few minutes. Let's see, there was an issue on processing draws, there was one on SOPs, there was one on supporting documentation for draws, and contract amendments. The 281-day one is the contract amendments, HOME Multifamily not always tracking contract amendments or maintaining supporting documentation for amendments. Is that the one?

MR. DORSEY: Yes, and I can go ahead and speak to all of the ones that Sandy just mentioned.

The amendments we are tracking in a spreadsheet. At the time the program was kind of in transition, or that activity was kind of in transition from the HOME Division to the Multifamily Division, and we do have a process in place and are tracking those contract amendments.

One of the major things was ensuring that we built all of these types of things into an SOP and get that signed and dated, and that was signed and dated back in May, and I was able to go in the system within the past couple of days and get that information filled in and checked as implemented. I believe the next step is for Internal Audit to just verify that it meets the recommendation that they initially provided.

There's one issue that I was looking at some additional data on to make sure that I didn't misspeak in my answer, in my response, and that was with respect to supporting documentation for CHDO operating draws. We have no current CHDO operating contracts and haven't processed any CHDO operating draws since the audit, and as a result, because we don't have any contracts or anything, we obviously don't have that issue at this moment. To the extent we awarded CHDO operating contracts, we would obviously build in the recommendation into our draw review checklist and what-have-you, but since we don't have any contracts whatsoever at this time, I was looking at the data but I don't have it on hand, I don't have that review process on hand.

MR. KEIG: Now, I may be mixing apples and oranges, but was this one of the ones where there was an issue of our internal policy and possibly whether or not we were following our policy on backup

documentation, or am I thinking about something totally different? In other words, are there some changes that need to be made to the policy before we hit the next CHDO draw?

MS. DONOHO: No, I don't think this was a policy issue.

MR. KEIG: Okay, something different.

So you can go into the system this week and update them?

MR. DORSEY: That's right. I got the data yesterday that I was looking for to make sure that I was accurate in whatever statements I provided to Internal Audit, and so hopefully I'll be able to go in and fill that last one in. I think all the other ones have already filled the information in the past couple of days.

MR. KEIG: All right. Very good. That ought to bring us up to speed on all these.

Any other questions on pending or prior audit issues?

MS. DONOHO: I would just like to mention that this number will jump up probably next time because our process is when we brief you on an audit report, like the HOME CHDO audit and the URA audit just discussed, then we enter those into our system and ask for them to be looked at and updated as to status. So all of the findings that we just discussed, of which I think there were nine, will be added to this list. So it's a never-ending cycle. I mean, looking at it now it looks like all of these could go away by the next Audit Committee meeting, but other ones will take their place, unfortunately.

MR. KEIG: All right. Item number 10: Presentation and discussion of the status of fraud hotline and fraud, waste and abuse

complaints. Ms. Donoho.

MS. DONOHO: We also have some updated numbers for you.

We prepared our board book and the numbers that are in there are as of January 4, so we have updated numbers as of yesterday for you, based on calls or complaints that came in since the board book was posted or that were resolved in the last few days.

So in Fiscal Year 2013 we received 36 fraud complaints. Of these, 26 calls were received on our hotline. Three were related to the department's programs or staff, two were Manufactured Housing, one was Compliance. The other 23 were related to other agencies' or other housing authorities' programs. We referred these callers to the appropriate agency or housing authority for assistance. So you know, we tell them who the right person is to help them and where they need to go for assistance.

Ten complaints were received from other sources. They included four for tax credits, three of which were referred to Compliance, one for Compliance, two for Weatherization and Energy Assistance, one Disaster Recovery, one Section 8, and one that covered multiple programs. The sources were two were forwarded to us from the SAO's hotline, four came from TDHCA staff, two from the public, one from a subrecipient, and one was something that came to our attention in the media.

Twenty-four of the 36 complaints, or 67.7 percent, were not under the department's jurisdiction. Resolution of the twelve that were TDHCA, five are pending, three were referred to the State Auditor's Office and other oversight agencies, and four were closed.

MR. KEIG: All right. I had had some questions about housekeeping in terms of timely closing these matters, and some of them had what I would consider a longer than comfortable aging on them, so I've had some discussions, and I wanted to ask Internal Audit and staff that as you triage these fraud complaints and try to make decisions on how long it's going to take to investigate them and whether they high priority, are we bleeding money or not, and I also know we need to take into account if it's in a different city it's something that needs to be checked on, if it's minor it might get set out further in the future when we're going to be out there anyway.

So what I'd ask is that you look at these and when you triage them, set your own internal deadline, what's feasible for us to try to resolve this, and then if you get to that deadline and you still need more time, then you reevaluate. But there were some that I thought we could have closed earlier. And I know I'm using 20-20 hindsight.

One example, without naming any names or going into the facts, was we presented the allegations and requested a response from the target -- I guess I'm going to call them -- and we gave them 90 days to respond. I felt like if somebody has done something that we consider wrongful conduct, we should give them a much shorter deadline, maybe 14 days, maybe at most 30 days, to come up with the documentation. They need to respond more timely, I believe. That was one thing in particular that I noticed.

And it looks like Mr. Irvine may have some thoughts on the matter.

MR. IRVINE: Yes, Mr. Chairman. I'd just like to say that these issues are almost always either non-jurisdictional or really multi-faceted, and your concern about are we bleeding money or whatever is obviously extremely important, and we have a protocol where when potential fraud, waste or abuse is identified, we pull together Internal Audit, legal, our ethics advisor, the program people, public affairs people, the full cadre of folks, including myself, that need to know what's going on.

First of all, we have provisions under our contracts that enable us to protect ourselves, and once a difficult situation is identified, we can move a contract into other statuses, including suspension, placing them on cost reimbursement status, things like that. So programmatically, we have mechanisms to ensure that the funds are protected.

With respect to the reporting requirements, the reporting requirement threshold is very, very low, it's essentially if you have reasonable cause to suspect something bad has occurred, there's \$1,000 involved, okay, we've got to tell the SAO, make a formal report to the SAO.

We are also very concerned about coordinating this kind of activity with appropriate law enforcement agencies and our cognizant federal oversight agencies, and some of them are very well staffed and very capable, they have good aggressive OIGs and similar types of capacity. Some types of local law enforcement or federal law enforcement officials move more slowly and we really cannot impact those. But we really do weigh very carefully who needs to be advised of what's going on.

So when you see these extended timelines, one of the things

that I think doesn't come through in this kind of report is there are timelines within that for internal protections, for SAO reporting, for coordination with other authorities and they all play out over different periods. But we do stay on top of them and we take to hear the importance of having a little more uniform method of identifying where we are at all times to make sure that they don't just languish.

MR. KEIG: Right. I want to make sure everybody understands that my questions about it was not that we have a total lack of a process. I mean, I think we're doing overall a great job of handling fraud complaints. I just saw an opportunity for some improvement.

MS. DONOHO: If I can add to what Tim said. I think one of the issues in the 90 days that you brought up earlier relates to this: many of the complaints that we get have to do with our Tax Credit Program and require Compliance Monitoring to step in because my staff aren't trained to do the same things that the Compliance Monitoring people do. They're the ones that know what they're looking for in the files when they go out there. I think, you know, it would not be cost effective if we get a complaint, for example, that says this person isn't income-eligible for their apartment, well, you know, it would be very cost-prohibitive to dispatch either one of my staff or somebody from Compliance Monitoring to go to, say, Lubbock or something and look at one file. It makes more sense the next time they have a regularly scheduled monitoring visit to have the monitor pull that file in addition to the other files that they're pulling. Well, then sometimes it gets caught up in their monitoring process if it's not an issue that they've identified as a problem or if

it's an issue with that one file but they don't see anything else. Then they have timelines, I assume, Patricia, where they write their monitoring report and then they send it to the client, and then I don't know what the requirement is, but I think there's like maybe 90 days to get a client response.

So some of it is part of that, and we don't really want to say you need to give us a response in ten days because this is a fraud complaint because I don't think we want to tell them that we're investigating a fraud complaint there.

MS. MURPHY: Patricia Murphy, chief of Compliance.

Mr. Keig, I really appreciate your comments and I can keep that in mind for like non-routine kind of stuff that we might come across, but a lot of these things, I'm thinking of particular ones where we're working with the SAO or with another agency who is saying just act normal, normal procedure as they have a 90-day response period, so if I said I need you to respond to this in 14 days --

MR. KEIG: It would flag it.

MS. MURPHY: Right. But for things where -- I appreciate your comments, and I can think of other ones where I could have said they probably didn't need 90 days, I could have just said: I got a complaint about this, fix this up and reply to me in 14 days. So I'll keep that I mind in the future. But for some of these, there's like a business reason why we have to have the 90 days.

MR. KEIG: Okay. Thank you.

Any other questions or comments?

(No response.)

MR. KEIG: All right. That concludes our agenda items. I'll entertain 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: Opposed nay.

(No response.)

MR. KEIG: We are adjourned.

(Whereupon, at 10:00 a.m., the meeting was concluded.)

