

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

AUDIT COMMITTEE MEETING

Thursday, October 14, 2004
Waller Creek Office Building
507 Sabine
Room 437
Austin, Texas

8:30 a. m.

AUDIT COMMITTEE:

SHADRICK BOGANY, CHAIRMAN
PATRICK GORDON
NORBERTO SALINAS

STAFF MEMBERS:

EDWINA CARRINGTON, EXECUTIVE DIRECTOR
DAVID GAINES
ANNE REYNOLDS
DELORES GRONECK
RUTH CEDILLO

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P R O C E E D I N G S

MR. BOGANY: We're going to call the Audit Committee meeting to order, Thursday, October 14. It is 8:40, and we're going to verify the roll. Patrick Gordon?

MR. GORDON: Here.

MR. BOGANY: Shad Bogany? Here.

Norberto Salinas will be here.

By two, we do have a quorum of two. The total committee is three, just so we do have a quorum.

We're now going to move over to public comment and see if there's any public comment on the Audit Committee.

MS. GRONECK: None.

MR. BOGANY: Good. Now, we're going to move into our action items. Item 1 is -- have you had a chance to look at the minutes, Patrick?

MR. GORDON: Yes.

MR. BOGANY: Okay. Can I get a motion to --

MR. GORDON: I have a motion to approve the minutes.

MR. BOGANY: Second. All those in favor.

(A chorus of ayes.)

MR. BOGANY: We're going to move to presentation of approval of 2005 Internal Audit Plan and

David Gaines is going to do that presentation.

MR. GAINES: Good morning, Chair.

MR. BOGANY: Good morning.

MR. GAINES: Mr. Gordon. Ms. Anderson.

MS. CARRINGTON: No. Ms. Carrington.

MR. GAINES: I'm sorry.

MS. CARRINGTON: Ms. Carrington. Not Ms. Anderson.

MR. GAINES: Yes, ma'am. Okay. Now that I'm relaxed --

MR. BOGANY: Before you start, I'd like to correct the role call that Mr. Salinas is here and make note of it.

Welcome, Mayor, and we're going to get you to the point of where we're at. David is going to give the discussion of the Internal Audit Plan for 2005. David?

MR. GAINES: Good morning, Mayor. If I may, I'd like to defer this agenda item to the bottom of the agenda.

There are report items that I think would shed light on how I came about the audit plan that's being proposed.

MR. BOGANY: Okay.

MR. GAINES: So if you will, let's turn to tab

7(b).

This report item is the Annual Internal Audit Report for Fiscal Year 2004. The report is required by the Texas Internal Audit Act and its report format prescribed by the State Auditor's Office.

The report's basically a summary of the fiscal year 2004 internal audit activities, with comparison of the audit plan for the year, and explanations of variances. The report's on the findings that have been issued during the year and the results of those findings. A brief discussion about the most recent quality assurance review that's been performed on the department's internal audit function.

The organizational chart that depicts the position of internal audit within the organization. On the Internal Auditing Plan for the current year, which of course has not been approved by the committee. That's an agenda item later this morning.

Once that's approved, this report will be ready for release too, and it goes to the Governor's office, the State Auditor's Office, LBB, and some state advisory commission.

I'd be glad to discuss any questions you might have on the report or any details.

MR. GORDON: Is this on the budget variances too? The explanation on --

MR. BOGANY: Patrick, did you have any questions?

MR. GORDON: Is this on the budget variances too, the explanation on it?

MR. GAINES: Would you like me to touch on that?

MR. GORDON: Yes. I have one question. How much on the subrecipient monitoring -- you said you were over budget -- I was just curious how much on the first topic.

MR. GAINES: I'll say it's substantially over budget. It's gone much longer than we ever anticipated. Many, many hours than we originally expected. I don't have the exact number with me.

MR. GORDON: Is it close to getting finished, though?

MR. GAINES: I'm sorry?

MR. GORDON: Even though it's overbudget, is it close to getting finished now or where are we on that?

MR. GAINES: Within that -- on the draw process, we broke this into several areas to try to chomp it down into management pieces. On the draw process, we

are through with our understanding, which is a large part of project.

We're through with that. We're in the reporting phase on the single audit portion. There's -- we've spent reasonable amounts of time, technical assistance, the risk assessment, function subrecipient monitoring, and the desk reviews. We've spent reasonable amounts of time in those three areas. Those are all in the reporting phase.

Single audit is in reporting phase. We spent excessive amount of time on single audit and developing our understanding and in reporting and we spent excessive time in the draws.

Having said that, there's risk ranking. There is where we should be spending our attention. We focus on the HOME Program and the OCI Program.

The OCI Program -- we haven't touched any of those areas. So there's a significant amount of work remaining for OCI and there's considerable effort remaining on HOME Program to get these reports out, relating to those areas we've looked at.

MR. BOGANY: That was one of the questions, David, we had talked was that what's really the time line things. We'll get to this point. And get this finished

up; are we still three months away, two months away, six months away.

MR. GAINES: That time line has been fluctuating because of other projects that we've -- we've, basically, left that -- put it to the back burner because of the other initiatives and I actually need to revisit where we're at with our existing work done with other priorities we've been trying to address.

A lot of that work is actually a little stale at this point. It needs to be dusted off and see where we're at. It's not an ideal situation at all and this just happens to be where we're at on it.

And if I may, I can get back with you all with greater details and clarifications of when I think I can really be through with that. In short order, we can have a more thorough status update at the next Audit Committee meeting.

MR. BOGANY: Okay. Mayor, any questions?

MR. SALINAS: So what's the time line? When are you supposed to be done with the final audit? I mean completely whole.

MR. GAINES: So we can put the monitor on it? I suspect it can easily go into January or February.

MR. SALINAS: Is it that you need more staff

or --

MR. GAINES: A big part of our deviation for our plan for the year is the fact that we lost our -- lost one-third of our staff on March of this year and that certainly contributes to others -- there's other reasons for the variations that I can also go into that I've documented in the right-hand column of that -- of the audit plan that you have in front of you.

I would be glad to discuss those further. Primarily, I would say it was that, developing an understanding of the processes. For example, the HOME Program. Maybe the most significant, in hindsight, area where I was overly optimistic was thinking, Okay. I've got an audit of the HOME Program. For example, just the draw piece of subrecipient monitoring. We're looking at draws, single audits, field visits, desk reviews, technical assistance, risk assessments for the HOME Program and OCI.

As we get into developing our understanding -- an understanding of draws, for example, well, we've got multiple activities. We've got construction activities, down payment assistance, home buyer, rehab.

So even within those, we have multiple activities and it's just been a lot more time consuming

and complex than we originally anticipated. So developing our understanding has taken much longer than we ever imagined.

We've tried to be very flexible with management of the department, in that they've been in the process of refining and updating some of their policies and procedures. And rather than draw a line in the sand, that in hindsight I really should have -- rather than draw a line in the sand and say, as of this date, this is what we're reporting, we've allowed management additional time to work through some of their processes that they were wanting to improve and refine and in doing so, it has delayed us. Again, in hindsight, I would have done a few things differently. Primarily, have a more focused audit scope and I'm not sure I would have realized up-front how broad this could grow in such short order.

But in hindsight, more focused audit scope and maybe draw that line in the sand. And maybe even been much more aggressive and try different strategies earlier on to get that additional staff person that currently, by the way, I have paperwork within the system to hire that new position.

MR. BOGANY: Ms. Carrington has a question for you, David.

MS. CARRINGTON: David, would you tell the committee what is the meaning of when you say you're over budget in many of these items? Are we talking about staff time? Are we talking about dollars?

MR. GAINES: Well, when you look at that, the biggest over budget area was the subrecipient monitoring project.

I've been over budget in the central database project, which means more hours than I had originally anticipated.

MS. CARRINGTON: Thank you.

MR. GAINES: I'm under budget on several other areas, meaning less hours than anticipated. All my resources for my budgeting purposes come to manpower and hours, as opposed to dollars. Of course, that translates to dollars. It's certainly a cost to the agency.

MS. CARRINGTON: Thank you. I certainly wanted the committee to know and understand that we were not willfully out spending money that was not budgeted. In a sense we are, but David is talking about man-hours.

MR. GAINES: Further into the report, there's other activities by internal audit -- a discussion of those. And of course, other activities take away from our primary mission that, I believe, we certainly need to work

harder on, focusing more attention on -- which basically means saying no more frequently to different requests that can come up.

MR. BOGANY: Okay. Is that it on the audit -- internal audit report? Any other questions?

MR. GAINES: I hope so.

MR. BOGANY: Okay. Let's move to item 4 and that's the discussion report of the Office of the Governor regarding Executive Order RP36.

MR. GAINES: This is one of those unexpected projects that tends to pop up every once in a while.

What you have in front of you is a copy of the report to the Governor's office that we provided to the office on October 1, in accordance with Rick Perry Executive Order 36.

First, just a quick overview of the requirements of RP36. You might recall in early September I sent you an e-mail, providing you a bird's eye view of what it is about, and an attachment with RP36. But that's been a while, so I'd like to just touch on some of the highlights of the order as they relate to the Department.

Each agency must designate a contact person for its fraud prevention/elimination activities. The contact person shall report directly to the Executive Director,

Commissioner, or Board Chair.

Ms. Carrington has designate Leonard Spearman as the Department's contact person. Leonard, we appreciate you stepping forward for that.

Each agency shall develop a fraud prevention program that includes, at a minimum, recommended common components developed by a work group that the Governor's office put together, an interagency work group, to come up with common components of what a fraud prevention program should look like.

Each agency shall review its existing rules, policies, organization structure, and statute to identify changes needed to better detect and fight fraud. Included in the report to the Governor's office is a discussion of the Department's consideration of statutes and recommended changes in statutes to enable the Department to better prevent and detect fraud. That would be under attachment A.

The Executive Order also requires that we report our progress to date and our plans on implementing a fraud prevention program to the Governor's office by October 1 and that's what you see in front of you.

While the Order requires certain activities of the Department, I really believe that the emphasis should

be on potential benefits to the Department, as opposed to what might be perceived as a bunch of activities in complying with RP36.

By going through a viable risk assessment and risk management process, it helps ensure the business objectives are being achieved. It empowers employees and increases accountability; provides employees with better understanding of business risks and controls; allows for more informed risk taking and decision making, especially when it comes to allocation of resources. It identifies important issues faster; promotes responsiveness to emerging issues.

It identifies for executive management and board members any significant risks that are being accepted and not adequately addressed. And the process can also help time spent on audits.

On a somewhat selfish perspective, the process can make the audit process go much smoother and in a much more expeditious manner because, from an audit perspective, ideally, what an auditor should be doing is going in and testing the tests that management does to ensure their systems are operating effectively.

Oftentimes the auditors have to do those tests themselves because the management's efforts are not

necessarily standardized, formalized, and consequently, it just creates that much more work for audit.

There are several attachments. I'm just going to touch on a couple of these. I'll kind of briefly walk you through this, touching on the highlights.

MR. BOGANY: Which page are you on?

MR. GAINES: I'm on the first page of the report. The first several pages are just the transmittal letter discussing the contents of the package.

Referring to the second paragraph on that first page, please note that while RP36 focuses on addressing fraud-related risk and developing strategies to mitigate those risks, TDHCA executive management recognizes the value of assessing all risk and formally identifying and, as appropriate, seeing that mitigation strategies are developed and put into place.

So further, the Department, in addressing this initiative, plans to include an assessment of all identified risks and develop mitigation strategies or controls to control those risks in those instances where it would be appropriate -- in those instances where the risks are considered to be unacceptable.

Then on the second page of the report, a description of the various attachments that document the

status of the departments worked in developing its fraud prevention program.

The attachments include:

1) Recommended statutory changes, which I've previously mentioned;

2) A high-level risk assessment, that we've already done based on a questionnaire developed by the Governor's work group, and tailored to suit the needs of the agency;

3) A description of significant controls over some of the key areas of the Department. These key areas were specifically mentioned by the work group as something that we needed to address sooner rather than later.

4) A copy of the Department's initial impact ranking of its major processes, with a copy of the project plan in your package materials to finalize the Department's fraud prevention program.

When I say finalize, that's to get through our plans for fiscal year '05. We actually -- this has been an ongoing initiative -- ongoing plan -- and we'll be revisiting, minimally, every biennium, where we're at, how do we update this, what's -- are there any new risks that have materialized because of changes in condition, changes in policy, or changes in program rules?

So you need to reassess this plan. You're never through with it, like you're never through with standard operating procedures.

Okay. The attachment B, I wanted to bring your --

MR. GORDON: I have a quick question.

MR. GAINES: Yes, sir.

MR. GORDON: I'm sorry to interrupt you. On A, the recommended statutory changes -- is that what you all are proposing to approve or have --

MR. GAINES: The Governor's Office solicited recommended changes --

MR. GORDON: Sure.

MR. GAINES: -- so we've recommended those to the Governor's Office and what that office will do is consider those and assess whether they want to carry that forward to the legislature that will be convening in January.

MR. GORDON: Okay. Because my -- I have one comment to the 2306.33(a), which is removal of a board member for someone who has been indicted for criminal offense.

My concern is, while I appreciate the background of this Board, I think that's pretty broad.

And maybe that needs to be scoped down a little bit because if, for example -- well, first of all, there's a presumption that somebody's innocent until they're convicted and so an indictment is a charge basically but --

MR. GAINES: Right.

MR. GORDON: My second comment about that is if someone has been indicted for, for example, a traffic offense, there could be varying levels. What does that have to do with their ability to serve as a board member?

So I would submit that should maybe should be -- while I appreciate it and I think it's an important point -- I think maybe it needs to be scaled down a little bit to more issues that would involve someone's ability to act as a board member.

MR. GAINES: Right. I appreciate --

MR. SALINAS: Would that have to be a felony?

MR. GAINES: I'm sorry?

MR. SALINAS: Isn't that supposed to be a felony? If it's a felony --

MR. GORDON: Well, a lot of times it says involving moral turpitude or, you know, it's --

Indicted for criminal offense is so broad. It could encompass, technically, a traffic ticket.

MR. GAINES: Yes, sir. And I certainly appreciate those comments and something maybe we could have factored in --

MR. GORDON: Right.

MR. GAINES: -- better in our response to the Governor.

At this point, this has been delivered to the Office.

MR. GORDON: Right.

MR. GAINES: Presumably the Governor, if he sees this as something they'd like to go forward with, they can refine that and --

MR. GORDON: Okay.

MR. GAINES: -- be more specific what they're referring to.

The intent was to make it easier than it's been under certain circumstances, which needs to be more fully defined --

MR. GORDON: I certainly appreciate --

MR. GAINES: Yes, sir?

MR. GORDON: -- the background and --

MR. GAINES: I appreciate that.

MR. GORDON: -- I think it's a good idea to have something like that. I'm just concerned that's a

little bit over broad. Okay.

MR. GAINES: Yes, sir.

MR. SALINAS: Don't we have a law already in place for that?

MR. GAINES: Do we already have a law in place? I'm not real familiar with the laws themselves but maybe our general--

MR. SALINAS: Anybody gets indicted then --

MR. GAINES: I'm sorry?

MS. CARRINGTON: Anne Reynolds is --

MR. SALINAS: Anybody gets indicted, I think there's a law in place already.

MR. GAINES: From what I understand, but I hate to speak to that -- it's not a matter, really, of removing a board member once they've been indicted. Do we have someone from legal counsel that can speak to this?

MS. CARRINGTON: Yes. I believe that Anne Reynolds can speak to that. Anne's our Deputy General Counsel.

MS. REYNOLDS: There, unfortunately, isn't a law in place that would remove somebody for that. I appreciate your concerns. We actively monitor criminal indictment of any kind.

MR. GORDON: Believe me, I know where you're

MS. REYNOLDS: I don't think you can be indicted for something unless it's a felony, so I mean -- but we can tighten up that language because that was something we were going to propose in our bill too.

We're hoping to make it easier for the Governor to remove somebody because right now it's just unethical behavior is too broad.

MR. SALINAS: I think there is something in place. It's got to be a felony to be able to remove somebody. Right?

MS. REYNOLDS: Well, I'm quite sure there isn't because we would have had a board member removed, I think, if that had been in place, but it wasn't.

MR. SALINAS: But I think it happened after that.

MS. REYNOLDS: Well, I'll check again.

MR. SALINAS: I think it was in introduced by Senator Lucio and somebody else.

MS. CARRINGTON: Wasn't there a bill introduced last session that would have lightened this up but did not pass?

MR. SALINAS: Several sessions ago.

MS. REYNOLDS: Right.

MS. CARRINGTON: Okay.

MR. SALINAS: But it was done some years ago.

MS. REYNOLDS: But it didn't pass.

MR. SALINAS: Yes.

MS. REYNOLDS: I mean there was a bill following the session where that was an issue but it wasn't an act.

MR. SALINAS: I would think you need to check on it because I think it passed on, like, five or six years ago.

MS. REYNOLDS: Okay. I will check then.

MS. CARRINGTON: We will check, Mayor.

MR. SALINAS: And it really happened. I will tell you where it happened.

It happened when we had sheriff in our county that got indicted and he didn't want to be removed until he went to the penitentiary but then we -- I think there was some legislation passed that -- after that incident, there was something passed that any elected official, I would think, that maybe it doesn't portend to board members -- but I know that if you get indicted --

MS. REYNOLDS: And that could, of course, have been totally different.

MR. SALINAS: Yes. It's completely different, but you might want to tie both of them together.

MS. REYNOLDS: Sure.

MR. GORDON: Or track the same language or something?

MR. SALINAS: Huh?

MR. GORDON: Or track the same language.

MR. SALINAS: Yes.

MR. GORDON: Or something.

MR. SALINAS: I know there's something there. I think Senator Lucio would probably know more about this than anybody else.

MR. GORDON: Thank you.

MR. GAINES: Anything else? In proceeding kind of through the document again, just to highlight some of the information in here --

MR. BOGANY: Which page are you on?

MR. GAINES: This would be attachment B --

MR. BOGANY: Okay.

MR. GAINES: -- immediately following, of course, the attachment A there.

This is a copy of the questionnaire that was recommended by the work group. It has been tailored to suit the needs of the agency. And it's been used as a basis for high-level assessment that's helped management identify areas that we might need to improve upon in our

fraud prevention program.

The component areas, recommended by the work group and that are considered within this questionnaire, include: creating a culture of honesty and ethics; assessing anti-fraud processes and controls; and having appropriate oversight processes in place.

And overall, as you look through that questionnaire, the Department's in pretty good shape. We've got a lot in place already in working through this.

And you'll notice in the far right-hand column, are different action items that we've identified, there is where we can further improve activities/programs we have in place -- initiatives in place to manage risk.

The majority of our action items relate to assessing anti-fraud processes and controls and this begins on page 6 of that questionnaire.

This work relates to the Department's need to formally assess its risk, determine if adequate controls are in place to manage its risk, and if not, develop controls to do so.

And the Department will be doing this work over the course of the coming year. As I previously mentioned, we also intend to revisit this type of assessment and work on a biennial basis.

The project plan that describes the work that is planned is Attachment E. Currently, this work is anticipated for the Department's processes that have been identified as having a higher median impact on the agency if they were to fail or if controls were not to be working.

And an initial risk ranking of the processes is included at Attachment B.

We'd also like to bring your attention to the third component of the questionnaire. This is appropriate oversight processes and this begins on page 12 of the attachment.

MR. BOGANY: Which are we on?

MR. GAINES: Attachment B, page 12.

MR. BOGANY: We're still on Attachment B?

MR. GAINES: Yes, sir. On page 12. I'd like to direct your attention to appropriate oversight.

This series speaks of the responsibilities of the audit committee, as well as some other oversight groups, but I wanted to emphasize and speak to the audit committee.

To help fulfill your responsibilities, information will be brought to you throughout the year, as the department fully develops its program. This

information being provided to you today helps in you fulfilling those responsibilities.

In summary, the recommended responsibilities by the work group that RP36 refers us to is -- includes your responsibilities including: systematically and periodically evaluating management's identifications of risk; obtain adequate assurance that management has implemented prevention and detection measures; and ensuring an appropriate tone at the top.

And "tone at the top" just basically means that management and Board create a workplace environment that promotes ethical behavior, deters wrongdoing, and encourages and facilitates agency employees to report any known or suspected wrongdoings.

This is an attitude of zero tolerance, if you will, and I believe we're well under way in this respect.

The last attachment in the report, Attachment F, is a copy of the standard operating procedure that has been adopted by the Department to fulfill and embrace the intent of RP36. Attachment F.

The SOP clearly defines the roles and responsibilities, including those of the Board that I've just enumerated to you.

MR. BOGANY: That's Attachment F?

MR. GAINES: Attachment F. Yes, sir. And that includes our release, the information I wanted to point out relating to RP36.

I'll be glad to entertain any further questions on that?

MR. BOGANY: Considering that you just got this in August and be able to put this together this quickly, it just shows how good a staff -- what a good job you and your staff did, because this just seems like to be dropped in your lap at the last minute. And to be able to turn around in October, I kind of see why we're not meeting some of our other guidelines.

MR. GAINES: Well, it was a surprise. Kind of snuck up on us. And staff throughout the building really jumped on it and helped move this forward.

MS. CARRINGTON: David, if I might -- I'm sorry. Mr. Bogany, may I?

MR. BOGANY: Yes.

MS. CARRINGTON: May I? The Board received late yesterday afternoon -- some of you all were probably gone by the time this came across on your e-mail -- but it's an ethics question and answer.

And you may wonder why you're getting that now or why you were getting that late yesterday afternoon and

it relates to some of what we have committed to in the implementation of Rick Perry 36.

And that is to provide regular updates to the Board on ethics questions. So when you get back, you will probably have this in your e-mail and this is a result of the implementation of this executive order.

MR. BOGANY: Is that on RP36?

MR. GAINES: Yes, sir. There's a tab 7D, if I can refer you to that and it's based on the draft copy of the risk assessment and methodology that the Department's in the process of adopting.

The basis of the methodology was a small agency methodology recommended by the State Auditor's Office and the methodology that has been adopted by the Controller's Office.

And while it's substantially complete, there's still some fine tuning occurring and that's why we're calling it draft at this point.

In summary, the methodology is designed to:
identify and prioritize the Department's activities;
identify and risk-rank the risk associated with those activities; identify the controls in place and operating to minimize those risks; identify any accountabilities or unacceptable risks that are not being controlled;

developing strategies to control those unacceptable risks; and prescribing the appropriate levels of monitoring for the various levels of risk.

So that's kind of just a bird's eye view of the methodology. This is what we'll be -- substantially, what we'll be using throughout the course of the next year in assessing the Department's operations.

Any questions on the methodology or RP36 otherwise?

In that case, we're back to the first agenda item. Presentation, discussion, and possible approval of fiscal year 2005 Audit Plan behind 7A.

This is a plan proposed for the year and you'll notice that there's a couple of projects that will carry over from 2004. The first one relating to the subrecipient monitoring function that we've had some discussion on.

And, just briefly, based on -- well, I think, I've for the most part touched on why that's being rolled over. So let's go to the next project. Carryover.

And I don't know if this is carryover or not. We're just trying to allocate time to -- with state audit and internal audit form and what this is time we may be called upon at any time to satisfy an obligation to this

group.

The obligation is for our internal audit resources to contribute hours to the peer review function throughout the state and to go out and perform quality assurance reviews of other internal audit shops. Other external audit shops come and review our operations -- our internal audit shop -- and assess whether we're following professional standards or in compliance with Texas Internal Auditing Act.

And likewise we need to contribute resources to reciprocate. That's what that's about.

On the new LIHEAP Projects -- before I touch on those, I'd like to point out that the Texas Internal Auditing Act requires that an annual plan be developed based on an annual risk assessment. And in accumulating information for the risk assessment, we solicited information from management and staff and the executive team and the Department's external auditors, including Deloitte & Touche, KPMG, and the State Auditor's Office, as well as soliciting input from the Board members.

And while we basically assessed risks of 83 different significant processes or functions of the department and we rank those in descending order, based on the information that's been provided by the directors and

managers.

And it's real difficult to actually select projects from this risk ranking and there's some great information that's accumulated and I'm confident will be useful and a forward basis but --

We really didn't want to start at the top of the list and start working my way down. And I'm not resulting five or six different audit areas over the course of the coming year and leave another 75.

There's also some questions regarding the input we received from management and staff. While a level of risk might be perceived by one person as high, the same level of risk might be perceived by the next person as medium. So accordingly, there's a lot of information that is subjective based on different persons' perception of risk.

So in working through this, and developing the plan -- Kelly Crawford and I believe [indiscernible] and myself met with the Executive Director and Deputy Executive Director and Chief of Agency Administration to solicit their ideals and input and sat down with their risk ranking.

And as we worked through this risk assessment and the ranking and the results, it was decided that maybe

the best use of internal audit resources for the current year is to facilitate Department's consideration of RP36, that we've previously discussed there.

And the purpose of the project will be to provide expertise, knowledge, experience, objective, independent input in the Department's risk management program.

And in conference with executive management, internal audit staff, we'll facilitate the risk assessment process in various areas of the Department with the intent of satisfying the purpose of the risk assessment for those areas, but also to develop expertise throughout the building for staff to carry on risk assessment process on a forward-going basis.

We'll work with management staff, as well as Mr. Spearman, to: help ensure that meaningful information results from this risk management program that will be useable to management in improving their operations and managing their risk; providing executive management with information reports so that they can be satisfied that risks are being adequately addressed and controlled and for oversight purposes.

Closely related to developing this project and our risk assessment in soliciting information, I received

a comment, some input, from Ms. Anderson, Chair of the Board, that -- and a request from Mr. Conine and from Mr. Bogany, regarding the audit plan.

And Ms. Anderson suggested that I use management's risk assessment, in connection with my annual risk assessment that's required of me in developing a plan.

Well, this RP36 project will provide management the tools whereby they can assess risk in a formal, standardized manner and that output will be very useful, not only for management but also for audit in the manner suggested by Ms. Anderson.

Mr. Conine suggested that we include a review of the Compliance Division in our annual audit plan. I suggested to Mr. Conine that the process of management conducting that control self-assessment will facilitate reviews of any area that he or management or other oversight would be interested in.

And as we discussed this and work through this, I assured him that we would move Compliance to the top of the list in conducting this risk assessment; thereby it had information regarding what other risk, are we covering those risks, do we have any vulnerabilities?

And at that time, it's a real easy decision for

executive, for management, for Board, or for other oversight to assess whether further audit is desired or needed in a particular area. That there's -- all the controls have been addressed, then maybe there's a desire to test those controls by an independent party, such as internal audit.

If there are not adequate controls in place and we have a lot of vulnerabilities, those are opportunities for management to improve their operations and for internal audit to provide any assistance or consulting in those respects regarding controls.

So that is the intent of this and some of the usages of this, and I wanted to point those out because that was input provided by -- to the Board members.

Mr. Bogany provided the input regarding timeliness of getting projects done and I certainly realize that extends to some of my projects. And this will help me being more timely on my projects, but I believe in the long run, it will also help management, because it will identify areas where we're being inefficient. And we'll be able to, hopefully, clean up those areas and as an agency, become more effective and efficient overall.

Just in summary, I just believe the formal risk

assessment process that is fully embraced will satisfy concern of the Board, will be of great value to management and oversight entities, including internal audit.

The next project on your plan is a review of the Department's Whistle Blower Process. This came out of RP36. As we worked through that questionnaire --

MR. SALINAS: That's what? 7 what?

MR. GAINES: I'm sorry?

MR. BOGANY: I don't see it.

MR. GAINES: It's on the audit plan, right there. 7B. First page of the audit plan. It's a review of the Department's Whistle Blower Process.

MR. BOGANY: I don't have it.

MR. SALINAS: Oh. I see it.

MS. CARRINGTON: Under 2004.

MR. SALINAS: 7B?

MS. CEDILLO: 7A.

MR. GAINES: I'm sorry. 7A. We've back tracked.

MS. GRONECK: 7A. Yes. He went back.

[indiscernible]

MR. SALINAS: I'm sorry.

MR. GAINES: Sorry. First project under '05, then the RP36 project and the second one being the

whistleblower process.

And this project came out of the risk assessment that we did for RP36, the high-level overview, and it's one of the action items that I referred to earlier in that right-hand column of that questionnaire, one of the action items being internal audit review: the whistleblower process.

And the project will determine if we have a viable process in place, if it's formalized in compliance with applicable laws, and if employees have been actively informed of their rights, responsibilities, and protections under the act.

The remaining projects should be familiar to you. These are ongoing projects that take up a considerable amount of time, including followup and reporting on prioritized issues, internal audit's contributions to the central database, coordinating and assisting external auditors, and the annual audit report that we discussed earlier this morning, and the annual audit plan that, of course, is the subject of this agenda item.

And with that, any questions you might have? Any further discussion? This is an action item that would require voting on by the committee.

MR. BOGANY: Any questions?

MR. SALINAS: This is the internal audit. Do we ever get anybody else from the outside to do an independent audit of this agency?

MR. GAINES: Yes, sir. We -- in fact, by risk assessment we factor in other audits. We have, this year, the Deloitte & Touche that does an annual financial statement audit of the Department's financial statement as a whole, as well as the bond enterprise fund.

We have, this year, KPMG is conducting a single audit of Section 8 Program to ensure compliance with federal requirements. They are trying to assess the threshold as to the extent of coverage you have in the department. And they put us on notice that they might be adding LIHEAP, which I haven't even had an opportunity to share with Ms. Carrington yet.

They're looking -- they're doing this from a statewide perspective, so as all the year-end numbers come in, they have to reassess their audit coverage and LIHEAP is very much on the borderline. And based on my understanding and perceptions, it will probably be included in the internal audit this year also.

We have funding sources that come in on a periodic basis. HUD subrecipient monitors. Excuse me.

The HUD Program monitors do periodic reviews. The Comptroller of Public Accounts does a review this year. The Department's expenditure and payroll process.

The State Auditor's Office comes in regularly. They have done several of what they call classification audits this year, assessing if we have staff properly classified within the department. They do performance measurement reviews to assess if we're properly recording and supporting our performance measures to the LBB.

There's quite a bit of other audit conducts going on. Otherwise, I would be in very bad shape.

MS. CARRINGTON: And one of the activities you'll see, I think in this work plan for '05, is to coordinate all of the external auditing sources that do come to this agency. And I think, at some count, it's like five, six, seven of them in the course of the year potentially will be here -- auditing some particular program or some particular function.

MR. GAINES: And I don't want to overstate that particular project. don't necessarily coordinate all of them.

For example, [indiscernible] works so closely with accounting, accounting pretty much fulfills that entire role. The financial oriented audits.

MS. CARRINGTON: Okay. Assists then.

MR. SALINAS: We do have a safeguard here.

MR. GAINES: I'm sorry?

MR. SALINAS: We do have a safeguard there by somebody else coming in from the outside.

MR. GAINES: And that's a very good question. Something I need to bring up in that we certainly aren't relying on me and Kelly Crawford.

MR. BOGANY: Okay. Can I get a motion from the floor if there are no other questions for David on approving the 2005 Annual Audit? Somebody?

MR. GORDON: Motion to approve the 2005 Annual Audit Plan.

MR. BOGANY: Okay. Do we have a second?

MR. SALINAS: Second.

MR. BOGANY: We are ready to vote. All those in favor, say aye.

(A chorus of ayes.)

MR. BOGANY: It passes. Thank you, David. You did a great job.

MR. GAINES: Thank you.

MR. GORDON: Thank you.

MR. BOGANY: Okay. Are there any other business at all? Mayor? Patrick?

MR. GORDON: No.

MR. BOGANY: I'd like to get a motion to adjourn this meeting.

MR. SALINAS: So move.

MR. BOGANY: Second?

MR. GORDON: Second.

MR. BOGANY: All those in favor, aye.

(A chorus of ayes.)

MR. BOGANY: Thank you. Appreciate it.

(Whereupon, at 9:25 a.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: October 14, 2004

I do hereby certify that the foregoing pages, numbers 1 through 41, inclusive, are the true, accurate, and complete transcript prepared from the verbal recording made by electronic recording by Penny Bynum before the Texas Department of Housing and Community Affairs.

(Transcriber) 10/21/2004
(Date)

On the Record Reporting, Inc.
3307 Northland, Suite 315
Austin, Texas 78731