

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

AUDIT COMMITTEE MEETING

Room 1-104  
William B. Travis Building  
1701 Congress Avenue  
Austin, Texas 78701

June 27, 2005  
8:15 a.m.

AUDIT COMMITTEE:

Shadrick Bogany, Chairman  
Norberto Salinas  
Patrick Gordon

ALSO PRESENT:

Edwina Carrington, Executive Director  
David Gaines  
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 meeting for the audit committee meeting in order. Good morning. Sorry for being late. Let's do roll call. Norberto Salinas.

MR. SALINAS: Here.

MR. BOGANY: Gordon Patrick.

MR. PATRICK: Here.

MR. BOGANY: Shad Bogany, here. All members are here. We have a quorum and we're going to call David Gaines. Before we do that, do we have any public comment?

MR. GAINES: The last meeting's minutes are not on the record.

MR. BOGANY: Can we get a motion to approve the last minutes if everybody had an opportunity to read it?

MR. PATRICK: I vote.

MR. SALINAS: Second.

MR. BOGANY: All those in favor say, Aye.

MR. SALINAS: Aye.

MR. BOGANY: Those are passed. Now we are going to call David Gaines to the podium, and he's going to give us an update on the internal audit report.

MR. GAINES: Thank you, Chair. Good morning members of the committee and Ms. Carrington.

If you'll turn to Tab 5A, the first agenda

item. This is an Internal Audit Report on the Texas Whistleblower Act and the Texas Internal Auditing Act requires that this report be distributed to the Department's Governing Board plus the Governor's Office of Budget and Planning, Legislative Budget Board, and the State Auditor.

The objectives of this audit were to determine the Department's compliance with Government Code Chapter 554, Protection for Reporting Violations of Law, or more commonly known as the Whistleblower Act, and this audit was undertaken as a component of the Department's Risk Management Program.

The audit concludes that the Department is in compliance with the Act, and that pretty much sums it up, or I'll be glad to elaborate, if it's the pleasure of the Committee.

MR. BOGANY: Any questions on the Whistleblower?

MR. GAINES: In that case, we'll go to the next agenda item. Item 5B, Status of Prior Audit Issues. There are currently eleven findings and sets of Prior Audit Issues. None of these findings are from last year's Federal single audit of the Section 8 Program, that was released this last February. This report was presented to you at the last Audit Committee meeting.

Management has reported that eight of these findings are fully implemented, and that the last one is planned for full implementation by the end of July.

The Department's also received a letter from HUD, indicating that, based on the management's proposed actions, all findings are being cleared by HUD. KPMG is also, currently, performing their subsequent year's audit.

They'll be looking at the status of these issues in connection with that audit.

There were two other findings from prior audits that are also being reported as implemented, so in summary, ten of the 11 are fully implemented, with the eleventh one found for full implementation by the end of July.

Item 5C. Moving right along. This is a monitoring. This is by HUD. HUD on-site monitoring of environmental procedures for the Home and Emergency Shelter Grants Program. HUD conducted this review of the Department's programs in early May to verify compliance with the National Environmental Policy Act, HUD Environmental Regulations, and other related environmental laws, and executive orders.

The monitoring review resulted in eight findings. For each of these findings, the Department has requested the Department to submit written procedures for

HUD to approve, and then, when applicable, implement the procedures, and monitor the Department's recipients to ensure compliance.

The Department has drafted its response and expects to release it this week. The response to us, the draft response I referred to as positive, refers to actions already taken, further actions it intends to take, and in one instance, provides additional information that had acknowledged in the first place, may have precluded the issuance of a finding.

There are two categories of finding. The first is where the state has assumed HUD's environmental responsibilities, has assumed responsibilities associated with providing technical assistance to recipients, releasing funds, maintaining specific records for the environmental reviews, and a monitoring and enforcement program.

This is one of the two categories. In this category, there were three findings. The first one relates to the need for the Department to develop a monitoring and enforcement program. Now, I'm not going to go into management's response on all these issues, because generally it was, again, very positive and receptive to HUD. I will, highlight a couple of comments in that response that packages the findings in a better context to

understand.

In this case, the finding being that the Department needs to develop a monitoring and enforcement program. The Department response that it has had a monitoring program since inception of the program in 1991.

So the units of local government -- they ceased monitoring those relating to this issue in 2001, because they are the responsible entities for the environmental reviews; they are the decision-making bodies, same contract that they perform these, so the Department stopped those monitoring reviews.

Pursuant to HUD's recommendation, they are going to reinstitute those reviews, and that information in the monitoring program plan will be provided to HUD in that respect.

MR. BOGANY: So from now on, we will have an ongoing monitoring process, just as what HUD suggested?

MR. GAINES: Yes, sir.

MR. BOGANY: Okay.

MR. SALINAS: You found how many of them?

MR. GAINES: I'm sorry?

MR. SALINAS: How many findings did you find with the agencies that were doing --

MR. GAINES: There were eight findings, and they all related to environmental reviews -- a lot of it

relating to documentation of particular compliance requirements. Exceptions noted as our sub-recipient that didn't have documentation on him. When they were responsible or possibly, we didn't have the documentation.

For the most part, the Department believes its transient monitoring program, there were some gaps in its program, which they've indicated in a positive manner that they will fill those gaps.

MR. SALINAS: Those were city's agencies or contractors?

MR. GAINES: Well --

MR. SALINAS: Can you mention the people that --

MR. GAINES: Right. Some of the monitoring reviews are actually conducted by the Department. They are the responsible entity. In other instances, it's units of local government. Well, also, a non --

MR. SALINAS: Who are the local governments?

MR. GAINES: I'm sorry.

MR. SALINAS: Who are the local governments, for the record?

MR. GAINES: Can someone help me with that?

MS. CARRINGTON: I believe, Mr. Gaines, on page 2 of the letter from HUD, item A, where TDHCA assumed HUD environmental responsibilities, they named Sulphur



Springs, Bellmead, Mathis, Nash, and Runge.

MR. GAINES: Where is that?

MR. SALINAS: There were eight communities.

MR. GAINES: Yes, I'm sorry, on page 2. I was considering your question from a broader context, rather than the units of government with specific findings.

Yes, at the top of page 2 of your report, there is a listing of these. It includes Sulphur Springs, Bellmead, Mathis, Nash, Runge --

MS. CARRINGTON: Runge, as Ms. Cedillo just corrected me.

MR. GAINES: Thank you. They reviewed five of the sub-recipients, which serves as the basis for their findings.

MR. SALINAS: And those are being corrected?

MR. GAINES: The Department is currently in the process of responding to HUD, working with these subs, providing them direction on how to correct the issues noted by HUD. Our response is expected to be released or provided to HUD by the end of the week. In that, it will discuss plans and actions we've already taken, as well as actions we intend to take.

So, yes, the Department, I know, has been requesting information from these local governments and have been providing direction to them in these regards.

MS. CARRINGTON: I think, David, if I might interject. I understand, even though this review was environmental procedures for HOME and ESG, in talking to Mr. Fariss this morning, I gather that all of the findings were related to our HOME, our activities in our HOME program, and none in our Emergency Shelter Grants program.

MR. SALINAS: That means that it had an environmental when they started the HOME? Is that what it means?

MR. GAINES: I'm sorry, sir.

MR. SALINAS: Does it mean that they didn't have an environmental when they started the HOME?

MR. GAINES: The great majority of the report does relate to the HOME program. There was one finding that mentioned ES, Emergency Services. In our response, we indicated that HUD apparently overlooked the documentation that would have precluded that finding.

MR. SALINAS: Okay.

MS. CARRINGTON: Which finding was that, David?

MR. SALINAS: If it's environmental, it's got to be that they didn't do the environmental at HOME when they built it, I would think.

MR. GAINES: There were components of the environmental made when necessary. That was finding B-2.

MS. CARRINGTON: B-2. So that one was related

to Emergency Shelter Grant. Okay. Also, I understand, David, that our staff tells us that this is the first time that they can remember that we have had an audit from HUD related to our environmental activities.

MR. GAINES: That's what I understand and --

MR. SALINAS: Well, this is going to come around on the environmental because there's been a lot of problems with environmental throughout the state.

MS. CARRINGTON: Yes, and that could very well be why it's now risen to the level of having a monitoring visit about this when we haven't had.

MR. GAINES: I can discuss each of these if you care to. Generally it relates to documentation relating to project classification, maybe documentation relating to requirements surrounding historical preservation or noise, and noise reduction measures. I guess it's the pleasure of the Committee.

MR. BOGANY: Anybody want to hear the details on that?

MR. SALINAS: I guess they are just going to correct it. Right?

MR. GAINES: Yes, sir. It looks like to me, based on the Department's response, that we've had a program in place, we've kind of backed off in 2001 for cities of local government, thinking that with their being

responsible, it was a lesser risk for us to pay a lot of attention to. Pursuant to HUD's recommendations, we are reinstating the monitoring review of those programs, and those sub-recipients.

But again, mostly documentation, flood plain considerations, noise considerations, project classifications. I think for the most part, those are the highlights. There is one finding regarding if you are doing site-specific, you also have a strategy where you can do a tiered approach, which is used to eliminate repetitive discussions of the same issues. Subsequent layers are reviewed, so if you are doing a specific site review, you want a broad-based strategy that needs to be documented. That was part of it.

MR. SALINAS: Well, I think the one that bothers us is the environmental CP that built the house. It gets into the environmental. What's going to -- how are you going to correct that? Well, that's up to the people that are going to be doing it.

MR. GAINES: Yes, sir. There was a finding relating to loan closings prior to the environmentals, and in this case, the Department, it appears at the loan closings, and please, jump in and correct me if I'm wrong here. It appears that closings were by other funds, and then the Department wouldn't reimburse those loan closings

until performing these types of reviews, and HUD says, It doesn't matter the source of monies. These need to be done before you fund a project.

MR. SALINAS: Well, the reason I'm telling you this is because they are going to the same problem with our HUD monies in city.

MR. GAINES: Yes, sir.

MR. SALINAS: And we're not doing any homes unless we get somebody to pay for the environmental because we don't have monies for the environmental.

MR. GAINES: I understand.

MR. SALINAS: And HUD would not let us spend the money.

MR. GAINES: Right.

MR. SALINAS: Until it is done and they have built the house.

MR. GAINES: And to the extent HUD did refer to the extent that it continues, it could result in reductions in the letter of credit.

MR. SALINAS: And, of course, reductions from our funds.

MR. GAINES: Yes, sir. Again, the Department is very positive in its response, highlighted a lot of things it does do. One of the -- it looks like there's a whole lot of front-end training, technical assistance,

monthly training classes for these subs. So it's not like they were not they not provided the information. We just need to, maybe, enhance our review to ensure that they are following correctly.

MR. PATRICK: And that would be done now, because now we are going to reinforce our monitoring program, which we do.

MR. GAINES: Yes, sir.

MR. PATRICK: We hadn't. Okay.

MR. GAINES: Yes, sir.

MR. PATRICK: All right.

MR. BOGANY: Is that it for Item 4?

MR. GAINES: Yes, sir. Moving right along.

MR. BOGANY: Let's go to Item 5, Status of Internal/External Audits.

MR. SALINAS: This would implicate everybody that gets any HOME funds from us. Right? That same rules.

MR. GAINES: I believe there are different types of properties that are exempt. Is that not correct? I'm sorry?

MS. CEDILLO: There are some that can be exempt or categorically excluded.

MR. GAINES: Yes, you have to consider it for all folks that receive the HOME funds, but there are some

types of projects that can be excluded from those considerations.

MR. SALINAS: Well, I would insist in finding out which ones they are before you spend the money because you can end up with a real house, and you can end up having to move that house, or destroy the house, before they can go ahead and do the testing. You need to --

MR. GAINES: That's one of the recommendations --

MR. SALINAS: I think it's one of the rules, now, that you have to have an environmental before you build any home in certain areas. I guess we'll have to find the areas that you might have to --

MR. GAINES: And part of that process is going through a project description and classification, so once you know the classification, then you know what requirements it is subject to and that is hard --

MR. SALINAS: Well, maybe the title companies will be asking you that, that they need to provide an environmental, but the people that are buying the homes need to be careful before they build them. They need to do the environmental first.

MR. GAINES: Yes, sir.

MR. SALINAS: I know what paper -- we're going through that right now.

MR. GAINES: Yes, I suspect --

MR. SALINAS: That's a problem.

MR. GAINES: Yes, sir.

MR. SALINAS: A lot of this is from the HUD people.

MR. GAINES: Okay, Item 5-D. It starts with Internal/External Audits. All right. You'll note that the progress on the first project listed, Subrecipient Monitoring, is not proceeding quite as well as originally anticipated. Although they expected to complete this project this year, you can see that some of the areas are extending into next year.

MR. BOGANY: Why is that?

MR. GAINES: Well, for several reasons. First off, I guess it failed to recognized the broad scope of the project. In the initial planning phase, the scope is really so broad that by the time we are completing one aspect of the review, prior aspects that we previously looked at had conditions that change, procedures that change.

It was just too broad. It was a matter of getting to the end, and by the time that we did, the beginning was outdated. Now, this project was just way too large, considering the size of the staff, and the goals we had that we set ourselves in other areas. And so



we've looked at the project. Our staffing and our processes to identify opportunities and strategies on how to improve the production relating to our efforts.

Some of the things we are doing and plan on doing include requesting an additional FTE with the current budget cycle, and after some discussions with executive and our money man, Mr. Dally, they've approved that additional FTE, so I'm real pleased with that. I certainly appreciate Ms. Carrington recognizing the need in approving that request when there are so many other resource demands on the Department.

We are limiting the scope of what we consider an audit. Rather than look at Subrecipient Monitoring as an audit, we are looking, for example, those bullets on the status. Each of those strategies to monitor has a separate and distinct audit. This will keep our scope very narrow and focused, and allow us to concentrate on the more significant areas, and get in, and get out of an area in a timely fashion. We've streamlined the report itself.

MS. CARRINGTON: I'm sorry, Mr. Gaines. It seemed like Mr. Bogany was trying to, well, interject and --

MR. BOGANY: I'm just looking at the -- to get a focus on what you were saying. Like, for example, Draws

Process, your focus on just Draws Process.

MR. GAINES: Yes, sir.

MR. BOGANY: And Set-Ups, and so on, and so on.

MR. GAINES: Yes, sir. I am concerned.

MR. BOGANY: All right.

MR. GAINES: So being a lot more scope specific in discrete chunks, to where we can get in and get out. The report itself has been streamlined. The Whistleblower is an example of that. We call it the one-page report.

While it might be two or three pages, it's very summarized, it provides the summary, results, conclusions, findings, and recommendations when appropriate. It's all the elements required by professional standards are included. Greater details, which may be needed by operating management, are provided to them in the forms of audit recommendations forums that are separate and outside the audit while they provide the detail management might need to acknowledge the concerns and to consider the recommendations being implemented.

We are looking into hiring non-compensated intern students. Visited with several state agencies on this internal audit shops, and it's a strategy some of them are using very successfully. I'd like to get to the point to where I have one intern student on an ongoing basis, working on different projects.

MR. BOGANY: How far are we from implementing something like that, David?

MR. GAINES: I'm looking to be, earliest fall, because the approved FTE I received, I'll be trying to hire on September 1. I'd like to get them ingrained and fully moving forward in a positive manner, and then I'll start this particular strategy. It would be a great, valuable experience for the students as well as give the Department another set of internal audit eyes.

MR. BOGANY: Well, with the time frame that you are talking about hiring somebody, like the field visits which is pending, is there any possible way to move that into this year, or is it still going to be a March sixth even though you hired, you anticipate hiring some more people?

MR. GAINES: Well, those estimates were fairly rough. For the most part, I was looking at three month intervals for each of the different areas. I'm trying to factor in other activities and work we're doing. I felt like those were probably fairly reasonable dates, considering additional resources. It doesn't factor in me being able to get a student intern in by October 1, or something like that.

MR. BOGANY: Okay.

MR. GAINES: Another strategy I've been doing,

and it's been a little bit more difficult than I originally anticipated, is just developing some performance measures for the division. That would help us keep focused on what we're trying to accomplish. I know there's some opportunities to clearly define measures to help the division stay focused. One is PBLs [phonetic] and continue, I don't know, will continue to identify and refine those measures.

And finally, we've recently purchased a software license for automated working papers. This software should facilitate our planning, performing, documenting, monitoring, and reporting audits and audit results. This was a great opportunity made available by the State Auditor's office. The initial five licenses, if we were to do it on our own, would cost -- it would be pushing \$10,000.

We managed to piggyback with the State Auditor's office for about \$250 a license for four licenses, so we are real pleased with that. And although I've never worked with it, I've seen demonstrations of it.

Kelly Crawford, one of the staff people on the internal audit, has worked with it, has liked it real well. Other internal audit shops seems to like it real well, so we are looking forward to getting past the learning curve on that. We went to training. Our first set of training one

day last week, so --

We are fairly confident and hopeful these strategies will help considerably in achieving our goals, and we'll update you as we move forward during future meetings. Any questions on that particular project?

The next one is the Whistleblower Process, which was just reported to. Following that is Executive Order RP36. Progress continues. This relates to the Department's Risk Management program and the Risk Management team, RP36 team put together by Ms. Carrington has set the Agency's goal for the year to complete assessments on all of the Department's mission critical systems.

As of the middle of June, there were 51 mission critical processes had been identified, and 17, or one third of those, have been completed. That was mid-June. Seems like I've had a couple more come across my desk since then, so it seems like momentum might be building with that project.

The Central Database is ongoing. The site subdate will be planned for the next Audit Committee meeting. There hadn't been any real significant milestones since I last reported to you, no significant target dates. There are some coming towards the end of this fiscal year.

The Peer Review listed there, that's been completed. This is a Quality Assurance Review. This is, basically, our contribution to the State Agency Internal Audit Forum, and this is a forum that is in Association with State Agency Internal Audit Directors, and among other services, this group provides resources to have state agencies have their peer reviews done at no cost.

Well, as you make contributions in this case, I contributed to the function, and participated in a peer review of the Comptroller's office. As you make contributions, you get credits, so resources are going to be available to conduct Quality Assurance Review on our operations in the future.

This is a great process exercise. It's a cost savings. We don't have to hire someone to do our peer review, and it provides great opportunity to look at other internal audit shops, see what other folks are doing, get some ideas. I believe I probably walked away from my peer review at the Comptroller's office with more than I offered, because I loaded up on a lot of good tools and strategies used by that internal audit division.

At the top of the second page is our Annual Audit Plan. This relates to the plan for the coming fiscal year, and in this respect, this is a good time to -- and over the next month, to provide any input you

might have, or any concerns, or risks you might have into that plan. I'll be developing that between now and the next committee meeting.

The fiscal year 2005 internal audit report is basically a summary of the division's activities for the year. This is required by the Texas Internal Auditing Act, and it will be due November 1, so that's still pending. The balance of the internal auditing activities are ongoing activities, such as the tracking poll, and the prior audit issues, central database.

Those are internal audit activities ongoing, recently completed, and what we have planned for the immediate future. Any questions relating to the internal audit? There are a couple of external audits I'd like to touch on real quick.

Okay. At the bottom of that second page is a summary of the external audits in progress. In the State Auditor's Office over HOME and Housing Trust Fund Programs, they are calling it the Housing Audit. It's in its final stages. The Agency, the Department, actually began preparing for this audit in February of '04, and the audit began in July, sometime in July of '04. The SAO is currently anticipating report to be released by July 18, and have been informed the Department that we'll be receiving a report draft sometime towards the end of this

week.

In addition to the SAO audit, KPMG, in contract with the State Auditor's Office, has begun their interim work on the fiscal year 2005 single audit. The programs under consideration this year include the HOME program, Section 8 program, and LIHEE, Low Income Housing Energy Efficiency program. The estimated completion date for this audit is February of 2006.

MR. BOGANY: You have 12/06 on here.

MR. GAINES: 12/06?

MR. BOGANY: Yes. Is that a typo?

MR. GAINES: That's a typo. Yes, sir.

MR. BOGANY: I was just looking. That's a long time away.

MR. GAINES: I'll need you on my quality review team.

MS. CARRINGTON: You may wish it was that, but --

MR. GAINES: Now, there is another audit due 12/06. That's the financial statement of Opinion Audits by Deloitte and Touche. They are expected to begin their interim work in July, and that's anticipated for -- or generally completed 12/06. Oh, excuse me. 12/05.

MS. CARRINGTON: The power of suggestion.

MR. GAINES: What's that?



MS. CARRINGTON: Power of suggestion.

MR. GAINES: Power of suggestion. I guess I'd rather be ahead in time rather than behind. And that's the agenda for today.

MS. CARRINGTON: Okay.

MR. BOGANY: Any questions?

MR. SALINAS: It looks like we're moving along. There doesn't seem like we have as many issues as we've had before.

MR. GAINES: For some of them, when they do come up it seems like there are people jumping on them and taking care of them in a timely fashion. Thank you.

MR. BOGANY: Thank you. Any questions? Any comments? Okay. I will call this meeting to an end.

(Whereupon, the meeting was concluded.)

C E R T I F I C A T E

IN RE: TDHCA Audit Committee Meeting  
LOCATION: Austin, Texas  
DATE: June 27, 2005

I do hereby certify that the foregoing pages, numbers 1 through 26, inclusive, are the true, accurate, and complete transcript prepared from the verbal recording made by electronic recording by Penny Bynum before the Texas Department of Housing and Community Affairs.

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(Transcriber) 6/27/2005  
(Date)

On the Record Reporting  
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