

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

AUDIT COMMITTEE MEETING

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

March 10, 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

ON THE RECORD REPORTING
(512) 450-0342

INDEX

<u>AGENDA ITEM</u>	<u>PAGE</u>
CALL TO ORDER, ROLL CALL CERTIFICATION OF QUORUM	3
PUBLIC COMMENT	none
REPORT ITEMS	
Item 1 Presentation, Discussion and Possible Approval of Audit Committee Minutes for October 14, 2009	4
Item 2 Presentation and Discussion of the Internal Audit Peer Review Results	4
Item 3 Presentation, Discussion and Possible Approval of the Audit Committee Charter and Board Resolutions	9
Item 4 Presentation and Discussion of Audit Results from Deloitte and Touche, CPAs	13
Item 5 Presentation and Discussion of Recent Internal Audit Reports	40
Item 6 Presentation and Discussion of Status of Prior Audit Issues	42 78
Item 7 Discussion of Hotline/Fraud Investigation Workload	52
Item 8 Discussion of Davis Bacon Requirements	61
EXECUTIVE SESSION	89
ADJOURN	90

PROCEEDINGS

MS. RAY: It is exactly four o'clock, according to Curtis's computer, so we are going to go ahead. Of a three member committee, two a majority makes, so we're going to start the meeting, I know Mr. Keig is going to be in, but we're going to promptly start the meeting at four o'clock. The meeting of the Texas Department of Housing and Community Affairs Audit Committee will please come order.

We will call the roll. Gloria Ray, Chair, present. Tom Gann?

MR. GANN: Here.

MS. RAY: Present. I will not at this time mark Mr. Keig absent because I'm sure he'll be in shortly.

The first item on our agenda is the presentation, discussion and possible approval of the Audit Committee minutes for October 14, 2009.

I'm sorry, I left of the public comment, please forgive me. We may have some today. The Audit Committee of the Board of the Texas Department of Housing and Community Affairs is soliciting public comment at the beginning of this meeting and will also provide for public comment at each agenda item after the presentation made by the Department staff and motions made by the committee. Is there anyone here that would like to make public comment at this time?

(No response.)

MS. RAY: Hearing none, the Audit Committee will move forward with agenda item 1, and that is the approval of the Audit Committee minutes for October 14, 2009. The Chair would entertain a motion for

approval.

MR. GANN: I so move, Chair.

MS. RAY: And I second. It has been moved and seconded to approve the minutes for the Audit Committee meeting on October 14, 2009.

The second item on our agenda is the presentation and discussion of the Internal Audit Peer Review results, and the Chair recognizes our auditor, Ms. Sandra Donoho.

MS. DONOHO: Thank you. For presentation and discussion of the Internal Audit Peer Review Report, our Internal Auditing Standards and the Internal Auditing Act which is state law require that the Internal Audit Division undergo peer review every three years.

The way that generally works is peer reviews are reciprocal, points are awarded for participating on the peer review of another agency, and then when our peer review comes, we use those points to pay for our peer review. It saves us some money in terms of having to contract with an outside person to do our peer review. Peer reviews are done by the State Agency Internal Audit Forum which are auditors from other state agencies. I led a peer review at the General Land Office last spring, and Betsy Schwing, who is behind me, participated in a peer review at the Higher Ed Coordinating Board, so that covered the cost of our peer review.

Our peer review was performed by Linda Shirrard from the Department of State Health Services as the team leader, and Cindy Hancock from Parks and Wildlife as a team member, and we'd like to give our thanks to them for all the work that they went to on our behalf. They were here for a

week, plus they did an additional probably two weeks worth of work outside of that to help ensure that we're in compliance with audit standards.

I was a little nervous because this is the first peer review we've had since I became director here in August of 2007. I changed and streamlined many of our processes and rewrite all of our policies and procedures, so I was a little bit anxious to see how that was going to come out. Their finding was that the Internal Audit Division received a rating of fully complies.

MS. RAY: The Chair recognizes our third Audit Committee member, Mr. Lowell Keig.

MR. KEIG: I apologize for being four minutes tardy.

MS. RAY: That's basically all right, we waited on you. We have 100 percent attendance of the Audit Committee, and right now, Mr. Keig, Ms. Donoho is going through the report of the Internal Audit Peer Review, item number 2 in your agenda.

MR. KEIG: Okay.

MS. RAY: Carry on.

MS. DONOHO: So the Internal Audit Division received a rating of fully complies, that's the highest possible rating given. In addition, the peer reviewers did not identify any areas for improvement which is highly unusual, there's usually always some areas identified for improvement, but we didn't have any so that was good. They identified several best practices. One of those was our great working relationship with our board of directors as well as executive and division management. We don't always agree with executive

management and they don't always agree with us but we do manage to work it out and maintain a positive working relationship.

They also felt like some of our positive points were our high number of professional certification and advance degrees in the Audit Division, our tracking system for prior audit issues, our policy and procedure manual, and our audit planning processes.

Are there any questions on our peer review?

MS. RAY: I don't have any questions. Committee members?

(No response.)

MS. RAY: I do have a comment before we move forward. I personally was very, very pleased with the outcome of the peer review which Sandy was not happy because it was an A minus.

MS. DONOHO: You notice I didn't mention that.

(General laughter.)

MS. RAY: It was an A minus instead of an A or an A plus. I think the Audit Division is to be commended for such an exalted score when you consider that this is your first peer review, and we all know how really new your staff is to the organization, how you've had to build your department almost from the bottom up, and if you don't mind, I'd like to take this opportunity to ask you to introduce each member of your staff so those in the room that may not know who they are will come to know them.

MS. DONOHO: Okay. Starting on this end is Jill Borgman, she's one of our newer staff members, she's one of the auditors. Harriet Fortsen, who is one of the project managers; Harriet has been here the

longest of the staff we currently have.

MS. RAY: And how long is that?

MS. FORTSEN: Two years the 22nd of this month.

MS. DONOHO: She's counting days.

(General laughter.)

MS. DONOHO: And then Betsy Schwing who has been with us about a year; Derek Miller who has been with us close to a year, as well as Jill. And we have two members who aren't here: Mo Sow who, I have to admire him for this, he works as an auditor during the day and then he goes and works as an auditor for the IRS at night, so he went to his second job; and Nicole Elizondo, and Nicole Elizondo who is our most recent auditor and she's a project manager, and she's at a wedding, I believe, in California. So that's the audit staff.

MS. RAY: Well, we want to thank you so much for your professionalism. Auditors can have very exacting standards, particularly when they are people that work in the field, similar to you, and it says a lot for you to have been able to receive an A minus. This is your first peer review, I'm sure for all of you, in this particular organization, and we wish to commend you for your professionalism, thank you for your support, and we are very pleased.

And Mike, do you have anything you want to say?

MR. GERBER: We're delighted as well, and it was a tough peer review, and I think management, a lot of us were interviewed for that and we gave as good as we got, and we're very pleased. We've been especially pleased with the team that Sandy has built. I think if you just look at the

credentials that some of the folks bring to the table, certified fraud examiners, IT auditing capability, just the range of skills that this team that Sandy has assembled that is really different from what we've had in the past and reflective of an organization that's growing, it's impressive and really a privilege to work with each of them.

MS. RAY: Thank you very much for the outcome of the peer review.

MS. DONOHO: I guess I should confess that A minus I was delighted with until the peer reviewers told me that it would have been an A had I not given myself a B. So that was my punishment for being humble. and they wouldn't let me take it back to change it, so that's why we got an A minus.

(General talking and laughter.)

MS. DONOHO: Shall we go on?

MS. RAY: Yes. Are we going to item 3 now?

MS. DONOHO: Item 3 is presentation, discussion and possible approval of the Audit Committee charter and board resolutions. The Institute for Internal Auditor Standards for the Professional Practice of Internal Auditing -- which is a mouthful -- requires that all Internal Audit Division's charter and board resolutions are approved by the Audit Committee each year. The charter and board resolutions were revised last year to comply with the new standards, they were approved by the Board at the February Board meeting; we aren't making any revisions to these for this year. So just so you know, there are copies of those in your book.

The Standards require we have an annual discussion regarding

the audit standards, our code of ethics, and the definition of internal auditing, so I'm going to go through those pretty quick. The definition of internal auditing is: An independent, objective, assurance and consulting activity designed to add value and improve the organization's operations, helps organizations accomplish their objectives, and to evaluate and improve the effectiveness of risk management control and governance processes.

The Internal Audit Division follows the Institute of Internal Auditors International Standards and the U.S. Government Accountability Office's Government Auditing Standards for every audit that we do. The standards are required by our charter and by the Internal Auditing Act. They ensure that the division's work is independent, thorough, accurate, reliable and objective. This is something that the peer reviewers look for when they do the peer review as well.

The Internal Audit Division has adopted and complies with the Institute of Internal Auditors Code of Ethics. This is also a requirement of our charter. The code of ethics requires auditors to uphold the principles of integrity, objectivity, confidentiality and competency, as well as twelve rules of conduct related to these principles. Organizational independence requires Internal Audit to report to a level in the department that allows us to do our jobs without interference from management and to be free of operational and management responsibilities that would impair our ability to independently review the functions of the agency.

Our charter assures our organizational independence by requiring that I report to Ms. Ray as head of the Audit Committee, as well as to

the entire board. Our individual independence requires all of the audit staff to have impartial, unbiased attitude and to avoid any conflicts of interest. The Internal Audit Division meets the independence requirements, our peer reviewers just confirmed that in December.

A copy of the charter and the Board resolutions are in your book. Are there any questions on the charter, the resolutions, the code of ethics, or our independence?

MR. KEIG: Just one.

MS. RAY: Mr. Keig.

MR. KEIG: I picked up from -- kind of jumping ahead -- from Deloitte's report that we're to begin reviewing Governmental Accounting Standards Board new standards 5153 and '54. I assume they're not going to have any bearing on our charter. I didn't look those up, I don't know what they deal with. That wouldn't have any bearing on this charter or the resolutions, would it?

MS. DONOHO: No.

MR. KEIG: Okay, thanks.

MS. RAY: And we'll get into that audit in more detail.

MR. KEIG: Right.

MS. RAY: Mr. Gann?

MR. GANN: No problem.

MS. RAY: And I don't have any other comments at this time.

MS. DONOHO: Our Audit Committee charter and the Board resolutions, the Board resolutions are number 10-017, staff recommends

approval. They're also on the consent agenda for tomorrow, I believe.

MS. RAY: The Chair would entertain a motion from the Audit Committee.

MR. GANN: I move we accept staff's recommendation.

MR. KEIG: Second.

MS. RAY: It has been moved and seconded to accept staff's recommendation on the Audit Committee charter and Board resolutions. All those in favor, please say aye.

(A chorus of ayes.)

MS. RAY: Those opposed, no.

(No response.)

MS. RAY: The ayes have it, and we have approved the Audit Committee charter and Board resolutions at this time.

Moving to item number 4.

MS. DONOHO: This is discussion of the status of the external audit reports. Julia Petty from Deloitte and Touche is here to discuss their work on our annual financial statements.

MS. RAY: Ms. Petty.

MS. PETTY: Thank you. I appreciate the opportunity to be here. I am the director in charge of the audit of the Department. We completed our procedures back in December and these reports were issued and this is the first time we could get this presentation scheduled, so apologize for that delay.

You've got a number of reports in your package. The first one

that I believe you have, dated December 18, is our required communication to this committee. Our audit standards require that we communicate several things to you, I'm going to hit some high points that are included in that letter.

First of all, the financial statements are the responsibility of management. Management takes responsibility for the numbers, the disclosures, they put together those financial statements, and we, as part of the audit, review those numbers, review books and records, make inquiries of a variety of people throughout the organization, and external parties as well, to come to the conclusion that the financial statements are not materially misstated, and you will see that the opinions in all three of the statements are unqualified, those financial statements are not materially misstated, they do present fairly the results of operations and financial position of the department.

Included within the financial statements are a number of different types of estimates. Those are one of the things that are the most subjective things that you look at in an audit. We look at those by a variety of methodologies and believe that management has appropriately considered their estimates and have come to a reasonable conclusion about what those should be. There were not any significant changes in accounting policies or principles, with the exception of one item which is listed on page 2 of that first report, and it's also included in the footnotes to the financial statements themselves, and that is a change in accounting for long-term loans and contracts.

The accounting guidance, frankly, is not particularly clear on this issue. The Department had been deferring revenue related to those

particular loans and contracts for a number of years, there's also an approach that you would recognize that revenue when those loans and contracts come into effect, and in essence, both are acceptable. In conversations with the Comptroller's Office and the standard-setting body, the department determined that it would be more appropriate to change that methodology this year, and so that was done and it is reflected in these financial statements that you see here. It's not considered an error because there are two ways of accounting for those types of transactions, but the numbers are fairly large: \$120-or-so million in the governmental funds, and about \$25 million in the proprietary type funds. So significant changes, but again, not an error, but I did want to bring that to your attention.

And I'll just pause and ask management if they wanted to say anything or ask the committee if they had any questions.

MR. DALLY: The decision was are we going to sort of stay in harmony with the Comptroller so that we wouldn't have a different presentation of our individual audit versus the one that's combined as a CAFR, and we made a decision to go ahead and harmonize and get in line after some discussion with them.

And essentially, it mirrored all of the balance sheet. The loans and contracts are the things that we're setting up and those are becoming your assets. Our previous method was to put it in a deferred revenue and liability which is that other side of the balance sheet. This treatment re-classes that from that liability and puts it down into your equity, but the equity is still sort of classified as this is a federal, per se, and not the State's funds to use, and so

that's essentially the difference. But it's entirely the balance sheet and we changed from being a liability and matching the asset of the loans and contracts and dropping it down into equity.

MR. KEIG: You're saying that's the way the Comptroller was doing it?

MR. DALLY: Well, there were several agencies that did it different ways, and so they, as the body that collects the CAFR from each of the agencies, they went out, as I understand it, to the GASB body and said we need to pick a method and we'd like to stick with one in the CAFR, and their decision and their advice from GASB was to not use the deferred revenue treatment but to go ahead and put it down in the equity. And so they made that adjustment subsequent to the ones that we issued last year, and so we needed to catch up cumulative for all those years and just reclassify that down into equity. We want to be seen as sort of a team player and not an outlier that we're going to continue to issue a set of numbers that doesn't quite line up with you guys.

MS. RAY: It's just a reclassification of the information, it is a balance sheet but it's the same numbers.

MR. DALLY: Right.

MS. RAY: Do you have any other questions, Mr. Keig?

MR. KEIG: No.

MS. RAY: Mr. Gann?

MR. GANN: No.

MR. GERBER: Do you have anything you want to add to it?

MR. CERVANTES: No. I think that pretty much covers it. I mean, it's a question of consistency, we're trying to remain consistent with the requirements that are set out in terms of the Comptroller.

MS. RAY: Makes it easier on yourself.

(General laughter.)

MR. DALLY: In the long run, that's right.

MS. PETTY: So other than that particular change, there were no other material audit adjustments, we did not have any adjustments that we identified that management declined to book, past adjustments, or disclosures. As always, we got outstanding cooperation from the management and staff. I'd like to express our thanks because it's a pleasure to work here, so we really do appreciate that.

The remainder of this letter is mostly the appendix which is management's representations to us, written representations, so that is there for your information. Then the next three documents that I believe you have are the financial statements: one for the Department itself, one for the Revenue Bond Program Enterprise Fund, and one for unencumbered fund balances for Housing Finance. And again, there's not anything in particular that I wanted to point out in those statements other than, again, to let you know that those opinions are unqualified. The opinions do seem to get longer every year as standards change, but don't let that bother you. The key paragraph says they are fairly stated.

MS. RAY: The key statement to me is unqualified. I like that word.

(General laughter.)

MS. PETTY: So I don't know if the committee had any particular questions on the statements themselves.

MS. RAY: Mr. Keig?

MR. KEIG: No.

MS. RAY: Mr. Gann?

MR. GANN: I did not.

MR. GERBER: Ms. Ray.

MS. RAY: Mr. Gerber.

MR. GERBER: Julia, just for the committee's benefit, and maybe it's not appropriate and I'll defer to the committee's interests, but you've been looking at our books for a long time, is there anything just by way of trend information that you think the committee should be aware of, things that you've noticed over the last couple of years, as you've just completed this and reporting out, that may of particular note?

MS. PETTY: There's nothing actually that comes to my mind that I can think of, and I don't know if David or Bill have anything in the way of trends.

MR. DALLY: If you compare the year before, '08 to this '09, you'll see tremendous growth in federal revenues in just all the programs. You talk about them, you get awards, you do plans, and then a year or two hence the expenditure and the activity starts to flow through, and it's begun in '09 and I think it's going to do nothing but continue to go up in this coming year. There's just a lot more money and funds flowing through the Department these

days.

MR. GERBER: So we'll likely next year see at least probably a \$1.5 billion up-tick from Disaster Recovery and that's in addition to anything else we get.

MS. PETTY: And a lot more auditors coming to look at you.

(General laughter.)

MS. PETTY: Then the last document I believe you have is the report to management. As we go through our processes, we look at internal controls as part of our audit and to determine how we are going to approach our audit from a testing standpoint. We do not do a special study of internal controls and we do not issue an opinion on internal controls, however, if we would discover material weaknesses or significant deficiencies in internal controls, those would be reported to you and would be included in this document. We did not have any significant deficiencies or material weaknesses in internal controls.

We also do a review for compliance with laws and regulations and we did not find any non-compliance that's required to be reported. But we do have a couple of comments that are included in that final document. They begin on page 2 in the exhibit. The first is considered a deficiency under the Auditing Standards which deals with general computer controls and change controls and the monitoring of those change controls to make sure that any changes that are made to the systems are appropriately authorized, approved and documented, and we did not always see that those steps were consistently performed during the year, and so that is an item that

management is already in the process of addressing at this time.

The other section relates to matters that are not considered deficiencies but opportunities for improvement or forward-looking comments. Estimated loan loss reserve methodology is something that the department has had in place for a number of years, the methodology had not been looked at or updated in a number of years, and as we went through the calculation and compared it to what we see at other organizations, we thought perhaps a fresh look there might be appropriate. We didn't think it was materially misstated, by any stretch of the imagination, but just to challenge the methodology and some of the assumptions, and so management will be taking a look at that.

And then finally, upcoming accounting standards, and those are listed there for intangible assets, derivative instruments and fund balance and fund type reporting. The intangible assets and, well, frankly, all three of them are likely to have some impact on the Department. Indeed, the one for derivative instruments, I know the Department is already looking at because they've called to discuss some matters with us already, so I know that management is involved in looking at those items. They are some fairly significant changes, some of these things are things that have been happening already in the private company world and the Governmental Accounting Standards Board is now bringing some of those things or something similar to the governmental accounting, so it will be some significant changes that we'll see coming in the next few years.

And so with that, I'd be happy to answer any questions or

address any other matters that the committee may have.

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

MR. KEIG: I just have a question of the staff. Who should I address it to?

MS. RAY: Depends on what the question is.

MR. KEIG: The general computer controls observation on the People Soft controls, it says, "Implemented by the end of this month." I'm not sure what that month was.

MR. GERBER: Curtis Howe, who heads up our IT is here, and Don Atwell, who is with ACS, is here as well to answer some of those questions. But Curtis, why don't you respond?

MR. HOWE: Yes, sir. Committee members, I'm Curtis Howe, director of Information Systems. We have already implemented that control, it was implemented on November 30, 2009. And I'll just add a word of explanation about that particular finding. This is in relation to direct database updates that are requested, and they're requested fairly rarely, probably a few times a month where, because for whatever reasons, financial staff can't make a change directly through the normal data entry procedures through People Soft.

Occasionally IS is required to do a database update directly by passing the normal system controls, and we did have in place an approval procedure where an e-mail approval by a team leader or manager is required in advance of us making the changes, but what we didn't have in place -- and it was pretty hard for us to implement -- is a database log, a systematic log of

any changes that I review on a monthly basis and compare to the work orders that are generated through the approval e-mails and tie the two back together.

So that's what we've implemented now and that has been running since November in production.

MS. RAY: And does that meet the standards that the auditor represented?

MS. PETTY: Yes, ma'am, it does.

MS. RAY: Mr. Gann?

MR. GANN: No questions. That was one of mine.

MR. HOWE: Thank you.

MS. RAY: Thank you, Curtis.

MS. PETTY: With that, I have no other matters for the committee.

MS. RAY: Ms. Donoho, do you have any comments?

MS. DONOHO: No, just that staff recommends acceptance of the Deloitte and Touche reports.

MS. RAY: The Chair wishes, on behalf of the board, to also apologize for our scheduling difficulties. You wrote your report and we were aware of it in August of 2009, and we've had some significant challenges to our schedule as a board, out-of-town meetings and such, and that's why this meeting is so long this time because we have a lot of things on our platter. But we do appreciate your consideration in working with us, and we certainly wish to commend members of the staff, Mr. Dally, Mr. Cervantes, Curtis for the work that you do on behalf of the Department, and we thank you for your

professionalism, we thank you for staying on top of it, and thank you very much for your collaboration and working well with not only our internal auditors but our external auditors as well. We thank you very much for that.

Does anyone on the committee have anything before I ask for a motion?

MR. KEIG: No.

MS. RAY: The Chair will entertain a motion.

MR. KEIG: So move that we accept the report.

MR. GANN: I'll second.

MS. RAY: It has been moved and seconded that we accept the report of the external auditor, Deloitte and Touche. Are you ready for the question?

MR. KEIG: Yes.

MS. RAY: All those in favor please say aye.

(A chorus of ayes.)

MS. RAY: All those opposed, no.

(No response.)

MS. RAY: The ayes have it and we have accepted the external audit report. We thank you very much for your service to the Department, we thank you for your professionalism and your patience.

MR. KEIG: Are we going to the next item?

MS. RAY: I'm sorry?

MR. KEIG: Can I ask about this?

MS. RAY: Sure.

MR. KEIG: The HHS CSBG update, final report from February of 2009 Audit, any idea when we might get that since that's over a year.

That's federal HHS. Right?

MS. DONOHO: Right. They issued a report or a draft, I guess, and we talked about this at the last Audit Committee meeting, and we wrote some management responses and sent it back to them, and the way it works with them, I think, is that they clear those findings based on our responses or not, and the last communication we had with them which I believe was maybe last week, they said that they hope to get something to us in the next couple of weeks. So we don't have a final, final report on that.

MR. KEIG: When did we give them our management comments?

MS. DONOHO: Last summer, in July.

(General talking and laughter.)

MS. DONOHO: And we talked about this at the November meeting just to kind of go over the findings and stuff, but we're still waiting to hear if they've cleared them.

MS. RAY: Moving on to agenda item number 5 which is the presentation and discussion of recent Internal Audit reports.

MS. DONOHO: Actually, we still have a few things on 4 to talk about.

MS. RAY: I'm sorry.

MS. DONOHO: That's okay. In addition to Deloitte, the Department was also audited by KPMG as part of the statewide audit. KPMG

contracts with the State Auditor's Office to perform a portion of this audit which is over federal funds. This year they reviewed the LIHEAP Program, the Low Income Home Energy Assistance Program, and the CDBG Disaster Recovery Program.

They had three findings. Their first finding was that the Department did not post four quarters of the required CDBG quarterly performance reports to our website. The reports were posted as soon as the issue was identified and the Department has established controls to ensure these reports will be posted no later than three days after they're submitted to HUD. This finding was classified as non-compliance so it's not considered to be a material issue.

The next finding they had is for both LIHEAP and CDBG and it's in some of the automated systems the Department uses, specifically People Soft and Genesis, duties are not segregated between application administrators, database administrators and developers. Developers have access to make changes in a production environment which creates a risk of unauthorized changes to production and/or risk of errors or omissions in processing. This was a finding last year, and the Department made some changes based on this finding during the year, but because it crossed over into their testing year, they were carried forward again this year.

So I guess the way that works is because they tested transactions from the whole year, they tested at some point where we hadn't implemented the recommendation and some points where we had, and so it's still a finding but hopefully will go away next year. The Department made the changes that were required except for one developer who needs the privileges

to provide computer support to the Department.

I think this is a direct result of the limited number of staff in the IT Division. This finding was classified as a significant deficiency which means that even though there were no questioned costs, it's a control issue that could affect the reliability of our financial information. So it's somewhat more serious than non-compliance but it's not the worst it could be or anything.

I don't know if Curtis wants to elaborate on that or not.

MR. HOWE: On the last point from that finding about the developer who has access to our Windows domain, specifically this developer has rights to install software on computers, Windows computers and make file permission changes, add users and delete users from Windows.

One thing I'd like to add to what Sandy mentioned is that this developer doesn't have any software developer rights in the Windows environment, his software development rights are in a completely separate environment.

And so this was the only area where, in discussions with KPMG, we had a disagreement about this difference of opinion about the significance of this particular issue, and we're continuing to discuss this item, and if during the audit next year it does continue to rise to this level of deficiency, we'll make that change.

It's not really so much of a staffing limitation -- it is somewhat a staffing limitation but more so it's just that this particular developer is highly skilled in that area and it provides a lot of support benefits to the Department for this developer in the Windows environment to help out with Larry

Mercadel's group, with the network and techno support group.

The other items that Sandy mentioned, we had addressed them last fiscal year, mid fiscal year of 2009, but because this audit that was conducted in FY 2010 addressed the prior fiscal year, they're carried into this fiscal year's report -- if that makes sense.

MR. GANN: So we are actually still dependent on this particular developer with IT support, I guess is what we he really is?

MR. HOWE: This is a developer that works in our Information Systems Division. We basically have two major branches, we have software development and then network and technical support. This particular developer has been with the Department for a lot of years and he's very highly skilled, and we're not dependent on him but he does assist a lot in this area.

MR. KEIG: Are you saying he's a contractor or he's an employee?

MR. HOWE: No. He's a full-time employee. But because of the A-133 audit standards, when a federal single audit is being conducted, if a person has the title "developer" has access to production environments, any sort of update access, especially super-user access, then that's going to be questioned and possibly written up as a finding. The point for this particular software developer is he works in different -- he doesn't do any software development in our Windows environment, he only does technical support functions in that environment, his software development duties are in the Unix environment, separate from Windows.

MR. KEIG: I'm over-simplifying it, but can't you just have

access rights to one side and not the other?

MR. HOWE: Well, that's essentially what we've done. In the environment where we do our custom software development, he doesn't have the elevated rights on the Windows side. We could take those rights way, technically that's no issue, it's just we would lose some efficiencies in providing technical support.

MS. RAY: Can we make one clarification. I think we may have a tad bit of a semantics problem when we're discussing this situation when we use the word "developer" because in housing when you talk about developer, you're not talking about software developers. In this particular instance we're talking about a software developer.

MR. HOWE: A programmer.

(General laughter.)

MS. RAY: A programmer, not a developer with whom we do business in the context of housing development, and I think just the terminology may have led some of us off on a tangent, I know it did me when I first read the finding, so I think we're talking about a little bit different, not partitioning off a housing developer, if you will, as opposed to a software developer. And I think if we can kind of get that in our point of reference, we may have a little bit less of a concern about it.

MR. HOWE: That's a good point; I should probably have used the word "programmer" instead of software developer.

MS. RAY: Thank you.

MR. KEIG: All right. Have we taken care of KPMG's concern?

MR. HOWE: Yes.

MR. KEIG: We're not going to be cited for that again in the future?

MR. HOWE: Well, on the other items, yes; on that one we still need to have some followup discussions with KPMG. Based on our last conversation, that's the impression I'm getting, but I can't say with 100 percent certainty that this would not come up again, and so we just need to have a few followup discussions, and if there's a chance that it's going to come up again in a future finding, we'll make the change to eliminate his access to the Windows environment.

MS. RAY: On behalf of this Audit Committee, because in all of the discussion it certainly appears to me that you're still saying that we have ongoing dialogue with KPMG on this particular issue, and it could very well come up again, we would just ask, on behalf of this Audit Committee, if it appears that KPMG still has concerns and there may be a chance it will come up again, if you would inform us up front rather than waiting until it's a document.

MR. HOWE: Yes, ma'am.

MS. RAY: We would appreciate that. And let us know what your decision is as we move forward.

MR. HOWE: Yes, ma'am, certainly I will notify executive and the committee in advance.

MS. RAY: Please.

MS. DONOHO: Also, let me point out that since we're halfway

through this year, if we made some changes, they might still bring that up as an issue just because it would apply to the first part of the year.

MS. RAY: Just keep us informed.

MS. DONOHO: Just so you know.

MS. RAY: Just let us know.

MS. DONOHO: The next finding is related to the Disaster Recovery contractor, ACS, and it's subcontractor Reznick. KPMG found that there weren't sufficient controls over access to their automated systems, Worltrack which is used for financial transactions, and Portfolio which is used for eligibility. These issues are related primarily to, again, software developers having access to the production environment, lack of end user testing prior to promoting changes to production which we talked about earlier on another front with Deloitte, and privileges and password changes for user access.

The responses to KPMG's findings were primarily written by ACS. Curtis, our IT staff and myself, as the only IT auditor around, will be visiting the contractors and checking to determine that these issues have been corrected. This finding was classified as a significant deficiency and material non-compliance which is a failure to follow a requirement that's material to the program, and a control deficiency or a combination of control deficiencies that adversely affect the ability to authorize, record, process or report financial data reliably is how they characterize that.

So I don't know if we want to talk some more about that.

MR. KEIG: I'd just like to hear a time line for getting that fixed. Even though it's a contractor, we're responsible for supervising the contractor

and the buck stops with us, so I want to check with you and see what the plan is there.

MR. HOWE: Regarding the time line, Mr. Don Atwell is here also representing ACS. The target date for all corrective actions was February 28, and ACS and the subcontractors, Reznick and Worley Companies, have implemented all of the corrective actions, and the Department still has to follow up and monitor, as Sandy was mentioning, but based on discussions with Mr. Atwell, the controls have been implemented as stated, with one minor exception that one of the findings involved IT security policies at Worley, and those policies are written, they just haven't been pulled together into one binder, into one security document.

MR. GERBER: Don, why don't you come forward and talk about it a little bit.

MR. HOWE: And as far as time lines, Sandy and I still need to schedule the visits, but it will be in the March and April time frame.

MR. GERBER: Probably more the March.

MR. ATWELL: We understand that these are significant issues. A lot of it was related to the size of the IT teams and trying to segregate the duties between a very limited number of people and still get all of the work done. With Curtis's help, we've gone through and helped identify how we can break out those activities so that the developers don't have access to production data and you won't see these as issues going forward unless, as everybody has mentioned, they're identified from the prior accounting period.

MS. RAY: Mr. Gann?

MR. GANN: Give me that accounting period again.

MR. DALLY: This would have been last year's fiscal year which would have ended August 31, 2009, and started September 1, 2008.

MR. GANN: Okay.

MR. DALLY: And so as you see, these reports and our responses are formed by months into this current year, so that's where you'll have a period early on where they were still writing it up and we were still responding as to what we were going to do to put something in place, but you may need six-eight months in this period where you won't see that, it's the last four months.

MR. GERBER: But we've made a satisfactory fix and now we're going to go in and test to make sure that procedures are in place to address this audit issue, so I would suspect that at the next Audit Committee meeting two to three months from now, we would be in a position to report back on whether that's been validated.

MS. DONOHO: Yes.

MS. RAY: Does that meet with your concerns?

MR. KEIG: Yes.

MR. GANN: Mine too.

MS. DONOHO: And to add to what Bill was saying, the KPMG report came out, I believe, earlier this week, and the Deloitte report was December.

MR. KEIG: Mid December, yes.

MS. DONOHO: So part of it is the timing, by the time they come out with the report and identify it, we're several months into it. So when they pull their sample next year, if they pull transactions during those first four or five months, they might identify these issues again, and hopefully they would say it was fixed in the later part of the year.

MR. KEIG: That was with our management response.

MS. RAY: Yes.

MR. DALLY: Just one little thing to add here is that KPMG did some testing of samples just to see if there was this weak environment, they did some tests to see if they found any issues in transactions, and I think there were a few but they were minor.

MR. ATWELL: There were no dollars that ever went out inappropriately.

MR. DALLY: No dollars. But that's a sample, that's just a test. They assess the environment and how strong those controls were, they say we did have some issues, and so they go on and do some testing and get some results on that sample.

MS. RAY: On this discussion it appears to me this is a material deficiency on procedures as opposed to any actual loss to the Department.

MS. DONOHO: Right, there were no questioned costs.

MS. RAY: Exactly. I like it when it's not money involved.

MR. GERBER: However, I would just interject, Madame Chair, that ACS clearly understands that what we've tried to do with this program is to establish what we think is a strong national model, and that these types of

procedures and processes are part and parcel of that and getting it right to the Fed's satisfaction is critical, and so there's been no confusion there and we know it's been addressed and validate it, and onward.

MS. RAY: Thank you very much.

MS. DONOHO: Any other questions on KPMG?

(No response.)

MS. DONOHO: On the status of external audit reports, there's a table in your Board book. We have three external audits that are currently in field work. There's an audit of the ARRA Weatherization Assistance Program by the Government Accountability Office that's going on right now. There's also an audit of Disaster Recovery by HUD OIG; they're looking at our contract with ACS, and then there's a post-payment audit of ARRA funds for the Comptroller's Office that's also going on right now.

There are three external audits in planning. HUD is coming next week to look at our Disaster Recovery Program; Department of Energy is here this week looking at weatherization programs; and HUD is, we understand, coming in May to look at Davis Bacon for HOME and CDBG programs. So we have, as usual, a lot of external auditors.

Are there any questions on the status?

MR. GANN: I'd just ask you to keep your eyes on the Davis Bacon deal. I know the guys on the end use out there are not really that familiar with any of this, so I can expect it to be problems there just because I've seen some of the guys doing work out there. Do you see any problem with that? I mean I'm asking you.

MS. DONOHO: With Davis Bacon.

MR. GANN: No, I mean, coming up from the bottom by the time it gets here, getting the reports from the field.

MS. DONOHO: Yes. I really can't answer that, I don't have enough understanding of that process to really be able to answer that. We are planning on talking about Davis Bacon later on, so maybe some of our Davis Bacon folks have more information.

MS. RAY: I certainly expect some issues associated.

MR. GANN: I do too.

MS. RAY: Because it's new to a lot of people with whom we do business.

MR. GANN: Sure, new with everybody.

MS. RAY: With the energy issues, certainly.

Ms. Donoho.

MS. DONOHO: The next item, item 5, is discussion of recent Internal Audit reports. We issued a report on the 4 Percent Tax Credit Program in November, generally based on the work we've performed, the department has controls in place to provide reasonable assurance information received from applicants for the Tax Credit Program and the 4 Percent Program is accurate and complete, that applications are reviewed thoroughly and objectively, and that all applicable program requirements are followed.

The Department allocated 4 percent tax credits to twelve developments in 2008 and five in 2009. We tested ten files from those 17 developments and the associated supporting documentation from 2008 and

'09 application cycles and we found no errors in our testing. In addition, we followed up on the prior audit issues related to the QAP that we identified in previous internal audits of the 9 Percent Program because it's the same QAP. Of the four prior audit issues related to the QAP, all four were fully implemented.

We are currently finishing up field work and writing the report on our audit of the Weatherization Program monitoring. We expect to have that one to you in April. We just completed an audit of the Manufactured Housing licensing process for occupational licensing and we're going to be reporting that work to their board on Friday. The reason I'm telling you about that is because Manufactured Housing funds half of one of the full-time equivalent folks for Internal Audit and we periodically perform audits for them as part of our administrative agreement with Manufactured Housing, so that takes up some audit time but we have that obligation.

We are planning on kind of going out on a limb here and starting four audits at once so that we can hopefully be a little more efficient in getting these out, and because of the types of audits they are. We have a Disaster Recovery construction quality audit that Harriet is going to be doing that we'll be starting in April; we have an audit of our Ethics Program that's required by Audit Standards that Betsy will be starting hopefully in April; we have an audit of accounting operations that Nicole will be starting in the next couple of weeks; and an audit of IT governance that I'll be doing. The last audit on our plan is an audit of NSP and that will be our carryover project, we'll probably start that later on this summer.

Are there any questions on the 4 Percent Tax Credit audit or the status of internal audits?

MS. RAY: Mr. Gann?

MR. GANN: No.

MS. RAY: Mr. Keig?

MR. KEIG: No.

MS. RAY: And that is information only.

MS. DONOHO: Right.

Item 6 is presentation, discussion of the status of prior audit issues. There's a report in your Board book that covers from both internal and external audit reports released since September 2007. The reason for that cutoff date is because I arrived the end of August of 2007, and when I got there there were 457 prior audit issues. Internal Audit worked really hard, at the request of the Board, to clear all of those issues in the first year and a half that I was here.

Since September 2007, there are 108 current audit issues in the database. That sounds like a lot, but if you think about it, it's really three years' worth of external audits. Last year we had eleven external audits; the year before I think there were eight or nine; every year we do between four and six internal audits, so really we're talking about approximately 40 internal and external audits have 108 findings, so that's, if you look at that perspective, not really bad at all.

Of the 108 issues, 54 of them have been reported as implemented and Internal Audit has done the work to verify and close that so

we've closed half of the ones that are there. There are 41 that have been recently reported by management as implemented; those are reflected on the report that you have by IX. We will verify and close these issues as time allows, so when our staff has gaps between their audit work or testing, they go out and clear prior audit issues, so we'll be working on those as well.

There were three issues that were pending or action delayed; we'll verify and close these issues when they're reported as implemented. There were two issues that were not implemented, there were eight issues that we didn't receive responses on this round, and I'm very happy to report to you that all of the OCI issues are implemented and have been verified and closed.

MS. RAY: And I am happy to hear it.

MS. DONOHO: Office of Colonia Initiatives.

MR. KEIG: Thanks.

MS. RAY: Prior to your appointment to this committee, we had some significant issues in that area, and I'm real pleased and thank management and Internal Audit for resolving those issues and that really relieves my comfort zone. Thank you for bringing that to our attention.

MS. DONOHO: Okay. Are there any questions on the status of prior audit issues?

MR. KEIG: Yes. Do you have some?

MS. RAY: No. Go ahead.

MR. KEIG: The three issues reported as pending or action delayed, how old are those three, what years do those come from?

MS. DONOHO: I know that I believe one of them is the IT issue we just talked about, the one about the software developer's access to prediction data.

MR. KEIG: So we're working on that one.

MS. DONOHO: Right.

MR. KEIG: And do you remember what the other two are?

MS. DONOHO: Not off the top of my head; I can certainly look them up if you'll give me a second here.

MR. KEIG: And I guess my followup question then is on a scale of low priority to high priority, where do you place those in terms of significance?

MS. DONOHO: On the prior audit issues?

MR. KEIG: Yes, these other two issues that are pending or action delayed.

MS. DONOHO: I would say low priority. One of them I know is an issue that's related to some software that is used by the Weatherization Program and I think it's an issue with the federal system, so my understanding is that we have to wait until they do whatever they do to roll out this new system before we can start using it.

And honestly, off the top of my head I can't tell you what the other one is without looking here real quick.

MR. HOWE: Sandy, I might have something to add to the software item for Community Affairs. There's one prior audit issue involving merging two monitoring systems together.

MS. DONOHO: That's what it is.

MR. HOWE: And those are two functional systems that basically Community Affairs, two of the sections of Community Affairs are the energy assistance and the community services sections and they have separate monitoring systems, and there was an Internal Audit recommendation that the systems be merged together, and that recommendation came along at the time -- the Department prioritized building several new modules for our contract systems to support Recovery Act programs, so over the last year our IT department has been highly focused on rolling out those modules. So I believe that's a lower priority.

MS. DONOHO: And I will tell you that that particular finding was done by my predecessor, it's not one of mine, so that dates to 2006.

MS. BOSTON: And if I could just mention, the finding was from December of 2006 and as early as 2007 the energy assistance section did create an intranet-based system that we really have captured the pertinent dates, milestones and requirements, but it's not this formal merger but we do have a system that we believe meets the requirements of the audit.

MR. KEIG: Okay. And then did we catch what the third one was?

MS. DONOHO: I will mention that when we go through these quarterly and send them out and ask management for responses and we do look at what the status is of the ones that we consider to be

priorities, so that the things that are most important we follow up on first and make sure are cleared.

The other one, I think, is 113? I'm sorry.

(Pause to look through documents.)

MR. KEIG: If somebody tabulated these to come up with these numbers, don't they have a spreadsheet that shows?

MS. DONOHO: It's in an Access database, and I apologize, we have never been asked that question before, but I can assure you that we will have that information for you in the future.

MS. RAY: That just goes to show you that your Audit Committee can make you a better employee and better prepared.

(General laughter.)

MS. RAY: What I have more concern about, as opposed to those that are pending or action delayed, although they are all important, I'd like to be able to -- not in this Audit Committee meeting but in future Audit Committee meetings when we have revelations that issues are reported as not implemented, we'd like for you to be prepared to share with us what those are, what areas those are so that not only Internal Audit but certainly management is aware. When an auditor made a recommendation and they're not implemented, we need to be able to address it and review it, and the eight issues where we did not receive responses from management, we need to be able to identify what those are

MS. DONOHO: I know what those are; those are

Community Affairs.

MS. RAY: I want to be able to see what they are and I'd like to hear not only what the audit recommendation was but the response of management if they have not been implemented, and certainly when you did not receive a response from management, that is a concern to me.

MR. KEIG: And as you can imagine, those were my next two questions.

MR. GANN: I didn't get a chance on this one.

(General laughter.)

MR. KEIG: I think we all are concerned about those.

MS. DONOHO: The other one to address is 112 which it was CSBG's state assessment review of the fiscal and programmatic procedures, it's number 112, of CSBG. The State needs to comply with policies and procedures for examining the accuracy of the financial functions and processes, comply with fiscal controls, it's CSBG.

MS. RAY: Here's where I'm going with that, when we have them reported like this for the Audit Committee, it's not important to me, necessarily, to just understand what the audit finding is but what is important is to hear from management what the audit finding was and a reason from management why they have not been implemented. And so we need to have the Internal Audit and management prepared to address those issues, and when you did not receive responses, we want to hear both sides of that.

MR. GERBER: Madame Chair, if I might suggest, because

I think it's going to take a few minutes, I want to make sure staff gets the right information and that we have a chance just to quickly make sure we're looking at the same audit findings, I know that Sandy does want to do an Executive Session briefly to talk about some of the fraud issues that are identified in item 7, maybe it would be helpful if we could maybe table this item for just a few minutes.

MS. RAY: Mr. Executive Director, I am prepared to table it completely for the purposes of this meeting because if we're not prepared to be able to address those with the finding and management, there's really not much point in discussing it, and I'd like to have Internal Audit and management prepared at the next Audit Committee meeting. I want everybody to understand that we understand that we've gone from 400-plus items in the past, now we're down to noise level, but when we're talking about noise level, when an auditor finds an issue and does not implement it as recommended, management needs to be able to tell us why.

If we have whatever number where management did not even -- and I don't want to make it sound horrible -- bother to give a response, that's a major concern. If we're going to talk about it, we need to be able to address why. And I want to table the discussion on where we're talking about the three issues, the two issues and the eight issues for the next meeting so that when we come together, if we're going to deal with it, we need to understand, both management and auditor, what are we doing to fix it. So I'd like to table this discussion because I don't think

it's productive to be searching for this information at this meeting.

MS. BOSTON: I have the answers for the eight today, but I'm happy to deal with it tabled, if you prefer. I just want you to know what do have the answers today.

MS. RAY: I think management is trying to get to number 7.
(General laughter.)

MR. GERBER: I just wanted to say we want to make sure we have the right thing and then come back to it.

MS. RAY: Could we come back to that?

MR. GERBER: Sure.

MS. BOSTON: Whatever you guys want to do.

MS. RAY: Let's move on to 7, because I know most of you get off at a reasonable time, and we appreciate starting the Audit Committee meeting at four o'clock, and I don't want to get keep you here all night long, and I do appreciate your hanging in here with us and working through these issues.

MR. GERBER: And Madame Chair, we certainly want to get you the right information, and so maybe going to item 7, I know we have some folks here for item 8, and then we'll pause for the Executive Session which I think should take just a few minutes, depending on questions, and then right after, and I think during the moving around for the Executive Session, I think we'll have a moment or two just to get staff synced up and we'll be able come back and report on the eight, three and the two.

MS. RAY: I don't have any problem with that. Mr. Keig?

MR. KEIG: That's fine with me.

MS. RAY: Mr. Gann?

MR. GANN: Fine.

MS. RAY: All right. Then that's the way we'll proceed, and we'll move to item number 7 and we'll come back to complete item number 6.

MS. DONOHO: Item number 7 is discussion of the Hotline/Fraud Investigation workload. Internal Audit receives and resolves calls from the Department's fraud hotline.

If you remember, we put the fraud hotline into place shortly after I got here a couple of years ago, and we also get calls on potential fraud complaints from other sources: the State Auditor's Office has been sending us some of late; occasionally we get a complaint that comes from a member of the legislature; HUD OIG has been sending us some.

These calls are all part of the workload as well as the complaints that we get from other sources, and I just wanted to let you know that those have been increasing somewhat, not an alarming rate but just, I think, because of the visibility of the money that's coming to the Department, because of the ARRA funds, because of the Disaster Recovery funds that it's kind of become more to the front of people's minds. Also, a bill was passed last session that required the State Auditor's Office to do some things about fraud awareness and for us to put a link to their hotline number on our website, as well as our own hotline,

and so I think all of those things combined have increased that workload.

And because I report to you, I just wanted to make it clear that that has increased a bit but not alarmingly, again. In 2009 we had 34 total calls; one was investigated internally and three were investigated internally and then referred to the State Auditor's Office. When we refer those, it's because we have more than a suspicion that there's fraud, that we have a reasonable belief is what our statute requires us to do to refer to those to the State Auditor's Office.

There were 30 calls from our hotline that were not in the Department's jurisdiction. A good example of those is that we get calls saying, you know, this person lives in Section 8 housing and they don't meet the income requirements, or this person is doing drugs and illegal activities in their apartment and it's not one of our properties, so then we would refer them back to the local police department or the participating jurisdiction, City of Houston Housing Authority, or whatever. So a lot of the calls we get aren't really ours but we do get some that are ours, so it's probably, I think, worth having that resource, even though a lot of them we just pass on.

In 2010 we've gotten somewhat of an increase, we have 23 reports total compared to the 34 from last year and we're halfway through the year so that's a little bit of an increase. Seventeen of those were hotline calls, we got three from the State Auditor's Office, one that came from a member of the legislature's office, one from HUD OIG, and two from program staff.

So we look into all of them, we investigate the ones that fall into the Department's responsibilities, we report those results, because we're required by statute, to the State Auditor's Office, we also, if it's applicable to HUD OIG, report them. Those two entities, depending upon the case, further investigate them when it's apparent that there's some fraud. We recently turned two cases over to HUD OIG.

So are there any questions regarding the fraud hotline or the investigation process?

MR. KEIG: Did you say we're supposed to do that in Executive Session?

MR. GERBER: I think we're going to highlight a couple of cases in Executive Session that we've done some referrals on that we think you should be aware of.

MS. RAY: I think that would be very productive because there's no point in setting up that fraud hotline and then not dealing with it in an executive atmosphere.

MR. GERBER: And Madame Chair, and Sandy, is it correct to say that probably the majority of the calls coming in are certainly dealing around our Disaster Recovery programs as those ramp up and a lot of dollars are moving, we're getting calls on the investigations that are going into that that center around those programs. We've certainly been working very closely with ACS to address those issues throughout their subcontracting network and homebuilder network.

I'll also just say, from the management side, we are

anxious to go and see one of these cases prosecuted, and we will talk about that in Executive Session, but we are trying to set the bar high and we want to find a case, frankly, that the U.S. Attorney will go and make clear that this is illegal and we're going to prosecute you because it hopefully has downstream effects in lessening fraud in your programs. So we have been working closely in that regard and we'll give you some more specifics when we go into executive.

MS. RAY: I have a question, and I realize this fraud hotline is a fairly new entity and I'm sure our policies and procedures, as we progress and evolve, will be more specific, my question would be on the three items in 2009 that we investigated and referred to the State Auditor's Office, how does that process work? We report it to the State Auditor's office. What is the feedback from the State Auditor back to us about the status of their investigation?

MS. DONOHO: Well, when they take a case, sometimes it takes them several years to get to the point where somebody is prosecuted, it depends on the case. And having come from there, I can tell you that we have a good relationship with them. The head of their fraud division is a very old acquaintance of mine and we worked together for years, and so they don't tend to volunteer information, if I call them and ask sometimes they'll kind of tell me what's going on with a case. If I get additional information, I forward it over to them; if they get cases that aren't really something that they -- they have a tendency to not want, rightly so, I guess, to look into individual people's complaints.

You know, this person, just as an example, had their house weatherized and they don't feel like the contractor did a good job and they felt the contractor was maybe committing fraud or something, that's not something they would pursue, they would give it to us to pursue and then we'd report back to them. They assign it a case number and give it to us and then we resolve it or not, and if we think there's something there, then we would give it back to them.

MR. KEIG: On these three, are they still pending?

MS. DONOHO: As far as I know, yes.

MS. RAY: And you already answered my second question, and the next one is the 2010 hotlines that I see here that you got three from the State Auditor's Office. You gave them some last year and this year they gave you some.

MS. DONOHO: Right. Well, you know, I think that their calls have increased quite a bit is what I understand.

MS. RAY: I'm trying to understand the process, not the specific calls, but how does that work. We give it to the State Auditor's Office, they deal with it, they let us know if they choose to, and so they obviously have a hotline or a fraud line themselves.

MS. DONOHO: They have a hotline, yes, ma'am.

MS. RAY: And when it deals with TDHCA, they send it to us for a preliminary investigation. Is it possible that it would eventually end up going back to them if it's suspected there is some fraud associated with it?

MS. DONOHO: It might; that hasn't happened yet. The ones that they tend to send to us are ones that they're probably not going to -- you know, like the example I just gave you, or ones where they're probably not going to try and prosecute an individual homeowner.

MS. RAY: So it would be up to you to resolve.

MS. DONOHO: It's federal funds that falls under HUD OIG anyway, and they tend to not cross over, we sort of coordinate all of that. But we're happy to take those because they need to be resolved. Both SAO and HUD OIG don't -- if you call them and say we think there might be something funny going on with this, they're overwhelmed just like everybody else because they have a lot of complaints. They have a hotline and they get the same kinds of calls that we get, but if you say we've looked into this and here's what we've found thus far, here's the points that we think that something is going on, and our statute reads that we have to have a reasonable belief which is a little bit more than just a suspicion, so we do the front-end work to get to that reasonable belief point and then it goes to them.

MR. KEIG: Of the 23 reports in fiscal year 2010, have we substantiated any that have an allegation of fraud, misappropriation, or similar allegation?

MS. DONOHO: Yes.

MR. KEIG: And of those, have any of them had a financial detriment to one of the Department's programs?

MS. DONOHO: Yes.

MR. KEIG: And of those, have we been able to recoup any monies to take care of that detriment?

MS. DONOHO: Not yet. Both of them are really recent.

MR. KEIG: And maybe it's more appropriate to talk about those two in Executive Session?

MS. DONOHO: Yes, that was the plan.

MS. RAY: Right, I was thinking that certainly we would get into more detail in Executive Session.

MR. KEIG: Thanks.

MS. RAY: Mr. Keig, do you have any other comments?

MR. KEIG: No.

MS. RAY: Mr. Gann?

MR. GANN: No.

MS. RAY: Mr. Gerber?

MR. GERBER: I was just going to say if you'd like to go into Executive Session now, or if you'd like to go to Davis Bacon.

MS. RAY: Let's do number 8, and with the agreement of the Audit Committee, I'd like to get through the agenda. Are we prepared to go back to item 6 before we go to Executive Session, or do we want to do that after?

MS. DONOHO: Yes, we can go back to 6.

MS. RAY: Then I assume that we have completed the work that we are going to do except for those items that will flow over into the Executive Session on number 7, and I'd like to move to number 8,

resolve that, deal with that agenda item, go back to number 6, deal with Mr. Keig's concerns and questions on that, and then move to Executive Session so that way we can free up the staff, only those that are needed for what we'll deal with in Executive Session, I think it will be more efficient to do it that way.

Mr. Gann?

MR. GANN: That's agreeable with me.

MS. RAY: Concur. Mr. Keig?

MR. KEIG: Yes.

MS. RAY: We'll proceed in that order.

MS. DONOHO: So you want to go to item 8 first.

MS. RAY: Yes.

MS. DONOHO: Item 8 is a discussion of Davis Bacon requirements. At the last Audit Committee meeting we had talked a little bit about Davis Bacon and you had requested, Ms. Ray, that we add that to the agenda this time. Department of Energy has provided more than \$5 billion in ARRA funds to expand weatherization assistance programs around the country. The funding has a goal of weatherizing homes, lowering energy costs for low income families, reducing greenhouse gas emissions, and creating green jobs. The State of Texas had an existing program of \$13 million a year, however, with the passage of ARRA, Texas received an additional approximately \$327 million in weatherization assistance funds.

The legislation for ARRA required recipients of any ARRA-

funded assistance pay their laborers and mechanics employed by contractors at least the prevailing wages as determined under the Davis Bacon Act. Davis Bacon is applicable to contracts of federal government construction projects in excess of \$2,000; construction includes alteration and/or repair of public buildings or public works. Davis Bacon requires all contractors and subcontractors to pay laborers and mechanics on a covered contract wages and fringe benefits as determined by the Secretary of Labor for the prevailing wage for that area. Any project funded or assistance in whole or part by Recovery funds are subject to Davis Bacon.

Sub-recipients and contractors have to establish the applicable wage determination and attach it to their bid solicitations, assistance agreements and resulting contracts. Sub-recipients are required all workers are paid on a weekly basis, they review payrolls for compliance and submit the weekly certified payroll records to TDHCA. Sub-recipients and contractors are also required to maintain payrolls and records relating to payroll during the course of weatherization work and to preserve them for a period of three years.

The Department has established some procedures to ensure compliance with the labor standards mandates. We have, my understanding is, identified and designated a labor standards officer at the sub-recipient level whose primary responsibility is to oversee and enforce Davis Bacon compliance. There's a pre-construction conference that's held with the sub-recipients to discuss the roles of the all the parties and

confirm that they've gotten all the stuff they needed for Davis Bacon.

I think Brooke and Lora are here to talk a little bit about more about Davis Bacon.

MS. BOSTON: I'll send Lora.

(General laughter.)

MS. RAY: Okay, I think Lora is prepared to talk more about Davis Bacon; she's the Davis Bacon queen.

MS. RAY: Come around here, if you don't mind.

MR. GERBER: Lora is our director of Program Services. And Carmen, why don't you come forward as well. Carmen Roldan is our staff lead on Davis Bacon and has been with the Department for many years and covered many of these types of complex issues. So Lora, why don't you start, and Carmen, why don't you chime in.

MS. RAY: We're going to be hearing a lot from you this year.

(General laughter.)

MS. MYRICK: My name is Lora Myrick and I am director of Program Services, and one of the components that we take care of for the Department here is the Davis Bacon requirements, and with weatherization with this nice, new, big pot of money that we've gotten, they've added this component to this pot of money which previously was not there. So what we have done is we have established a pre-construction conference, as Sandy has indicated.

What we do in that pre-construction conference is we have

the sub-recipient identify a labor standards officer, and this person will work very closely with Department staff in ensuring that all contracts have the applicable clauses, everybody is being paid weekly, everybody is being paid the correct wages, everybody is doing what they need to be doing, and they also will be responsible for the prime contractor as well as the subcontractors. So they are looking at all of the certified payrolls for all of these groups of folks, they review it and then they send us the certified payrolls or copies of them via an electronic PDF, so then we review it.

MS. RAY: The sub-recipient sends that to you.

MS. MYRICK: Yes.

MS. RAY: They deal with their people on the ground, their contractors; they receive the information, they send you pretty much a summary.

MS. MYRICK: Yes, and we're looking at the certified payrolls and copies that they looked at to make sure that not only are the subcontractors and prime contractors doing what they're supposed to be doing, but that the LSO for the sub-recipient is also doing what they need to be doing.

MS. RAY: The LSO?

MS. MYRICK: The LSO, the labor standards officer which is the primary contact that we have with the sub-recipients. It's a lot.

We review the certified payrolls and we issue deficiencies, we tell them to correct documentation, how to correct documentation, and

because this is a pretty intense process and a lot of these folks, this is very new to them, we have done lots of trainings, we talk to some folks on a weekly basis, there's some we talk to on a daily basis, and that's okay, we tell them that's what we're here for, we answer e-mails all hours of the night, and we really like to provide as much feedback to them in writing which a lot of what we do is send back feedback via e-mails.

Again, we have really close contact with some of these folks because this is the first time many of these people have ever had to deal with Davis Bacon and we try to put them at ease and try to let them know that they're not by themselves, we're here with them, and we're going to help them in every way possible and help them complete forms, complete certified payrolls; if there's a mistake we're going to help you catch it right away and we're going to help you fix it and get you back on track.

Unlike with other federal funds, sometimes with some of the housing programs, HUD CPD programs, there's always that recapture should you do something wrong, with the labor standards, what you have sometimes is maybe someone was paid incorrectly so we go back and ask for restitution, and so that doesn't necessarily mean federal funds have to come back, it just means that we need to get the folks paid the correct wage; if they weren't paid the correct wage, get that taken care of, we need documentation that that was done and we move on, and we continue to process the certified payrolls as they're coming in. We provide lots of TA.

Yes, sir?

MR. KEIG: If there's a repeat offender, is there a process to take care of them to get them into compliance if they continually do this, like three times?

MS. MYRICK: Yes. If we see that someone is having trouble, we will make it a point to go out there and spend some time with them on site and look at what it is that they're doing. Maybe there's a disconnect between our e-mails and phone calls and maybe this is just something that we need to deal with face to face with these individuals, walk them through the process, help them pull whatever information they need to off internet sites and actually go through filling out the documentation. Because nine times out of ten, what we find out is that it's just folks that are not used to dealing with this intense paperwork, and so we have to just go out and walk them through that process.

MR. KEIG: Say it's somebody who has three strikes, what are the remedies available?

MS. RAY: What punitive issues? How do we get their attention?

MS. MYRICK: How do we get their attention?

MR. KEIG: Yes, it is past the technical assistance stage, what can we do to get them to comply, are there penalties?

MS. MYRICK: Well, the restitution in itself means that they have to come out and pull money out of their pocket to fix the problem.

MR. KEIG: Right, but there are contractors who take the

idea that: We'll wait and see if somebody catches me and then all we have to do is pay what we should have paid; in the meantime, I'm saving the money. So if we find somebody doing it wrong and we help them out and they do it wrong again and then a third time they do it wrong, is there anything we can do or do we just keep having to say pretty please?

MS. MYRICK: Probably at that point we would enter into discussions with program staff to talk to them about talking to the sub-recipient and possibly bringing in another contractor, do you have another prime contractor that can fill in, we may have to go back out and do this bid process. But if you're not doing it and it's blatant that you're not wanting to follow the instructions or follow the guidance that we are providing, then maybe it's time to change out either prime contractors or subcontractors, whichever is applicable.

MS. RAY: So what I'm hearing you say is we have a process to be as extreme as termination of the contract.

MS. MYRICK: That is always an option and that is something certainly that we would want to discuss with the program staff since we're a support function, if you will, to the program staff, but that is something that we would definitely to bring up with the program staff.

MR. IRVINE: If I might, Tim Irvine, for the record.

Really, though, this is not a program where we've got penalties or things like that we can assess, and we are really limited pretty much to the nuclear option of stopping the contract.

MR. KEIG: Right, got you.

MR. GANN: And isn't there a limited number of providers on this stuff too?

MR. GERBER: There is.

MR. GANN: Which is real problematic.

MS. RAY: You know, really I think that since there's so much money that has come to us to be given to our sub-recipients, it's my personal belief that we want the program to be successful because we have deadlines. Sub-recipients need for their programs to be successful because of similar deadlines and the importance of getting the services down to the lowest common denominator which is the homeowner who's being weatherized. But just as it generally relates, I think the contractors have a real incentive to be successful and they want to, quote, play by the rules and follow the paperwork, I think from what I've heard you say, you have set up a process, training and communication. I don't think any contractor wants to leave that money laying on the table, they want to try to do the right thing.

MS. MYRICK: And they certainly want to be employed with us probably, again, and to do business with us, they want to be a continuing partner with the department, as we certainly want that as well, yes, ma'am.

MS. RAY: Exactly. And because I do have some involvement with a sub-recipient organization, they are just as firm as Lora, the Davis Bacon queen here at the Department, to ensure that the workers out there are treated fairly and according to the rules. I think what

this Audit Committee, on the subject of David Bacon, because we've heard so much negative comment when we started the program, all the small contractors are not going to be able to handle the deluge of paperwork and that sort of thing, I think what we're finding is they want to do whatever they need to do to stay in business and to be more successful in their businesses.

I guess where we, the Audit Committee, would like to stay involved and engaged is when it looks like there are significant systemic issues that would prevent us from having program success in order to be able to meet our deadlines for the program execution and expending those funds that we've been entrusted with from the federal government.

If Davis Bacon is going to be a problem, is going to impede that particular process, I think at this Audit Committee level we don't really want to get down to the individual contractor issues, only as it pertains to systemic issues that would prevent us from having program success.

MR. GERBER: It's safe to say that the up-tick of units has been dramatic since the Department of Labor in Washington provided us with clear guidance on December 30, and from that point forward we've produced almost 1,600 units. Because the subs were very concerned about moving on as well, because they really wanted to get it right as well, and they know that the Department has not been hesitant, and frankly, in all of our programs, the most powerful tool we've always had has been our control of the spigot, and they, I think, recognize that.

There are agencies, though, that are far flung that are less

sophisticated that are struggling and we're actually doing a lot of going to them for technical assistance and training, and Carmen, in particular, and Lora are on the phone with them working through it, especially those agencies that are, frankly, unnerved at the thought of restitution and the realities of that because they're operating on very thin margins, and so they want to get it right as well.

MS. RAY: Bottom line is a need for all of us to understand the bottom line is the customer, the homeowner, the individual Texan out there who is going to receive the benefit from this huge unprecedented influx of resources and it's going to help us way in the long term in terms of not only the individual home in energy efficiency and keeping the bills down, but the bottom line is the buck stops at the individual Texans down there that we're entrusted to serve.

MR. GERBER: And I would add, Madame Chair, and Brian Owens from Governor Perry's office is here joining us this evening, and the Governor's Office has been providing us with some great technical assistance and help on things like our de-obligation and re-obligation rule which will come before the Board tomorrow which is also a very powerful tool for those agencies that are not performing that can't get some of these requirements right, and we're going to have some of those out of this group of 45 sub-recipients. We will have the ability after tomorrow on an emergency basis, and then it will go out for public comment and it will eventually be done on a permanent basis, to remove funds and to put them into higher performing agencies, and so that's going to be another

important tool. You never like to do that but I think the thing the governor has made clear to all of us is that by March 2012 we will have expended \$326 million.

MR. GANN: In Texas.

MR. GERBER: In Texas.

MR. GANN: Lora, ever since I heard of this program, this is basically a 25 percent increase for any one individual group where they're working, so if you're an employer and you're struggling with the one you have and you get 25 times more, roughly, that's goliath out there, and I really feel like this is the program that potentially could have the most troublesome aspects for us as a whole agency. Because the word "fraud" scares me and I don't like it and it scares everybody, and we don't want that one coming up out thee, and you're actually depending on some people that are actually working out in the field and they're having 25 times more dollars and cents coming through their agency.

So it's just really problematic for whatever the situation may be. I hope you really look for those fraudulent situations because it's really going to be important that we find every one that there is because there could be some out there. Okay?

MS. MYRICK: Sure.

MR. GANN: Most people are good.

MS. RAY: Yes. Carmen, how's it been out there in the field, down at the foot level.

MS. ROLDAN: Well, I haven't had much opportunity to be

in the field and had a lot of opportunity to do a lot of technical assistance training. I wanted to add to Lora that there are provisions within the regular labor laws that mandate certain penalties which include termination of contract, and we're working very, very closely with the sub-recipients and we have already had a sub-recipient's prime contractor take an action against their subcontractor because they felt they were putting them at risk because the responsibility flows up, and that's why education is so important, especially to the audience that we're dealing with which are small contractors.

But in addition to that, there are also related labor laws that impose penalties for non-payment of overtime, and so we are monitoring that very closely to ensure that the workers do get paid because that filters back to us as it does with our other funding sources, and we're the responsible entity for the collection and enforcement of that. That is not an obligation that is released to the sub-recipients.

So I wanted to also just fall behind with what Lora has indicate that it's not just the education, it's making sure that our review internally is also as strict as we are expecting our sub-recipients to perform, and we are working with them because we expected, especially with this audience, that there would be a learning curve. We're not dealing with sophisticated multifamily developers who have contractors who have worked with Davis Bacon for a long time, most of these are two, three, four people entities and they're subcontracting and going from unit to unit.

I have seen a change, there has been a change in the last

three to four months that we've worked intensely with them where they will come to us and say we're taking action because of this, instead of our having to say you need to take action because of this. And there are provisions, even within their own contracts, where they recognize that if they don't at least send out the documentation to support a termination, that it cannot occur. But some of the sub-recipients, at least one, has taken their own action because they are taking this seriously.

MS. MYRICK: I think the other thing is that we've noticed a change in even how they talk to us, they don't growl so much at us, they get on the phone and they're actually pleasant and ask us how we are, but they also question.

(General talking and laughter.)

MS. MYRICK: So we are seeing that they're warming up to us, if you will, and they understand that it's not an us against them, we're all in this boat together and we've got to make the boat sail across to its destination, and we have to do it together. And I think that we've worked really hard to start building those relationships and that rapport, keeping in mind that we're going to keep people straight and on their toes, but building that relationship and that rapport with them so that they aren't so uptight and wound up and just relax and do what they need to do and know that they have us here should they need us anytime.

MR. GANN: Well, I'll say that I'm the e-mail list so I see all your training sessions and all this kind of stuff, and it has comforted me, but today, with you two ladies on the job, I feel a whole lot better.

MS. MYRICK: Well, we hope to do you proud, sir.

MS. RAY: I think we all do. Thank you so much, Lora and Carmen.

MS. MYRICK: You're welcome.

MS. RAY: Brooke, do you have anything else on the subject that you want to share with us?

MS. BOSTON: No. See, I'm so confident in Lora.

MS. RAY: She's back working on item number 6.

MS. BOSTON: I am.

(General laughter.)

MS. RAY: Thank you very much for your input.

Mike, anything else?

MR. GERBER: No, ma'am.

MS. RAY: Mr. Keig, we're comfortable? This is information, no action is required.

MR. GERBER: Back to 6 for the prior audit items.

MS. DONOHO: I apologize, we have the information that you asked for. The two that were not implemented, one of them has to do with that Department of Health and Human Services review and the reason it's not implemented is because we gave our responses to them and it's hanging out there until they tell us whether it's cleared or not.

MS. RAY: It's not at our level; it's at the federal level.

MS. DONOHO: Right.

MR. GERBER: And we met the deadline to submit our

responses and they've historically taken many, many months to respond, it's a yearly thing.

MS. RAY: As long as it's not in our rice bowl.

MS. DONOHO: The other one, if you remember at the last Audit Committee meeting we talked about HUD OIG had a report on the Disaster Recovery Program and the fact that they thought that we should require homeowners insurance and provide homeowners insurance for the life of those houses which was 30 years.

MS. RAY: And a long discussion on that.

MS. DONOHO: And so that one, there's no action intended on that one.

MS. RAY: I understand. Are you comfortable with that?

MR. KEIG: Yes. I'm aware of that issue.

MS. DONOHO: There are three that are pending. One has to do with the RP-36 risk assessment which RP-36 was the governor's executive order relating to enterprise risk management. We have an enterprise risk management system here at the agency and we've been updating that information recently, so that one is waiting for Multifamily to develop their risk mitigation action plan related to RP-36.

Another one has to do with adding something to the applicant's certification for the tax credits. I think that one looks like it may actually have been implemented, but it's still marked pending.

MS. MEYER: That one is a certification on --

MR. GERBER: She hasn't been indicted.

MS. MEYER: It's part of being indicted. They have a certification that they haven't been indicted before but we had the question of having the Audit Committee had requested that they notify us if they were indicted between the time that they submitted the application and when it was actually awarded.

MR. GERBER: This gets to the Dallas lawsuit a couple of years where the Board and the Department were in the uncomfortable place of having several applications pending and other issues pending, and you had several folks who were indicted associated with taking bribes and kickbacks and all sorts of things, and this gives the Department the tools to give those folks the boot quickly.

MS. DONOHO: And then the third issue had to do with the system that we were talking about earlier for energy assistance about the two different tracking systems and kind of merging them into one, and I think Internal Audit should probably go back and look at what the compromise on that one is and see if we think that that's acceptable. This, again, was a finding that was prior to my time.

And then the eight that are outstanding are --

MS. RAY: Excuse me, before you go to those eight, Tim, did you have something?

MR. IRVINE: Yes, Madame Chair. I have a comment on the RP-36 one because I saw a committee member's brow wrinkle at the mention of ERM. We take enterprise risk management extremely seriously and RP-36 was actually a much narrower executive order than

enterprise risk management and went specifically to the prevention of fraud, waste and abuse. And the Department decided, pro-actively, that confronted with having to meet RP-36, we would implement a very comprehensive enterprise risk management system and we have done broad-based risk identification, assessment, mitigation at all levels and aspects of the Department.

And I don't want you to think that there are unaddressed risks of significance that are out there floating around that haven't been cranked through this system. I believe that what's really going on here is a need to flesh out and update in specific areas because we do go through a cyclical refreshing of our risk mitigation assessment posture.

MS. DONOHO: And I think we're in the process of that now, is that right, or just finished it maybe? Curtis is in charge of this.

MR. HOWE: I'm the enterprise risk management committee chair, and the committee was very active nearing the end of last fiscal year, gearing up for this year's activities. Very briefly, we have updated our inventory of all the agency's high-impact processes and every division has now provided feedback on all high-impact processes for their divisions. Each division is assigned a risk management facilitator who is responsible for looking at those high-impact processes and identifying any areas where there are risks that would be high-impact risks that aren't adequately mitigated and then recommending new controls to put into place.

So we've done a couple of training sessions with the

facilitators in the fall, we've done some followup sessions as recently as last month, and I'm getting a lot of e-mails from different divisions on the facilitators asking questions, so everyone is pretty active. And we have a deadline of the end of this fiscal year to bring all of our enterprise risk management work up to date, taking into account Disaster Recovery and Recovery Act programs, with an emphasis on those programs.

MR. GERBER: And it's fair to say we've historically been one of the lead agencies on certainly implementation of RP-36 which was pretty bold at the time and sort of carrying that forward, and so we've had other agencies that have looked at our program to see how we've done, and as our programs have grown and expanded, it's required pausing to run the program and at the same time do the ERM work along with it, so they go hand in hand along with our other fraud, waste and abuse initiatives.

MR. HOWE: And that committee is made up of all executive level -- the executive team is essentially the committee and the agency received a tremendous amount of support at the executive level for this program.

MS. RAY: Thank you, Mr. Howe.

MS. DONOHO: And then the eight that we didn't get a response on, I think are Community Services.

MS. RAY: Excuse me again, Sandy. Before we move into the eight, are you comfortable with what you've heard so far, Mr. Keig?

MR. KEIG: Yes, I think so.

MS. RAY: Mr. Gann?

MR. GANN: Yes, ma'am.

MS. RAY: Okay, now if you would.

MS. DONOHO: So the eight that we didn't get responses on are Community Services, and Brooke is prepared to talk about those.

MS. BOSTON: First I'd like to say that -- and correct me if I say this wrong -- periodically Internal Audit gives management the opportunity to update, so I don't want you to have gotten the impression that management has never responded to these issues, they have been responded to at each period. Unfortunately, this last time, because it's Community Affairs, the directors was just married which isn't an excuse at all, and I've already, just since this came about today, put controls in place so that it won't happen again, but he just didn't get the e-mail back to them, but internally they had talked through what the answer was, we just hadn't sent it back. And in the past we have been giving responses, so we took the audit findings seriously and are also interested in, of course, getting them cleared and finalized.

But if you like, for each of the eight I can point you to the number and just kind of tell you what the manager's response is, or however you want to handle that.

MS. RAY: What level of detail are you concerned about, Mr. Keig?

MR. KEIG: I'd just as soon, if they have been discussed with the auditing department and Sandy says that's right, Ms. Donoho

says that's right, I'd just rather hear at the next meeting if there are any outstanding issues that have not been addressed.

MS. RAY: I think, based on what you just said, Brooke, it's all a matter of semantics. The wording says we did not receive responses from management on these items and that's really not what I think needed to be communicated. What needed to be communicated is we've not received any updated responses because, in fact, you did receive responses on these items, it's just that we're still tweaking them and working them.

MS. BOSTON: Correct, and what happens is as Internal Audit was preparing this, they sent out an e-mail to the division asking tell us any new things that have happened and they did not get an answer back. So in that regard, they're accurate in saying they didn't get an answer.

MS. RAY: I'm a lot more comfortable with that that I am management did not give us any responses. So it's just a little communications issue, I think.

A

MS. DONOHO: Well, technically what happens is when I come to report on these, I report on whatever the results were from the last round of sending them out, and what we do, in addition to sending an e-mail, is we send an e-mail that has attached a form that they complete that tells us what their current status is, and that's where each of the statuses with the dates come from this report here, and a copy of each

division's report by division. So they get the issues that are theirs like this, so they get that piece, and then the form to complete, and then they send those back to us.

MS. RAY: I see.

MS. DONOHO: And so this is where we're at right now so this is a snapshot of this last request.

MS. RAY: I'm a lot more comfortable with that explanation.

MS. DONOHO: And I will tell you that this is the first time that I've not gotten responses from them, and it has at prior points gotten to where we have to do a lot of nagging to get answers.

MS. RAY: Nagging is good.

MS. DONOHO: Yes, but this is the first time I have not gotten a response.

MR. GANN: And I imagine the whole area is going to hear about it probably, and you'll get all good responses.

MS. DONOHO: Well, you know, those pesky internal auditors.

MR. GANN: I think you'll see the Budget Committee might be different this year because there seems to be a lot of questions with the added members.

(General laughter.)

MS. RAY: I think questions are good, discussions are better, it helps us all to grow as an organization, and it certainly helps those of us that sit on the Audit Committee to have a better understanding

of the workings of the Department. I think I've learned more about the Department in these Audit meetings since we've been holding them with Department staff. And I thank Mr. Gerber for setting up this audit process, I think it's a lot more efficient and I certainly have learned a lot more.

Mr. Keig, are you comfortable?

MR. KEIG: Yes, ma'am.

MS. RAY: Mr. Gann?

MR. GANN: I'm comfortable.

MS. RAY: All right. Thank you very much.

We've not had an Executive Session in an Audit Committee meeting before, so I've been given this sheet to read, so be kind to me.

The Audit Committee Executive Session. On this day, March 10, 2010, at the regular meeting of the Audit Committee of the Texas Department of Housing and Community Affairs, held in Austin, Texas, the Audit Committee adjourned, and so we are adjourned in closed Executive Session, as evidenced by the following. The Audit Committee will begin its Executive Session today, March 10, 2010 at 5:51 p.m. The subject matter of this Executive Session and deliberation is as follows: the Audit Committee may go into Executive Session on any agenda item, if appropriate and authorized by the Open Meetings Act, Texas Government Code, Chapter 551.

The Audit Committee may go into Executive Session pursuant to Texas Government Code 551.074 for the purposes of discussing personnel matters, including to deliberate the appointment,

employment, evaluation, reassignment, duties, discipline or dismissal of a public officer or employee; review of possible pay increase for the director of Internal Audit, Sandy Donoho; consultation with attorney pursuant to 551.071(a), Texas Government Code.

MR. IRVINE: Madame Chair, just for the record, we're going into Executive Session under Texas Government Code 2306.039(c).

MS. RAY: Then you should have given it to me to read.

MR. IRVINE: I apologize.

(General laughter.)

MR. KEIG: To discuss?

MR. IRVINE: Fraud matters.

MR. KEIG: And that's another one that we don't have on here?

MR. IRVINE: Specifically enumerated under Government Code 2306.039(c).

MS. RAY: 2306 what?

MR. IRVINE: 039(c).

MS. RAY: And that's Texas Government Code, and in both instances?

MR. KEIG: Matters of fraud. Right?

MR. IRVINE: Right, matters of fraud.

MS. RAY: Then we are now in Executive Session.

(Whereupon, at 5:51 p.m., the meeting was recessed, to reconvene this same day, Wednesday, March 10, 2010, following

conclusion of the Executive Session.)

MS. RAY: The Audit Committee has completed its Executive Session of the Texas Department of Housing Community Affairs on March 10, 2010, and I shut down my computer, but my Waterbury says it is 6:24 p.m.

I certify that the agenda of an Executive Session of the Audit Committee of the Texas Department of Housing and Community Affairs was properly authorized pursuant to Texas Code 2306.039(c) of the Texas Government Code. The agenda was posted at the Secretary of State's Office seven days prior to the meeting pursuant to 2306.039(c) of the Texas Government Code, that all members of the Audit Committee were present, and this is a true and correct record of the proceedings pursuant to the Texas Open Meetings Act, Chapter 2306.039 of the Government Code.

MR. IRVINE: The Open Meetings Act is Texas Government Code 551.

MS. RAY: I'm so confused. I tell you what, next time get it right for me and I will get it right.

MR. IRVINE: We've reconvened in open session and no action was taken.

MS. RAY: We're reconvening in open session, on action was taken during the Executive Session, and with that, the Audit Committee is hereby adjourned at 6:25 p.m.

(Whereupon, at 6:25 p.m., the meeting was concluded.)

CERTIFICATE

MEETING OF: TDHCA Audit Committee

LOCATION: Austin, Texas

DATE: March 10, 2010

I do hereby certify that the foregoing pages, numbers 1 through 74, inclusive, are the true, accurate, and complete transcript prepared from the verbal recording made by electronic recording by Nancy H. King before the Texas Department of Housing & Community Affairs.

3/16/2010
(Transcriber) (Date)

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