TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

AUDIT COMMITTEE MEETING

TDHCA Headquarters
221 E. 11th Street
Room 116
Austin, Texas

July 28, 2010
4:00 p.m.

COMMITTEE MEMBERS:

GLORIA RAY, Chair
TOM GANN, Member
LOWELL KEIG, Member

STAFF:

MICHAEL GERBER, Executive Director
SANDY DONOHO, Internal Audit Director

I N D E X

P R O C E E D I N G S

MS. RAY: The regularly scheduled meeting of the Texas Department of Housing and Community Affairs Audit Committee meeting will please come to order. I'd like, at this time, to call the roll. Gloria Ray, Chair, is present, Mr. Tom Gann.

MR. GANN: Here. Present.

MS. RAY: Thank you. We do have a quorum. I told Mr. Gann that it's me and him against the world with all of you guys out there and just the two of us. Mr. Keig said that he might be a little bit late getting in today.

MR. GANN: I just saw him outside the building.

MS. RAY: Good. He'll be joining us then very, very shortly. Is Ms. Martinez here?

MR. GANN: She's not yet.

MS. RAY: She's not here yet.

MR. GANN: Expect to see her shortly.

MS. RAY: For those of you that may not be aware, we're very honored to have Ms. Viveca Martinez from the Lieutenant Governor's Office, the Honorable David Dewhurst, will be joining us today. Please make her feel welcome when she comes in. We're very honored to have her.

Now we can get to meet her. We have a full, full house today. As is customary, we begin each of our Audit Committee meetings with a public comment. Do we have anyone scheduled for a public comment? Even though nobody has signed up for a public comment, does anybody in the room wish to make a public comment that didn't have an opportunity to sign in. If not, then we'll move forward.

We would like to take this opportunity to consider approval of the Audit Committee minutes from our last Audit Committee. Are there any corrections to those published minutes? Hearing none, the minutes stand approved as presented in the Board material.

I'd like to introduce our Internal Audit Director, Director of Internal Audit, Ms. Sandy Donoho. She begins reporting of all of the report items. Ms. Donoho, if you would, please.

MS. DONOHO: Okay. Thank you. I first would like to introduce new members of the Internal Audit staff. We've been short-staffed for about five months now. We're delighted to have some new auditors.

Jesse Gonzales, who's behind me here. Jesse started about two weeks ago so this is his third week and we're happy he came back. He's a July 2010 graduate of Texas State University in accounting. Prior to his college career, he served in the U.S. Army. So we're delighted to have Jesse.

Kari Reipan. Kari started on Monday so she has baptism by fire at the Audit Committee. She came to us from the accounting firm of Clifton and Gunderson, where she was a senior associate so she took one of our staff auditor positions but she had lots of audit experience so we're delighted by that. She has a bachelor's degree in journalism from UT and she's working on her certified internal audit designation so we're very happy to have both of them with us.

MS. RAY: Ms. Donoho, if you don't mind, I believe Ms. Martinez has just joined us. I'd like to introduce Ms. Martinez.

Welcome, so much, to our meeting.

MS. MARTINEZ: Thank you.

MS. RAY: This is Viveca Martinez. She's a Senior Staff Advisor to Lieutenant Governor David Dewhurst. Her duties include working with and advising TDHCA.

We thank you for being here with us today at our Audit Committee meeting and we hope to make you as comfortable as --

MS. MARTINEZ: May I sit right here?

MS. RAY: Please.

MS. RAY: You're just fine. I would advise you to come to the front of the table if you want to.

MS. MARTINEZ: Oh no, I'm okay. Thank you.

MR. GANN: It's safer behind the Board members.

MS. RAY: I don't hit too hard and I didn't bring my big stick.

MS. MARTINEZ: Yes, okay. Thank you.

MS. RAY: Thank you so much for coming. Thank you, Ms. Donoho for that interruption.

MS. DONOHO: Also, we'd like to recognize Dorothy Turner, from State Auditor's Office, who's sitting in on our meeting today --

MS. RAY: Well, hello there. How are you?

MS. DONOHO: -- a co-worker of mine.

MS. RAY: I saw her when she came in and I was wondering who she was.

I'm glad you got an opportunity to be introduced. Welcome to our meeting.

MS. DONOHO: I think because we have a visitor here who wants to hear this piece first, we'll talk first about the HUD OIG audit of the ACS contract.

MS. RAY: And which item number is that one?

MS. DONOHO: That is, I believe, Item 6.

MS. RAY: Item Number 6.

MS. DONOHO: So we'll just do this one piece of Item 6 --

MS. RAY: Okay.

MS. DONOHO: -- and then start back with Item 2.

MS. RAY: We're going to allow our members to move to that item in the Board materials so that we can follow along.

MS. DONOHO: It should be the supplement.

MS. RAY: It's on here but it doesn't -- my computer is not going where it's told to go.

(Pause.)

MS. RAY: Go right ahead.

MS. DONOHO: Okay. HUD reviewed the department's contract with ACS for the CDBG disaster recovery that would be Hurricane Rita Round 2 and they found that procurement of the ACS contract was not done in accordance with state policies because the department inspected and approved the only proposal and the cost of the proposal exceeded the RFC's specifications by $3.68 million.

I think that the finding was really that the parts of the various pieces of the contract added up to more than the maximum that was set in the RFP. HUD OIG recommended that this department develop procedures for disaster recovery procurement and train staff in all the state and federal procurement requirements.

There was $210,000 in pre-award costs paid that were ineligible because there were not allowed by the RFP. HUD OIG recommended the department reimburse the disaster recovery program for any ineligible proposal preparation costs.

The final contract exceeded by $1.99 million the maximum administrative fee set out in the RFP. HUD OIG recommended the department provide support for the increase in the contract price or reimburse the Disaster Recovery Program from non-federal funds.

HUD OIG contends that the form of payment for rehabilitation, oversight, construction management could be construed to be a cost plus contract and is not allowed under federal law. They recommended that the department modify its contract to correct the $2.23 million cost plus a percentage of cost construction management fee and to repay any funds that were expended. It's my understanding that those funds have not yet been refunded.

And then, based on a limited review of a few invoices, HUD OIG identified $14.32 million in unsupported costs in the contract. This included per home rate costs, construction management and PMO Shaw labor costs. They recommended the department modify the contract, tie the budget to the scope of services and to approve a final budget that identifies and allocates the costs. And that's pretty much the high-level summary of this report. Are there any questions?

MS. RAY: I'd like to give staff an opportunity to comment on that.

MR. GERBER: Thank you, Madame Chair and Board members. I think, in general, despite the ominous sound and strong language in the report, it's management's assessment that really two of the findings -- there are a number of issues in there -- but two of the findings are most serious and warrant concerns.

First, TDHCA did go ahead and approve $210,000 in payment for Pre Award Costs that were prohibited by the RFP and they are not prohibited by federal law or by HUD regulations but because they were not in our RFP, they were ineligible to be paid and we have made the request and we've informed ACS that we would be withholding the full payment amount on a current invoice of that $210,000. They understand it. I'm sure they don't like it but nonetheless the RFP didn't provide for those funds and they're not going to be provided to ACS.

The second issue and the more significant issue, in my mind, is that TDHCA needs to modify its contract to correct the $2.2 million cost plus percentage across in the construction management fee. TDHCA believes that we were trying to build a contract with multiple levels of service delivery. This was really the first time we've ever entered into a contract at this level of complexity.

We went out and hired a outside law firm to assist us with this procurement. We went and a contract negotiation ensued. We went out and contacted the Health and Human Services Commission, which it had contracts that had gone south and we wanted to try to avoid the mistakes that had been made in other large contracts the state had entered into. Similarly, we worked with the AG's office and with the state comptroller's office and I certainly think it was point -- at that Building and Procurement Commission, which was responsible for oversight of the procurement. We really set out to get this right.

One of the features in getting it right, though, was that when it came time for the bidder's conference, we had a large group of bidders who came to take a look at this opportunity and, at the end of the day, we only received one response to the RFP where ACS entered into an agreement with Reznick and with Shaw and I think there was a third -- Lutheran Social Services was part of it as well -- and submitted that to us.

And so then we entered into effectively a three, four-month negotiation with them, again, to make sure that we got it right.

We are clearly not providing the clarity in the contract in the scope of work under Section 4.1 of the contract, and we are in the process of redrafting that. We're trying to work with ACS to do that and to get it to a point where it is fully compliant and there will be no return -- there will be no costs that would be required to be refunded by HUD. We think it's a matter of just providing a lot of additional clarification in that section and so we're working forward through that.

Kevin, why don't I turn to you, because I know that you've been really in the lead of -- in addressing some of those issues. Why don't you talk about those as well as others, from a legal context, as well.

MR. HAMBY: Well, I think our -- whenever we read the review, again, or the audit- it sounds worse than we think it really is because they've done some speculative work like they've done in previous audits. This particular group of HUD OIG likes to speculate a little bit about what could be potential coming down the road and I certainly think the 14.4 million is completely speculative.

We've had staff look at it very closely. We think we're compliant. We're redrafting 4.1. We are working with it closely to make sure that it fits within what HUD requires, what we're actually doing and how we can actually track the invoices that come in. So the 14.4 is really -- 14.32 is really not on the table, we don't believe at all and won't be and is a speculative kind of shot across the bow, if you will, of the HUD OIG audit.

The 2.23 is a real -- that was a mistake and we shouldn't have done it because of the way it was written it could be a cost plus. None of those funds have been expended at this point and we're just starting the rehabilitation programs and so there will not be a problem. The cost plus fear on that is that because they have no idea of the number of rehabilitations we were going to do, as opposed to new constructions, we didn't have any idea about any of them, we have put in a sort of a price maximum, is what we were trying to do so we couldn't have people -- we couldn't have any of the people who were actually working on the contract come up and say that we were going to have to do this amount of work, so we would have to provide a huge amount of payment to them for that amount of work because, in the rehabilitations, the -- Shaw, the contractor who's primarily doing that, was going to serve as the general contractor and so we were trying to cap a little bit of what they could do, and where we wrote that up it actually looked like a cost plus; that up to 40,000, they could only charge X amount, and so it seemed to be an incentive to spend 40,000 so they could get the full amount of that, and that wasn't the way it was intended.

And so that's just something we need to clarify and those funds have not been spent at this point.

MR. GERBER: So the contract we write will have a determined capped amount.

MR. HAMBY: It will have a fixed cost, and so it be within what they are asking to have at HUD, and that should -- it gets rid of any appearance that there is an incentive to spend more funds, which is what the cost plus is designed to prevent, and so we think that will be pretty well set.

The questions about the SOPs, we'll do that anyway, because we're -- as we get more and more into the disaster recovery business, we probably do need to clarify how we need to deal with federal programs and especially, given how much disaster work is out there, we will probably come back to this again, where we may only have one or two bidders and have a limited number of bidders on different programs.

So that's something we probably needed to do, and we will do the training as well, and that's what we've already started and we've committed to HUD to do those. That was one of the requests they made.

And the technical -- there were actually technical errors that we made in this particular procurement, and the technical errors were that we had a sufficient number of bidders -- we had a sufficient number of reviewers and one of the reviewers, not according to what we currently are supposed to do, wrote their review scores on a similar review score of someone else that wasn't independent reviewing, and so that was one of the trips that we had.

And then the other thing that we did is there were two other big players -- or one other big player that could have done a contract -- could have done a proposal, and when we got back into it, we called them up and said, Did you -- is there anything that would have made you submit a proposal and they're like, No, we're busy doing what we're doing. And so they weren't going to submit a proposal, and we didn't document that in the file, at that time. We later posted -- after the fact, we documented and put it in the file. We didn't do it contemporaneously when we accepted the original award.

So those were two technical errors that got us to that point. The procurement was done, otherwise, above board and, as Mike said, we actually used a firm to draft up the RFP so we would have it completely done according to federal standards, and we used -- actually, who's our counsel?

MR. GERBER: Vinson and Elkins.

MR. HAMBY: Vinson and Elkins. We used Vinson and Elkins' D.C. office that does a lot of federal procurements to draft up the RFP, and then we used Hunt and Williams, who is a major contract negotiator for federal programs, out of Atlanta, Georgia, to actually work with the contract. So really it's a 63-page contract and there's one provision in it that's just is not clear enough and we're just going to have to correct that.

And we can do that and we're in the process of doing that and I believe we are almost finished with that. We've done -- well, it's being done.

And so, that adjusts that $1.99 million, as well and that's also just an oversight where we added together too many things. That will shift from being part of the administrative award back to being part of the project deliveries. So that will put it back in consistent place with what the RFP says, even though we believe we could have increased it the amount, based on the language in the RFP that allows us to do some negotiations. Just for the sake of clarifying it and making it even with what the RFP says, we're going to go ahead and do that because that's actually how the funds are being spent.

And, we know the funds are being spent largely because we're pretty much near the end of this program. We have our last 700 houses to build or so, maybe 1,000 houses and so we have pretty much a lot of history that's going to make that 4.1 rewrite a little easier.

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

Thank you very much, Kevin.

MR. HAMBY: Sure.

MR. GERBER: And let me assure the committee, it's not a happy audit. You know, we want to get it done right. I think that there are part of the audit -- it's the same audit team that recommended the use of the large amount of money for insurance that we visited before so I think they've stretched a little bit and I've expressed that to them. Nonetheless, I think there's some points in here to read about that need to be more clear and refined and that the scope of work and so we're committed to doing that.

We've actually worked in this business for a long time and it's not just the lessons that we've learned but it's also the training that we're going to need to do to make sure that our subs in the Ike, Dolly programs procure correctly as well so that they don't trip up.

So hopefully we're a learning organization and this all benefits the folks downstream. This is the first contract that we've done and it -- in many respects it's also nice to see that, you know, I think got a lot of things right, as well.

MS. RAY: I think the important thing here -- and I was involved when we were in the process of negotiating this contract. It was a very unusual procurement. It was one of the largest disasters to hit the state of Texas in a long time. Many, many Texans were devastated by that particular disaster incident.

I was involved in many of the processes. I'm proud of the work that the department has done on behalf of the citizens of Texas. I was involved before the contract, when people were scrambling and desiring that their homes be rebuilt and we spent a lot of time and didn't make much progress.

Since ACS came on board, we've been able to see the impact of citizens going back in their homes. Mike, refresh my memory of how many houses we've been able to build and how many families are back in their homes as a result of this contractual effort.

MR. GERBER: We're at 1750 and --

MS. CRAWFORD: By the end of tomorrow.

MR. GERBER: By the end of -- tomorrow, we'll get 1750 and we're going to -- the money should run out probably at about 2700.

MS. RAY: I'm glad Kelly is in the room. Kelly did some yeoman's duty for us, both prior to the contract and once the contract came on board and she used to have real long hair but she tore a lot of her hair out prior to ACS coming on board.

I believe that whenever you enter into a contract, with no prior experience, you're going to have some growth opportunities, some learning curves. I think we did everything that we could. On the front end, you've got to bring in the experts so we could get this contract right. But, at the end of the day, when I look at this, the $199 million is going to be restratified so there will be no need to make any additional payments out of non-federal funds, for that particular finding.

We do acknowledge that we have some issues with that. The $210,000 hasn't been paid. We're working with, is ACS here in the room? They're not here today. Okay. We'll work with ACS on that one. Most importantly, the 14.32, as Kevin mentioned was speculative in nature and none of the $2.23 million had been expended. So it sounds a lot worse than it is. I'm proud of the work that the department has done on behalf of the citizens of Texas.

We'll take our licks for not being as proactive or knowing as much as maybe we should have. That's a blessing of audits; they help us to get better. And I'm comfortable with the efforts we've taken, the responses that we've made and we'll just move forward and I'm most happy the citizens are back in their homes.

MR. GERBER: Madam Chairman, we'd like to ask to see an item that we revisit at the next Audit Committee meeting to update you --

MS. RAY: Absolutely.

MR. GERBER: -- and probably be an issue we address with the full Board as well, given the issues that are attendant with it. Also, just for the benefit of our visitors, I think that we feel a cognitive confidence that there's not a repayment issue to the -- which, and with the state budget deficit looming, that we can -- we're really sensitive to that but we'll keep our legislative oversight offices and the governor's office apprised of what we're doing to address this and keep you apprised as well.

MS. RAY: I appreciate keeping the legislative side of our business informed by what we're doing but I also think it's important that we never lose sight of telling everybody that will listen how many Texans are back in their homes. That's just as important and it's very important that no state funds are going to have to go towards this contract and we'll make the changes that need to be made and it's a learning experience, a growth opportunity. There will be other disasters. I think we'll grow and we'll be able to serve Texans, as a result of this audit. It's a good thing.

MR. GERBER: Kevin's welcoming this growth opportunity.

MS. RAY: I'm glad Kevin's still with us. Only Kevin can answer some of these questions. Thank you so much, Kevin, for the work that you did up front and thank you for being here today.

Does anybody else have any comments or concerns on this item before we move forward?

(No response.)

MS. RAY: Okay, thank you.

Ms. Donoho, if you please. We're going back to Item Number 1 now?

MS. DONOHO: Item Number 2.

MS. RAY: Item Number 2.

MS. DONOHO: Which is presentation and discussion of the status of internal audits.

MS. RAY: Okay.

MS. DONOHO: Three of our seven audits on our plan this year are complete. I'll be talking about the two most recent reports under Agenda Item Number 3. We have two audits that are underway right now. One is Accounting

Operations and the other one is Construction Quality for Disaster Recovery.

We expect that those reports will be released around the end of August, if we receive the management responses on a timely basis, after getting through the report process. The audit of IT governments is underway but we lost our staff, who had some IT experience so I'm the only IT auditor we have so I've been working on that audit as part of my part-time job so I hope to have that one completed soon but I really won't promise you a date on that one.

The last audit on our plan for this year is an audit of the Neighborhood Stabilization Program. As you're aware, from our Board meetings, this program has a deadline to obligate all of their funds by September 3. Consequently, management requested that we not start this audit until after our date so this would be our carryover project until our next year's plan is approved in the fall.

In the meantime, we'll be wrapping up the last couple of audits, completing our risk assessment, developing the fiscal year 2011 audit plan, as well as continuing our finding of the NFC audit. I hope to have a draft of the plan for your approval for sure by the

November Board meeting, maybe September. It depends on the schedule of the September Board meeting and how many things are on there and if we can tend to an Audit Committee meeting. Are there any questions regarding the status of our internal audit?

MS. RAY: I do have a little bit of a concern on the first one you're talking about; the accounting operation and construction compliances. I want to talk to staff on that about getting the responses back to the internal auditor in as expeditious manner as we possibly can. You know, we have a fairly tight audit schedule that we plan early on in the year and one thing, it delays other things and we can't move forward until we get information from your responses and I'd like you to take a look at that, Mike, if you would, to see how expeditiously we can get the responses, the management responses, so that we can move forward in our audit process.

MR. GERBER: Yes, ma'am. We'll --

MS. RAY: And on the second item --

MR. GERBER: Can you just, you know, can you suggest a date?

MS. RAY: Well, it's kind of hard, in my opinion, having been in management, a little difficult to suggest a date because of the complexity, sometimes, of the responses required. Some may require more time than others. I just want management to be --

MR. GERBER: You just want them to focus on it.

MS. RAY: I want them to focus on it and I want them to make sure that they are being as responsible as they possibly can. I don't want to hold anybody's feet to the fire with an arbitrary number of days. I don't think that's a good thing but I certainly want management responses to come in as expeditiously as possible.

MS. DONOHO: We normally -- just so you know -- when an audit draft is completed -- and we anticipate having these done towards the end of the month of August, we normally give management a minimum of a week but generally more like two, to get their responses back to us.

MS. RAY: Can we kind of agree on a two-week thing, you know, some place between one and two? When it drags on beyond two, it kind of causes a domino effect and it backs up the column.

MR. GERBER: We'll adhere to the two weeks.

MS. RAY: We appreciate that. And then, on the second one, where management has asked us not to do the audit until -- start the audit until after September the 3rd, I don't have a problem with that. I'll ask the other

Board members whether they have a problem with that. The only question that I have in my mind is with HUD coming in here in August to do an audit on this same thing and we're not really doing anything internally until September. Sandy, is that going to cause us a problem?

MS. DONOHO: No, actually, we knew that HUD was coming in August to look at this program so what we'll do is -- we've started our planning now, just preliminary looking at the program and getting some background information. We'll look at what HUD is doing in August and then we'll work with our scope so that we don't duplicate their efforts and we can look at things that they aren't looking at.

But, we didn't start this audit earlier in the year because when we started talking about it, I think in February, the contract hadn't gone out, the money hadn't really been obligated so there was really not anything to audit at that point. And they had the September 3 deadline to obligate all the funds and so we'll be starting after that point and then we'll just consider what HUD is looking at, in our scope.

MS. RAY: I'm comfortable with that.

MR. GERBER: And, Madam Chair, I would just add, this is a HUD monitoring visit. It's not great timing because they have an absolute deadline of September 3 by which we have to obligate the funds and the terms by which we are deemed to have obligated funds have changed under HUD's new leadership and so, at least for this program, and HUD's indicated and widely known. They're exited about states that have not expended an NSP1 fund, because that was a program with a different set of rules; NSP2 and NSP3. NSP3 has just been approved by Congress and the hope is that they will take funds that have been obligated NSP1 and add it to the power funds for NSP3. We're obviously in a race right now and we have about 3, 4 or $5 million in SP funds that we're racing to get obligated and just, frankly, locked down in either contracts or other appropriate documents that we can -- it's, you know, the same staff that just is hard-pressed to do these multiple deals with about, how many subrecipients do we have?

VOICE: Forty --

MR. GERBER: About 40 subrecipients. A lot of it's single -- about two-thirds of it's single family, which is a lot of properties and then, the remaining third, multifamilies, so it's just a -- we're looking forward to the audit because I think it'll be informative, but I'll appreciate it if you'll work with us to hold off till after that September 3.

And, I think the monitors will also give us some insight into what we should be looking at because we've got a lot of subs doing a lot of different things and I think the monitoring visit will tell us some things as well as you work the scope out on it.

MS. DONOHO: I agree.

MS. RAY: And on the last thing on the mixed Audit meeting. I didn't intend to talk about that until we got closer to the end of the meeting but since we're on the subject, when you schedule our next Audit Committee meeting, I had a conversation with Mike. We may be doing an offsite in the month of September, which would impact us being able to handle an Audit Committee meeting.

MR. GERBER: I understand that.

MS. RAY: Could we agree among us at this time, both staff and Board, that we would look toward the November time frame for our next Audit Committee meeting? Would you be comfortable with that?

MR. GANN: I'd be fine with that.

MS. RAY: Sandy, how would that work with you?

MS. DONOHO: Fine with me.

MS. RAY: Mike?

MR. GERBER: Yes, that'd be fine.

MS. RAY: Okay.

MR. KEIG: The first week of November, I'm supposed to be out.

MS. RAY: Where is that meeting? What is that meeting?

(Simultaneous discussion.)

MR. KEIG: Could we combine it with the Board meeting?

(Simultaneous discussion.)

MS. RAY: I have it on my -- but I turned my phone off, I think. Somebody tell me when our next -- our November Board meeting is. Refresh my memory.

(Simultaneous discussion.)

MR. GANN: We're seeing which service works best.

MS. RAY: Okay. Then I think we have consensus that we will work toward having our next Audit Committee meeting in the date prior to the November Board meeting, which will probably be the 9th of November. That's a Thursday.

MS. BOSTON: It's a Tuesday. The 9th would be Tuesday.

MS. RAY: The 9th is a Tuesday. That means we'd have to be here on a Monday. That's no problem for me, if it's okay with the other Board members. The staff is always here so it's not a problem. Let's plan on November. Ms. Donoho?

MS. DONOHO: Item Number 3, Presentation and Discussion of Recent Internal Audit Reports. There are two reports we're going to talk about today. One is an internal audit report on the Weatherization Assistance Program's monitoring process and the other is internal audit of the Ethics program.

On the Weatherization Assistance Program monitoring, generally, we found that the energy assistance section has a well-designed and comprehensive monitoring process for the Weatherization Program but we felt like there could be further enhancements to increase efficiency to communicate the results of the monitoring efforts to the subrecipients more timely and to ensure that all of the completed units have the potential to be selected for monitoring.

Currently, the Program Services Division is responsible for the onsite monitoring of subrecipients' compliance with the Davis-Bacon Act; however, we believe that it may be more efficient for the energy assistance program officers to assist in performing the onsite monitoring of Davis-Bacon compliance because they're already making onsite visits to the subrecipients as part of their regularly scheduled monitoring.

The Department of Energy requires that monitoring reports be issued within 30 days of the monitoring visit. We looked at 33 monitoring reports available for Program Year 2008 and we found that 18 or 54.5 percent were not issued within the 30-day deadline required by the Department of Energy.

Without timely feedback, subrecipients may be unaware of the identified deficiencies and they may not be able to correct them in a timely manner. We recommended that Energy Assistance follow the DOE's 30-day deadline for issuing these reports and to ensure that the policies and procedures are consistent with DOE's weatherization guidelines because, when we looked at them, they did not reflect the 30-day deadline.

Finally, the monitoring of weatherization subrecipients is performed by monitors who also provide technical assistance to the designed subrecipients. We believe that effective monitoring requires a certain level of independence and objectivity, not unlike auditors. To eliminate the possibility of the appearance of a conflict of interest, we recommended that the monitoring functions be separated from the program functions so that monitors are not responsible for providing technical assistance to the same subrecipients that they are also responsible for monitoring.

Energy Assistance has been successful in meeting their goal to monitor 10 percent of the authorized units during the last two program years. However, due to the timing of these monitoring visits, the population of the units that they inspect doesn't necessarily include all of the units that were weatherized during the year because the majority of them were authorized at the end of the program year so if the monitoring visit happens anytime during that year, they might miss some of those units and it creates a risk that some of them may never be selected and never be monitored so we're recommending that any units that were not completed at the time of the monitoring visit be included in the population of the units subject to monitoring at the next monitoring visit.

Energy Assistance has controls in place to manage the significant increase in funding that they've received through ARRA. They have documented job descriptions, a monitoring plan, they have standardized monitoring instruments, they have access to management and their peers, a communication structure and a lot of training opportunities.

However, there's not a set training curriculum for the program officers; they can pretty much attend whatever training they want. We recommend a set training curriculum in order to promote consistency between the program officers so that all the subrecipients are being monitored by somebody with the same level of knowledge.

Other recommendations include the finalizing and distributing the draft monitoring guide and the Davis-Bacon monitoring procedures and insuring that the system that they use to track the monitoring fund includes all of the elements that's recommended by the Department of Energy for tracking those monitoring reports. That's pretty much the discussion of that audit. Are there any questions?

MR. KEIG: For you?

MS. DONOHO: Yes. Or for staff.

MR. KEIG: Or staff. I wanted to follow up with the staff and I'll check with Mr. Gerber. Was separation of responsibilities, the Energy Assistance monitoring and program-added responsibilities -- and I'm not familiar with the day-to-day machinations that goes on with these responsibilities but it appears to be an internal controls issue and the response is that we don't have enough time and adequate staffing to do this and so what would it take to have sufficient time and adequate staffing? I know that we've been looking at temporary employees, if it's a federally funded issue or something like that. Is there anything that we can do to have sufficient and adequate staffing, to be able to address this issue?

MR. GERBER: Let me just say at the outset, I think, in general, there's a growing sense that we need to eventually move toward separating these two functions. We have been talking about this issue for a number of years now as we've had issues in Community affairs and we have -- more work has been put on Community affairs, particularly in weatherization. We have tried to put in greater protections. For example, anyone providing technical assistance for doing -- serves as program officer, for a subrecipient, does not do the monitoring. Those are -- we don't have the same people doing those activities and we're absolute about that. And we've done other things. I think, eventually, we will move towards the functions being separate, as it is in the housing side, where we have folks make awards, some get reviewed by Patricia Murphy and her compliance teams.

However, with all the ARRA funds that we've gotten, I think that we have felt as we -- that we've always sort of been behind the ball, starting up the program, finding out across the, you know, 11,000-unit mark, which is very encouraging, spending a lot of money. I think it makes it more imperative that we keep those separations -- those functions separate and we're working very hard within it but there's only so much an organization can handle at any one point and I think our sense, as a management team is that to now go and separate that out will require a transition that would have us really lose a couple of steps.

But why don't you touch a little bit -- because we have talked about this for literally, you know, a year and a half, if not longer -- and maybe offer some perspective from your side. And Michael DeYoung, who heads up Community Affairs and is a long-time energy assistance staff member, is also here and, Michael, why don't you join in the discussion as well.

MS. BOSTON: Sure. Starting several years ago, we began to think about this, have -- I won't say concerns, but question whether it didn't make more sense to move the monitoring, not only for our assistance programs but also for the community services program.

They -- years ago, it was a different agency.

When they merged, the monitoring and compliance functions for the community services and energy assistance functions never have merged with Patricia's area, what we all know as Patricia's area, PMC.

That never occurred, for a variety of reasons. When we have stepped back and done some assessment of should it, or how would we do it, we're not positive that that makes sense either. The types of monitoring that occur are very, very different from the housing side. You're talking about monitoring non-profits for services or activities as opposed to housing products.

There are some similarities when it comes to, you know, checking on our financial controls or single audits, that type of thing, so I don't know that the monitors in our current PMC division would necessarily transition easily into doing this, so I think there was some question of how would that work.

A couple of years ago, while we were having all these conversations, we also -- Patricia was involved in those conversations about whether it did or didn't make sense. At the time we chose to just step back and not do anything at that time but to continue -- we didn't say we weren't going to do it; we just said, let's keep thinking about it.

And in the interim of that time, then we got Recovery Act and we have that -- we got the audit that kind of confirmed that that is an issue and it's something that we should be aware of.

I don't think anyone from this staff disagrees that ideally that is the best situation for us to be in. I think that if we already were like that before Recovery Act, that would be the best situation. But because of how the staff are set up, the way that when -- Mr. Keig, when you mentioned kind of how it works day to day --

Day to day we have a group of staff called program officers, and they do a variety of things, but what they do is they kind of hold the hand of the subrecipients, and each of them have assigned subrecipient so, you know, let's say Program Officer A is assigned to five specific subrecipients. They, you know, talk to them day in and day out, answer their e-mails, help with their technical assistance questions, stay on top of them in terms of contract performance. If a report comes in late, they bug them, What's going on, stays apprised of what's going on with their Board members.

So in the past, that officer often -- or in most cases was also the person who did the monitoring and I think we all agree that wasn't okay.

And so in response to the audit finding on Sandy's team, we said, you know, We'll stop that immediately, because that's where the biggest, I think, perceived concern or the actual concern was and the perception that somehow that person who would be responsible for delivering the TA and the contract's success would then also be the one to go out and have monitoring findings and maybe that they wouldn't be independent enough.

Pretty much as soon as we got the finding, we immediately made sure that the people going out are never the assigned kind of hand-holders --

MR. KEIG: I understand what we're doing, and I've read that. At least it's an alternative. But what do we do to move to the best practice, which is keeping it separate? I mean, how many FTEs would it require, and could it could it be retooled in the programmatic side that those people don't have to do that anymore and you could take two FTEs and put it over on the monitoring side and train those people to be able to do that type of audit.

Some of this stuff is simple checklist stuff, is the sign-up, that says, X, Y and Z. Some of it's more technical than that. I understand some things are simple and some things are not so simple.

So my question is, what would it take to get it to the place where the recommendation is. I understand all this stuff that you've done and I appreciate that.

MS. BOSTON: That's going to take time. That's what it really takes.

MR. GERBER: I agree. It's just sufficient time, frankly, of allowing things -- in the last, you know, eight months, you know, the number of unit production's been huge, and the amount of staff work's been huge. I think letting things level out a little bit and getting to a place where, you know, we're actively recruiting staff, trying to figure out what our needs are and seeing from there, can we break it up -- I think that's a fall kind of analysis that we would -- you know, time frame for an analysis that we try to do.

I think that we're in agreement that it is a good practice with -- I'm in agreement with our internal audit team. It has not necessarily been identified as the best practice by -- to the best of my knowledge by the Department of Energy. The Department of Energy has never identified it as a finding.

MR. KEIG: It's not a requirement --

MR. GERBER: It's not a requirement.

MR. KEIG: -- a state or federal requirement.

MR. GERBER: It's never even been a recommendation, to the best of my knowledge. So I think we want to do some pretty hard analysis and looking at other states and this program, and I think DOE's going to come back with some answers, because their program went from $300 million to $5 billion, with some ideas of what they think are best practices too.

And I think we want to analyze it. But I think we have enough experience on the housing side that we know it probably makes sense to break this up in some way, because we're seeing conflicts existing within our own organization, and I think internal audit's rightly pointed out a number of potential problems you can have when you've got big dollars and a program that's expanded this much.

So I'd like to say -- I'd like to bring this issue back to answer the question of what our analysis would look like, and I think November would be an appropriate point at which to do that.

I can't say it's going to be full analysis, you know, of it, where we'll have a clear idea of how may staff we would need and what that would look like. I would also say that in terms of staffing, even though we can request staff, it doesn't mean we will necessarily get them, so -- even with the Article 9, FTEs, -- and we are -- you wouldn't believe the list of questions we've gotten in response to the list.

MR. KEIG: Could this be that type of thing that might be an Article 9 --

MR. GERBER: Potentially, yes, it would be all funded -- fairly funded. The question is, would they let us have those Article 9 employees?

MR. KEIG: Sure, sure.

MS. RAY: I think that we've agreed to agree that we've got a timing issue, and when you consider how much money was dumped on the department, particularly in this particular area, this year, to quote a little homily that said, Sometimes when you're up to your derriere in alligators, it's hard to remember the objective is to drain the swamp.

So let's understand that we need to look at this. I think November would be an opportunity to come back with some information, probably be more responsive to what Mr. Keig has asked us to do. We understand we're treading water as fast as we can.

MR. KEIG: And we do appreciate the alternative steps that you all have put in place --

MS. RAY: Absolutely.

MR. KEIG: -- to try to have some controls.

MR. GERBER: And, Mr. Keig, if I could just mention also, I think one thing that's also part to think about is, I don't think that we can just put this into the existing compliance structure that we've got. I think that the housing compliance -- we got to see Patricia Murphy in action as truly an IRS tax credit expert of the first order. You know --

MS. RAY: It's a different skill set.

MR. GERBER: It's a different skill set. It's an entirely horribly different thing.

MS. RAY: It is a different skill set.

MR. GERBER: And there may be some merit within community affairs or within a different division setting this up -- we've got to look at what other states and others have done and I -- frankly, that's one of the things that, you know, we really value most about you and Ms. Donoho, having seen a lot of different agencies and how they've set some of these things up to maybe voice some of these conflicts so I'll work with your team over the next 90 days and see what we can -- come up some different ideas and -- I don't know, timing's right.

MS. RAY: We have confidence in your

understanding the nuances of the varying programs and we certainly expect you to take all of that into consideration and just come back to us and tell us where we are on that one.

MS. BOSTON: We'll do it.

MS. RAY: Okay?

MS. DONOHO: I have one more comment as the auditor here. I know, doom and gloom.

I think this finding was a little unusual one that we were looking at something that's really hard to pin down in terms of is it a client's issue, is it a best practices, is it something that, you know, we think is more important?

And, you know, we spent a lot of time talking with management about this issue. I think this is an issue where, you know, management has at least taken some steps to fix it by making sure that the people that, you know, do the monitoring aren't the people who are providing the technical assistance.

I would point out that you still have the issue of all of those people report to the same person so, you know -- not that that person is the problem, but when you're in charge of something and your own people are responsible for determining whether you're doing a good job of overseeing that, I think that there's an inherent conflict there, and that's what we're trying to get at is that you're auditing yourself, basically. And that was the concern.

But, you know, management also has, I think, under -- as far as the audit perspective, the prerogative of saying, you know, We don't agree; we aren't going to implement this, and we're willing to assume that risk.

And so, you know, from the audit perspective, if they're willing to assume that risk and the Board is okay with that, then I'm okay with that.

MS. RAY: That's what we want to know in a little bit more definitive way in November --

MS. DONOHO: Okay.

MS. RAY: -- exactly where we stand on that, and we can agree to disagree at that time --

MS. DONOHO: Okay.

MS. RAY: -- or to ask for more clarification. You just kick that can right on down the road if we need to. Okay? You want to go to the next item?

MS. DONOHO: Okay.

MS. RAY: Thank you, Brooke, Mr. Gerber, for pointing out the issues.

MS. DONOHO: The next item is an internal audit of the Ethics Program, and the reason that we decided to audit the Ethics Program was because the Institute of Internal Auditors' Professional Practice Framework, which is the standards that all auditors -- internal auditors live and die by, requires that we periodically evaluate the department's ethics-related objectives, programs and activities. So it's a requirement and that's why it ended up on our plan this year.

Overall we felt like the department has an effective ethics program, but we also believe that communication of the program should be further enhanced to ensure that all employees receive periodic ethics training. Also, we feel like the ethics policy should be revised to prohibit the appearance of impropriety in all ethical matters.

We did a survey of the department staff. We found that the majority of employees are aware of the ethics policy. They get that information when they first start here. Of the 191 employees who responded to our survey, 172 or 90 percent say that they understood the policy regarding ethics.

But there's that 10 percent, and I think that the department should strive for 100-percent compliance. And Mr. Gerber has made it clear to me that he expects no less from the department, so we recommended that the department strengthen its ethics communication strategy to increase employee awareness of ethics-related issues by providing more training, periodic communications from management regarding ethical issues -- that does actually happen now, but we felt like maybe more often would be good -- and an annual acknowledgment that employees have read and are aware of the ethics policy.

The previous ethics policy was more restrictive than the current ethics policy. Specifically, the former policy prohibited the appearance of impropriety. The new ethics policy is actually based on a model ethics policy developed by the Office of the Attorney General. The new policy only prohibits the appearance as it relates to outside employment and community service.

As a result of that, an employee could demonstrate behavior that might suggest a conflict of interest but not necessarily be in violation of the policy.

So the higher standard would be to prohibit the appearance of the impropriety. We recommend that this department amend the policy to prohibit the appearance of impropriety in all situations, not just those related to outside employment and community services.

So that's pretty much that audit. Are any questions about the ethics program on it?

MS. RAY: We have been given information on this particular issue a little bit earlier, and I guess I just want to ask Mike where you stand on that and what your training plans are for staff.

MR. GERBER: Well, I confess I was surprised that -- with all due respect to the Attorney General's Office, you know, we're an agency that ethics is for everybody. We expect everyone to adhere to the highest ethical standard, and whatever that is, that's what we want to adopt. And I'm advised that the appearance-of-impropriety standard is that standard, so that's what we're going to have and, frankly, there's zero tolerance for failure to comply.

By way of training, within the next 90 days -- and we've talked to Sandy and I've talked to our HR director -- we're planning to do a all-staff training, either in the Capitol Auditorium or somewhere near by. I think it's important for everybody to be in the same room, to hear the same thing, and to have the ethics presentation done, and everyone will again recertify that they've had that training.

We're also going to work to try to pulse in periodic messages to folks about different situations that might trip them up on ethical issues, and Sandy is going to -- is big enough to offer to help on that and we're still working through some of that.

I think it's also important not to turn it back -- we had an opportunity -- I guess before I got here -- I think, Kevin, you were still at the Attorney General's office -- Kevin had come over and done a training -- an ethics training for Board members.

I think it's important for all of us, collectively, to refresh. We won't subject Board members to the two-hour training that staff's going to be subjected to, but I think at our upcoming Board meeting, likely in November -- maybe in September but likely November, we will also do some, you know, half-hour Board refresh, as well.

I think, again, ethics is for everybody and we're going to set the bar high.

MS. RAY: I think the bar should be set high. It can be -- the line on the appearance of an impropriety can be stepped over very innocently if it's not constantly kept before you as what could be an appearance of a conflict of interest.

Sometimes the appearance is more damning than the actual infraction of an ethical breach, and I believe it's not only good for staff, but it's certainly very important to me as a Board member, and I think all the other Board members and certainly the members of this Audit Committee are comfortable with that and we appreciate your overarching approach to ethical training.

Mr. Keig, do you have any other concerns, comments you'd like to make?

MR. KEIG: The question is, is Mr. Pender our designated ethics official? Is his title as Ethics Advisor -- do we treat him as the designated person for the agency?

MR. GERBER: He's our ethics czar, if you will but ultimately, if we have an issue, it'll go to our General Counsel and Chief of Staff, Jim Irvin, who will make the final call.

MR. KEIG: Yeah; I'm just -- if there's somebody -- we have an ethics line, and we have some other processes in place, but there needs to be somebody, in addition to the HR director and yourself, that people can go to, that they see as a compliance official or the ethics official, however we want to call it, for the agency, I think.

MR. GERBER: Sure. And I think Mr. Pender is very much that, and I don't think we've -- and we've encouraged the real open-door policy with Jeff, with Tim. I mean, we do hit issues and, you know, people come --

MR. KEIG: Sure.

MR. GERBER: -- and, you know, we're glad that they come. I think -- and I don't know if I'm speaking out of turn, but I think we've also tried to set an environment up, you know -- reach out to Sandy, reach out to me, reach out to Tim, reach out to Kevin. You know, there are a lot of resources, and we've not hesitated to call the AG's office when we've had issues, as well.

So I think, hopefully, with a lot of folks sort of forming that ethics safety net, you know, hopefully we're getting people the answers that they need to maintain that line.

MR. KEIG: And I see that we're -- we would be doing an acknowledgment, at least annually, of the code, but we also couple that with at least an annual in-service. Not just that they are thrown the code and, Read this, give me back an acknowledgment, but they have at least one in-service annually that's at least, you know, 20 to 30 minutes at a minimum that goes hand in hand with, And here's the Code.

MR. GERBER: I think we're going to strive for an annual refresh.

MR. KEIG: Okay. I think that's -- in most industries, that's what's expected.

MR. GERBER: I think we do -- you know, we do a number of meetings each year. They're fairly sporadic, but we do them and, you know --

MR. KEIG: You can do it more often than annually.

MR. GERBER: Well, I think we will try to do it annually so that, again, everybody hears the same thing. And think we will do it more often in those areas that -- where we may be more prone to problems.

MR. KEIG: Brown bags and Ethics -- you know.

MR. GERBER: Uh-huh.

MR. KEIG: Those other kind of news flashes and things.

MR. GERBER: That's right. We want to avoid those problems. And then there's -- I think we've been open to a lot -- we've talked about a lot of different ideas. Some of them are reflected in here, and other things -- you know, how do you -- there are engaging ways that you can relay information to people if you don't like to send -- you know, sort of Did you know quizzes and that kind of stuff. And we don't really want to be overly time-consuming to get to the big message, which is, Don't do this. And so we -- because there's a lot of stuff going on here but, at the same time, we do want people to know that we have a robust policy, that we will enforce that policy and we manage by that policy.

MS. RAY: And I've seen some very stringent actions that you have seen necessary to take in that area of ethical violations and --

MR. GERBER: We fire people.

MS. RAY: That's my point. I was trying not to say that -- I was trying not to say that but we need to -- I think that taking the action also helps as a deterrent as well.

I think when you take stringent actions for ethical violations, it puts others on notice: And this could happen to you too.

MR. GERBER: We let go two people in one day.

MS. RAY: I know.

MR. GERBER: And we are not kidding about this stuff.

MS. RAY: And I think that's a good --

MR. GERBER: We've had problems in the past and we're not going back.

MS. RAY: Not going back there.

Mr. Gann, do you have any comments?

MR. GANN: I have no comments.

MR. HAMBY: I think, technically, to correct the record: Two people who voluntarily resigned.

MR. KEIG: Call it resignation in lieu of termination.

MS. RAY: Well, it was best to take that action, and I think that was a good thing.

Thank you very much, Mr. Gerber.

And, Ms. Donoho, if you'll move on to Item 4 -- Item Number 4.

MS. DONOHO: Okay. This is the status of the follow-up review of the ACS issues identified by KPMG as part of the statewide audit.

In last year's statewide audit that KPMG conducts every year as part of this state's annual financial report, there were several findings related to the ACS contractor, which is the contractor for the Hurricane Rita Round 2 program.

At the last Audit Committee meeting, when we discussed the KPMG report, you asked that we follow up on the findings to determine their status. Curtis Howe, the IT director, and I went down to San Antonio recently to complete this work.

The statewide audit is conducted in the fall. The report's issued in early March. We talked about it at the March Board meeting. Several of the findings were reported to us as implemented in late March.

In order to have a sufficient number of transactions to test, we had to wait a couple of months after that date to go out there so that their -- you know, they had enough transactions under the new policies or the new procedures that we could see if they were in compliance.

We're in the midst of that work. We're still waiting on some policies and procedures and some additional supporting documents. Most of the findings relate to the IT systems used by ACS and its subcontractors.

Two of the nine points in the findings relate to support for disbursement files or support for environmental clearances. Although the work is not complete, generally we're finding that several recommendations are not fully implemented yet.

KPMG has started their preliminary work for the 2010 statewide audit. They will be following up on these findings themselves, later on this fall. The timing of this is important, because even if these outstanding issues are corrected now, KPMG tests for the fiscal year, so they'll be looking year 2010, which ends August 31.

Since August 1 is this week, even if ACS were to correct some of these issues, it's likely that these findings will appear again, because the majority for the -- if they pull a sample of the year, eleven months of that year they might not have been in compliance. So just so you know that.

Curtis is here in case we need to discuss any of the status of the IT issues. Some of them have to do with policies and procedures, and some of them are a little bit on the complex side. Of the two non-IT issues, one concerns supporting documents in the disbursement files for when ACS pays their contractors who build houses.

KPMG looked at a sample of 40 files, and they found that 14 of them did not contain all of the documents required to support the payment. I looked at a random statistical sample of 40 files and found 22 of them did not contain everything that it was supposed to.

It is possible that some of that support is in the hard copy files and didn't get scanned into their system, so I may end up making another trip to San Antonio in the next week or so to look at the hard copy files.

Another issue is support for environmental reviews and clearances. They looked at 40 files and found one that didn't have environmental clearance support in the file. I looked at 40 files and found two that did not.

One just didn't have it in there. The other one was for the wrong house, and this was an error that TDHCA made by sending them a list of clearances, and the client number had the wrong address next to it; however, they didn't catch that when they scanned it and put it in the file, which we -- one would hope they might have, but that didn't happen.

That has now been corrected, though. Our folks sent them the right document and hopefully it got scanned in to their system. So that's kind of where we're at with the ACS stuff.

Curtis, did you want to talk about the other issues or did y'all maybe have any questions?

MR. HOWE: Yes. I'll add a brief summary of ACS's corrective actions.

As Ms. Donoho mentioned, the audit -- the last time we met was in March, the last Audit Committee meeting. And ACS had just finished, prior to that Audit Committee meeting, responding to the KPMG findings, and all items were reported as implemented, so following up on your comments earlier, I think even if all items were completely implemented and there were no issues at all upon our visit, there's still the potential of repeat findings, because half the fiscal year had -- half of FY 2010 had already passed at that point.

By and large, ACS has taken the actions as stated in the response to KPMG, which appeared in February. I have a stack of policy documents that they were required to complete as a result of the audit, and those policies have been updated, for the most part, as per further responses to the KPMG findings.

The issues that are still lingering can be summarized as follows: Some of the KPMG issues had to do with developer access to production environments. That's something that comes up commonly in IT audits. They -- it wasn't clear to me when I look at their samples of user acceptance testing and watching changes being -- in their help desk system, looking at the documentation for showing adequate management approval for changes being promoted from development environments into production environments that developers did not have access to production environments.

KPMG has -- I apologize. ACS has followed up and provided additional information to attest that developers do not have that access. Additionally, there were some recommendations that I made in their testing and approval process, to just make it a little more formal and, having gone through so many IT audits myself, I have some pretty clear recommendations on how to make sure that other auditors that are coming in will see very clearly that management has approved changes. And so they responded to me that they will implement my recommendations in those areas.

And then in their User Access reviews where they just review having -- there's a process of doing an annual review of User Accounts and making sure that users have the appropriate levels of access to systems. There were some improvements that they needed to make in those areas, as well, but they have completed User Access reviews, as stated.

So I'd say that overall, they're on track to fully addressing all the findings, but as of the time of our review, they hadn't fully -- they had not fully addressed all of the findings, as stated in their responses.

Any -- are there any questions about that summary?

MS. RAY: I don't have any questions.

MR. GANN: No.

MS. RAY: Mr. Keig?

MR. KEIG: No.

MS. RAY: However, I cannot overemphasize the importance of doing this right after that scathing audit that we got about contracting process with ACS, we cannot afford to have it appear that, in our processes, we are going easy on ACS, as they're implementing the work that we have given them to do.

So I cannot overemphasize the importance of getting this right. I don't think the department can stand a negative audit in the area of our relationship with ACS, given the other audit in our contracting process system.

So with that said, please take that as a point well taken.

MR. HOWE: And if I could just follow up on that point, Ms. Ray.

On behalf of the department and in my position as IS Director, I've made that same emphasis on correcting these issues with all of the parties that are involved at ACS and will continue to do so and ask for that message to be re-emphasized by Mr. Dowell and Mr. Gerber.

MS. RAY: And, Sandy, I would highly recommend that you and your staff do what you need to do. I don't care how many times you have to go down to San Antonio to ACS, to make sure that this --

MS. DONOHO: I'm happy to do it.

MS. RAY: -- to make that sure that -- there a statement that something's that in the milk ain't clean. Let's make sure that the milk is clean -- looking, anyway. Don't want to see no flies or anything in the milk. So we need to do what we need to do to make any independent outside auditor come in and be complimentary on the work that we've done subsequent to the award of the contract in working with our processes with ACS. Particularly since they've got new management now, we need to make them know that we mean business and it's important.

MR. GERBER: And Madame Chair, I just interject that, you know, as we've sought to expand disaster recovery, in addition to Kelly Crawford and Sarah Newsome, Kevin Hamby is also spending all of his time in disaster, covering and working a lot with ACS to address many of these issues and so we're putting additional resources there to make sure that we're pushing them, and they need some pushing.

MS. RAY: Okay. Thank you.

MS. DONOHO: Okay. Ready for the next one? Item 5 is Presentation and Discussion of the status of external audits. We've had or are scheduled to have 12 external audits in the department so far in fiscal year 2010.

We're also anticipating the HUD monitoring of the NSP program that we talked about earlier. And we currently have HHS, Helping Hands Services staff here monitoring LIHEAP, the Low Income Home Energy Assistance Program, this week.

We're waiting on reports for the most recently issued -- the most recently performed quality -- quarterly monitoring of the Weatherization Assistance Program by the Department of Energy and the main review of the Davis-Bacon for Home and CDBG that HUD did.

So we're going to be discussing the results of four recently -- now three, since we've talked about HUD OIG already -- recently issued reports under Item Number 6.

So are there any questions on the status of these audits? There's a table in your Board book that lists them as well.

MS. RAY: I don't have any questions. Mr. Gann?

MR. GANN: No.

MS. RAY: Mr. Keig?

MR. KEIG: No.

MS. DONOHO: Item 6 is Presentation and Discussion of Recent External Audit Reports. The first one I want to talk about is the Comptroller's Office review of ARRA post-payments.

The Comptroller's Office looked at a sample from 2,485 ARRA expenditures to see they were in compliance with state laws and the rules for processing of payments.

They also looked at the department's internal controls and their policies and procedures related to the ARRA grant awards, and they verified the existence of any assets that the department purchased.

They determined that the department has adequate internal controls and that we've demonstrated due diligence over the ARRA expenditures. They found two minor errors: One was some folks went to training and one of them didn't pass the certification exam and had not yet retaken it. That wasn't a requirement of the training; it was just that, you know, they wanted -- they thought that the department should follow up on it to make sure that the employees, when they didn't pass the test, went back and took it.

There were three transactions that were coded incorrectly and one payment that was made to another state agency using a warrant rather than an interagency transaction voucher. Neither of those errors had a monetary impact, so they weren't findings.

They did acknowledge the department's compliance with recording and reporting federal receipts, the 1512 reporting, with developing adequate policies and procedures for monitoring grant awards and for correctly and timely ARRA reporting and maintaining adequate supporting documentation.

So this was actually pretty much a good news audit. Are there any questions on this one?

MS. RAY: I'm just tickled to death. Just two minor errors in something as this big money. And I want to commend Mr. Gerber for the leadership in this area. I know it's been a very fast train, a lot of work, a lot of involvement, and I also want to commend Ms. Boston for her leadership on this ARRA program and the entire management staff that has a piece of this, because this is so important to -- particularly to the State of Texas.

Sometimes we get a lot of negative press for the State of Texas, and I'm proud to see that we're doing the right things so that we can stand the test, no matter what level of auditor that comes in. So thank you very much for the work that you've done on that.

MS. DONOHO: Okay. The next one is the GAO came to review the weatherization program and the ARRA funds portion of the weatherization program. They've been doing an ongoing monitoring of ARRA funds. As part of this process this time, they evaluated the weatherization assistance program. Their reports tend to take more observations than actual audit findings, because it's a review that they've been asked to do, rather than, you know, an audit of the department.

They pointed out that we had experienced delays in beginning the weatherization work but that the department was accelerating the process, although there were still challenges, in their viewpoint. As of April 7, 2010, which was almost a year into the program, only 11 of the 44 subgrantees had not weatherized any homes.

They pointed out that the department had taken steps to increase the pace of weatherized homes and that they were doing this by holding weekly meetings with subgrantees and focusing on multifamily units. They did point out that we, as an agency, have limited experience and training on multifamily units.

Other potential challenges have included training new program officers and providing technical assistance to subgrantees. They also mentioned that the weatherization measures used to vary depended on the subrecipient.

There's a Department of Energy priority list, there's an Energy Audit called NEED, as well as a Texas EZ energy audit, and all of those produce different kinds of results. And all of the methods by which the homes are weatherized, based on those priority lists or audits, affect the amount of energy saved, so they suggested that the department collect post-implementation data regarding energy consumption, in order to determine the best methods to use when determining what weatherization steps to take in a home.

They also pointed out that the department hadn't set certification or minimal training standards for the weatherization workers. They mentioned that that's not a requirement but that some states have done that and they felt that training in the weatherization of multifamily units at the department's training academy would be helpful.

They pointed out that the department has developed internal controls for the weatherization program to help ensure that the ARRA funds are spent correctly and that the program is adequately monitored. They also recognized the refinements identified by internal audit in our audit of the WAP program.

Are there any questions on this report?

MS. RAY: Any questions, Mr. Gann?

MR. GANN: I have no questions.

MS. RAY: Mr. Keig?

MR. KEIG: No.

MS. RAY: Can you give us a little update on the progress on -- you know, I know we got off to a very slow start because of Davis-Bacon and there was a lot more of federal requirements and a lot more money dumped on us. And how are we coming now?

I know we went from last -- from the month before last and last month we had a huge jump in the numbers of homes that were weatherized, and I think I'd asked you to come up with a way that we could capture that visually so that we can see the progress that we're making.

Can you kind of bring me up to date where we stand on weatherization and filling of the positions, really, you need to manage the program.

MS. BOSTON: We're doing awesome.

(General laughter.)

MS. BOSTON: As of Monday, we are at 11,400 units, which is past our 30 percent mark, which is awesome.

MS. RAY: Good. You are doing awesome.

MS. BOSTON: See. Like I said.

MR. GERBER: And the 30 percent mark is significant because of --

MS. BOSTON: There's a requirement with DOE, to be able to access the second 50 percent of our funds, we have to have produced -- or weatherized 30 percent of the units, according to their benchmark, so us having crossed the 30 percent benchmark is a really significant milestone for us.

We will -- the reporting of this -- the numbers I'm giving you are what the subrecipients report to us weekly. We report that monthly to the Department of Energy, so on August 10, we'll report that to the Department of Energy and probably, within a few days later, we're actually going to turn in our formal request to the Department of Energy asking for the second 50 percent of the money.

So that's huge. We needed to hit that benchmark by September-ish. There was not a formal,

formal deadline but if it had gone longer than September, DOE would have had some heartburn, so we're actually kind of ahead of schedule and even on DOE's last visit, I think they felt much, much better but even they were like, Well, you're going to hit it? So the fact that we have and now we're actually in excess of that before the deadline is really good news.

We also had gone brought on a new quality assurance -- quality management officer, and that's Ann Miller back here, so she actually -- and she -- her whole job is just to make sure to test the processes that are being used in our WAP and then, once we feel like all the processes are the very best they can be, then to continue to test them and make sure they're actually being followed.

So she's done a lot, as we make this request to DOE -- there's a checklist of seven things for DOE to give us the second 50 percent and that we can't really ask for the money to the letter until that checklist is essentially -- we feel that all those benchmarks are being achieved, and so Ann's been a huge part of going down and actually kind of testing to make sure -- even though we had thought that all those things were happening, she's been testing it to kind of make sure we feel totally confident about that and have all the right backup documentation, so --

MR. GERBER: Michael, is there anything you'd like to add? Michael De Young has been in the -- really doing the hard work of working with each of the subrecipients.

Some of the subs have moved very, very slowly. How many trips to Abilene have you made in the last month? But those that require that kind of intensive TA, we're doing it because we want everyone to be successful.

The worst thing that could happen is deobligating the program but the encouraging thing, I think -- and I'll let Michael talk -- is that, you know, we -- even the GAO pointed out in an audit around Christmastime that the Department of Energy's rules were precluding states -- except for Ohio, which just got out there and weatherized a bunch of stuff and figured they'd, you know, pay whatever was owed back, you know, by the back end, most states have weatherized, you know, fewer than 500 homes, so we were at 47 units at Christmas and now we're crossing, you know, the 1100 line and, you know, that's significant.

I think we're going -- I think ultimately, though, and realistically, we're going to wind up having to weatherize more units than just 34,000 units. I think we're probably looking more like 45,000 or even 50,000, depending upon -- because we're not fully expending $6500 per unit. As you know, that's the maximum, you know, per unit, and we're not spending near that much in our multifamily units, in particular, which means we have to do more.

Michael, anything you want to add to the mix?

MR. DE YOUNG: No, Well, you mentioned the visual and Brooke has a table in front of her that she can kind of -- she's been talking about.

MS. BOSTON: This is the trend line.

MR. DE YOUNG: The best one is the black line that's heading up. We continue to finish more and more units. You know, we have a goal of 48,000 units. Now, based on current expenditure data, we're looking at about 48,000 units, so we're about one quarter of the way there.

We have, essentially, about 18 more months to do it. The contracts have about 13 or 14 more months. So there's still a lot of work to be done, but, as Mike said, the subs are all getting to a point where they're all really moving into that full production mode, and it's neat to see. I mean, what occurred in the last five years prior to ARRA was about 4,000 units a year. And in six months, we've done 11,000 units, and that's just a testament to a lot of agencies and subs that are out there working hard.

Normally, at this time of year, this is not the weatherization period. Summer is really the time that you just assess units and stay out of the attics, and they're out there right now in the attics spreading insulation, doing all the measures, so it's neat to see that production is still up during what is the hottest part of the year.

MR. GERBER: Again, in the GAO review, every subrecipient has produced units.

MR. DE YOUNG: Yes.

MR. GERBER: And every subrecipient has drawn money well, which is --

MR. DE YOUNG: From about $50 million of the 297- that's to the subrecipients.

MS. BOSTON: I just wanted to answer the question you had about staffing, because that has been a DOE concern. We had eight positions left of ARRA WAP FTEs. Offers will be made to seven on Monday, probably. We've been doing interviewing all this week, so seven of those eight will be filled probably on Monday, and they'll start within a couple of weeks.

The last is a trainer position, and while we are eager to fill it, it's not mission-critical, because we have the academy that helps with a lot of the training, and then we have two trainers now, a manager of training and training and then a new employee already.

We're trying to get it filled, but if that one doesn't get filled, we don't have a lot of heartburn about that. We feel like it's pretty defensible to DOE that that one remains vacant. But the ones that they were most worried about and that we've been most worried about, which are the program officers who need to go out and do the monitoring of the units, those are going to be filled.

MS. RAY: Okay. Thank you very much.

I noticed that -- for those of you who were not aware, my head kind of hung down to -- the city of San Antonio's not doing so pretty good, in my opinion. The Michaels went down to San Antonio to put the fear of God into the city of San Antonio's weatherization program, and we appreciate your coming down, and they made the newspaper and they became big rock stars down there -- down there in San Antonio, the men with the weatherization money.

The weatherization money and this project -- I want you to think what a tremendous positive impact this program has on low-income Texans; not only getting the houses weatherized but their abilities to put the appliances in the house and how much it's going to bless the families for years to come because of the work that you're doing here.

I know it was hard to get started. I think it's a great program. It's a lot of work, but many lives are being blessed, families are being helped, and I'm very, very pleased with the work that you've done.

Thank you for the visual.

MS. BOSTON: Sure.

MS. RAY: A picture is worth a thousand words; tells a great story. Thank you so much.

You want to move on?

MS. DONOHO: Before I do, I just want to also make the comment that Michael and Brooke and their staff did all this while being hounded a lot by auditors. Internal auditor was in there, looking at their programs. GAO's spent a lot of time here looking at their programs so, you know, the work that they've done has been while we've been auditing them, which I think they --

MS. RAY: I'm sure glad you quit the City of Austin and came back where you belong.

MS. DONOHO: The next item on my list is the HHS Community Services Block Grant state assessment review. We actually have already discussed this report at our October 15 Audit Committee Meeting.

At that time, we had a draft report. We submitted management responses from the agency, but the final report hadn't been issued.

So whenever I start feeling like my audits are later than I want them to be, I think about a couple of these federal audits. This work was actually in February of 2009, and we finally received a final report in March of 2010 so, you know, a year and one month later. So we've actually already talked about this report and it has not changed. The final report is just like the draft and the management responses that we had submitted, but I am prepared to cover it again, if you'd like, so it's really up to you.

MS. RAY: Mr. Gann?

MR. GANN: No, I'm fine.

MS. RAY: Mr. Keig?

MR. KEIG: Imagine what they could have done with that two-week turnaround.

(General laughter.)

MS. DONOHO: I know.

MS. RAY: And no more than two weeks.

MS. DONOHO: They'll start envying me.

MS. RAY: Thank you very much.

MS. DONOHO: The Department of Energy completed an onsite monitoring of the Weatherization Assistance Program, so here we are back to weatherization. They're conducting, I believe, quarterly monitoring of this program. So in their report from their first visit of this year, they looked at administration, financial and programmatic aspects of the weatherization program, and they did not have any findings.

MS. RAY: I don't even believe that. How could that be. Auditors finding no findings?

MS. DONOHO: Well, these are monitors.

MS. RAY: Isn't that in your book that you can't do that?

(General laughter.)

MS. DONOHO: We try real hard not to. These are monitors actually, so then that probably explains it.

MS. RAY: Well, not auditors -- just monitors.

MS. DONOHO: But they did have concerns, but they aren't to the level of findings, so they have things they are concerned about. But they did express concern that the department may not be able to meet the 30 percent.

MS. RAY: We showed them, didn't we?

MS. BOSTON: That's right.

MS. DONOHO: -- but, obviously, that's not a problem -- by September 30, so they're a couple of months early.

They recommended that the department continue to pressure subgrantees to produce units, which that appears to be happening --

MR. GANN: Done.

MS. DONOHO: -- and increase the frequency of draw-downs. They suggested that open vacancies be filled as soon as possible.

MS. RAY: Check that. When did you say you're hiring these people?

MS. DONOHO: They were also impressed with the new training academy. They suggested that the department add lead safety worker training to the academy, because it's a required component of the weatherization program, and they had mentioned before that we needed to do that on a previous monitoring report so they're mentioning that again.

They also said that there were processes in place for financial management and administration, and those processes were acceptable, but they felt like the department needed a succession training plan to ensure that coverage in those areas continued even if they lost staff or staff went on extended leave.

They mentioned that they felt like project officers may lack thoroughness and follow-up in the area of home inspections. They recommended that the department establish a monitoring guide which addresses areas of the program to provide consistency between agencies in geographic areas. This was also something internal audit recommended.

Are there any questions on this?

MS. RAY: Mr. Gann?

MR. GANN: No.

MS. RAY: Mr. Keig?

MR. KEIG: No.

MS. RAY: I don't have any concerns. It just warms the cockles of my heart when I read something that says there were no findings. That's remarkable.

Tell me something, Mike. How's that training academy working out for you? How's it going?

MR. GERBER: Well, we've trained over a thousand people through it. You know, the range of classes is extraordinary.

Michael De Young, do you want to --

MR. DE YOUNG: Yes. We have basic weatherization, we have advanced weatherization, we have a management course, we have lead-safe weatherization worker curriculum added to the academy because of this recommendation.

What has Mike said? -- over 1,000. I think we just passed 1100 and continues. We've moved classes around the state to be responsive to agencies. Say the City of San Antonio said, We need assessment training. With ten people, we'll have a training in San Antonio.

I think next week we're down in the lower Valley with some assessment training. We'll try and move anybody that needs that training quickly, we'll try and get them to that course work, if it's not in their area.

We've also implemented a new system where they can kind of go online and request what kind of training they want. It used to be they called and we kept a list and then we said, Okay, we need this training.

We've automated that system now so, as people go online, they just say, I need training in assessment, I've got four people, and the computer will tell us when we've got a course work close enough to ten or 20, and we'll set a course with the training academy staff and decide where it's going to be and then make automatic notifications to everybody to say, Come on out. And we continue to add curriculum as we go.

You know, one of the repeated recommendations in here is that we have a core set of curriculum, and we're working on that right now.

There's been a lot of give and take with the Department of Energy as to benefits. You know, last August, when we had a visit from DOE headquarters staff, it said, Don't do it, and now they're turning around and saying, you know, Maybe it's a good thing to do. So we're trying to have that discussion with the federal staff to find out what would be a part of that curriculum, what would they want to see out of that curriculum, and what are the needs of Texas, as well.

MR. GERBER: Michael, isn't it fair to say that the biggest rub on the program is that it's not as advanced as some folks would like it to be and we've really tried to -- I know that we're been trying to push our contractors and trainers to kind of take it up to that next level, because the people who were -- you generally have, you know, one or a couple of folks in a crew who've gone -- you know, who are part of going and actually weatherizing the unit.

Not everyone's had that training, so you want the people who have been trained to really have maximized that training and taken it to that highest level. So providing more opportunities for those folks to even learn more, to make sure that we really get it right, is important. And so I think we're talking to our partners who are doing the training work to ramp that up some as well. That's been something we've heard from the field as people say, Do more with it and get a little more advanced.

MS. RAY: Okay. Well, I think it's going to be an evolutionary process. It's something new that we're doing.

I want to commend the department for setting up that academy, so to speak. And I think it's a good thing. I think that we may not ever get this much money dumped on us. For one thing, I don't think we're ever going to go back to where we were before, and I think it's going to be a need over the time and to have been able to put these processes in place in these extraordinary times, considering, certainly, to the benefit of the State of Texas -- and you guys have big jobs.

Texas -- we're the greatest state in the greatest nation. We might not be the largest, but we're the greatest -- but I bet you we have more people over the widest range for you guys to have to say grace over. And I know it's a lot of traveling, it's a lot of work. I want to thank you for it and I want to thank you for your leadership.

Mike?

MR. GERBER: Thank you, Ms. Ray.

MS. BOSTON: And I also just wanted to mention, since that visit that's written up in here -- it's from the March visit -- DOE has been out again. They were here in June -- June 22 to 25, and while we don't have a report, so it wouldn't have been reported to you guys through the audit materials yet, in the exit they did indicate that there would be no findings. Knock on wood --

MS. DONOHO: Finally.

MS. BOSTON: -- they won't their minds.

MS. RAY: Outstanding. Big program, big job, good work.

MR. GERBER: And Brooke and I met with the -- Michael -- met with the Assistant Secretary for this program. She actually came to Austin. Her name's Cathy Zoi. Yes, this program's gotten a lot of attention even at the highest levels at DOE. I know there have been conversations between the governor's office and the Vice President's office, which has been tasked with providing oversight for our funds.

You know, we -- I think that in Washington, there's even a greater level of confidence, and we're seeing some signs where they are pointing to this program and how it's been stood up as, you know, if not a model, as certainly a good compliant example of how to set up a big program. And that's, you know, that's kind of nice to know you're, hopefully, doing it the right way.

MS. RAY: Thank you so much.

Do we have any other audits or issues?

MS. DONOHO: We have one more item, which is Item 7, the Presentation and Discussion of the Status of Prior Audit Issues.

We have 118 prior audit issues in our current database. Fifty-four issues previously reported as implemented were verified and closed by Internal Audit. There are 39 more issues that were previously reported by management as implemented, and we're working on verifying those as time allows.

We've been kind of busy, so we haven't really been able to close all of those yet. But they are on our list to finish, because, as you know, the first step is management reports them as implemented and then Internal Audit goes back and verifies that they've indeed been fixed.

There were nine issues that were recently reported by management as implemented, and those are on the list in your book. There were five issues from Community Affairs Community Services and three issues from Community Affairs Energy Assistance, and I will point out that those three issues were on the report -- the internal audit report that we've just talked about earlier, so those have been implemented pretty quickly.

There's one issue in Bond Finance that was implemented. There are 12 issues that were reported as pending or action delayed, and we'll verify and close them as soon as they've been reported as implemented. One of those is from Multifamily. That issue is waiting on the next version of the QAP.

And then there were three issues in Community Services and seven in Community Affairs Energy Assistance, that came from the most recent reports so I think that those are a timing issue, just that the report came out so recently.

There are four issues that were reported as not implemented, and those four are Community Services issues. So are there any questions about them?

MR. KEIG: On those four, when I was looking them up, 48 and 49 appear to be moot. Is that a fair assessment? -- because we're not doing that, not giving away of that money.

MS. BOSTON: Yes, that's correct.

MR. KEIG: Right. And 120, let's see -- 112, I would like a little -- maybe a little more discussion about. It looked like we disagreed -- that they said that we didn't follow requirements on Financial Controls and we disagreed with them. Does Internal Audit have any problems with that not being implemented?

And I think the last one, 126, is the notorious insurance requirement. Could we talk a bit more about 112 from your perspective?

MS. DONOHO: Okay.

MS. BOSTON: This is on page 48 of --

MS. DONOHO: I've got it. I'm trying to --

MR. GERBER: David, do you have a copy of this?

MR. CERVANTES: I'm sorry.

MR. GERBER: Do you have a copy of this?

MS. DONOHO: This is the one that the state needs to comply with policies and procedures for examining the accuracy of financial functions and processes to reflect direct and indirect costs charged to CSBG funding stream and expenditures in accordance with federal regulations.

I'm not -- right offhand, we're currently doing an audit of financial administration, so I can probably speak more clearly about that next time when we've finished our work. A lot of times it seems when the federal auditors have issues, they're more related to the federal funding stream and how the money is drawn down, and that is something that we're looking at in the audit that we're currently working on.

The other problem that I think they sometimes don't get that we've been struggling with on the audit that we're currently working on is PeopleSoft is the agency's accounting record, and then the state has USAS, and the interface between PeopleSoft and USAS is not always really clear, and it's really hard to track back and forth between the two, and we've been struggling with that in our own audit work. So I'm not -- maybe David can speak more to this but I'm -- you know, I'm thinking that part of the issue that they had might have been related to that.

MR. CERVANTES: I can tell you that when the review took place -- I mean, the basic summary is that they came in, they did the review, they were here for a limited number of days. They came in and asked for some preliminary information regarding the CSBG program.

The information was provided, and there was a basic cursory review done at the time so -- and then one thing led to another, in terms of conclusions, but we really were not reapproached, once we disseminated the information, you know, in terms of anything that we believed would be of concern to them at the time. So --

MR. KEIG: So they haven't come back -- we've given them our reply.

MR. CERVANTES: Yes, we've gave them all the material that they had requested, and we then were awaiting, you know, to engage so that we could, you know, understand exactly what sample they were going to try to draw, what approach they were going to use in terms of gathering their information and, of course, drawing their conclusions.

And when it was all said and done, they completed their engagement and then, to our surprise, you know, the information that was laid out in their findings surfaced, so our contention at the time was that we were not comfortable with their postures as far as the financial systems and the management and accounting of the records for the program. And so we communicated that at the time and asked them, of course, respectfully, that we would be willing to re-engage, to revisit as to where maybe it was unclear as to what information they were in need of or --

MR. KEIG: Okay. Then you'll verify, as part of your audit -- you will let us know subsequently that our position is a sound one, that what we're saying is -- we're in compliance, is the case.

MS. DONOHO: Yes, we'll take a look at this. This issue is from the audit that we talked about a few minutes ago that took over a year for them to release.

MS. RAY: I was just going say --

MR. KEIG: Yes.

MS. RAY: -- that this took a little bit more than two weeks to hear from them.

MS. DONOHO: And -- I'm sorry. Hold on.

VOICE: How does that --

MS. DONOHO: Yes, please, Bill.

MR. DALLY: Well, as a matter of fact, I mean, what was missing in this loop was their drawing some findings or preliminary conclusions and re-engaging with us, then having a dialogue back and forth, you know, for us to present, you know, more evidence or make it clear to them how the things work. So missing that and it's a year later it gets issued final, so -- it was the one that I described as being sort of an incomplete --

MS. RAY: Yes.

MR. DALLY: -- we didn't get to finish the discussions and so they could do whatever and bring it to a conclusion.

MS. DONOHO: And I think that what David was talking about with this one is some of the same things that we're struggling with on our audit of accounting operations, that it's not always a real clear trail between PeopleSoft and USAS and the information that you can compare.

And my understanding from this one was that David's folks gave these monitors -- this was the first time, first monitor, I think -- monitoring visit they'd done of any state, is my understanding, that they gave him some information, and they didn't come back and ask questions, you know, where on our audit we've been hounding David's people to death, you know, with, We don't understand how this fits together, how these index codes tie, you know, tie into this and what are all these pieces, to understand how it works.

And so the impression that I've gotten from this audit is that since they didn't do that, it may not -- it may be that there's not a problem there and they just weren't willing to do that follow-up work to try to piece it together. I don't know, but I can certainly report back to you on that one.

MS. RAY: Any other concerns?

MR. KEIG: That's it.

MS. RAY: Ms. Donoho?

MS. DONOHO: I guess that's it.

MS. RAY: Okay. I want to thank all the members of the staff.

MR. GERBER: Madame Chair.

MS. RAY: Mr. Gerber?

MR. GERBER: Sorry, but I think that Ms. Donoho wanted to have an executive session?

MS. RAY: Yes, yes.

MR. GERBER: -- and we're going to step -- and I'll -- excuse me. I'm sorry.

MS. RAY: Yes, yes, I just -- before you left, I wanted to thank the staff for your work. I want to thank you for working with the Internal Audit department and all of those external auditors that came in to help us do a better job of our business and certainly for you staying as late as it takes for these Audit Committee meetings.

I think, in my service on the Board, these audit sessions are the best education I've ever gotten. I want to thank all of you for being so responsive to the needs. And this is probably the only place that the Board gets to work with you at the worker level and to give you our feelings and share direction, and we will thank you so much for working so efficiently with us.

And, with that, we'll call this portion of the meeting adjourned, and we'll move into Executive Session on this day, the 28th of July, 2010 at 8:45 -- I'm sorry -- 5:45 p.m., the Audit Committee of the Governing Board of the Texas Department of Housing and Community Affairs is going into Executive Session, as permitted by Texas Government Code, Chapter 551, to confer with legal counsel and to discuss with the internal auditor, matters relating to fraud, race or abuse, as permitted by Texas Government Code 2306.039(c).

At this time, I'd like to ask Ms. Donoho to stay and ask that all others excuse themselves, but please stay nearby, in case we have questions.

(The committee met in executive session.)

MS. RAY: The Audit Committee of the Governing

Board of the Texas Department of Housing and Community Affairs concluded its Executive Session at 6:32 p.m. No action was taken.

At this time, 6:33, the Audit Committee is reconvening in open session.

Is there any further business to come before the Audit Committee?

MR. KEIG: No.

MS. RAY: The meeting is adjourned.

(Whereupon, at 6:33 p.m., the meeting was adjourned.)

C E R T I F I C A T E

MEETING OF: TDHCA Audit Committee

LOCATION: Austin, Texas

DATE: July 28, 2010

I do hereby certify that the foregoing pages, numbers 1 through 89, 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 & Community Affairs.

8/3/2010
(Transcriber) (Date)

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