

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

AUDIT COMMITTEE MEETING

Thursday, September 13, 2007
Capitol Extension Auditorium
State Capitol
1100 Congress Avenue
Austin, Texas

BOARD MEMBERS:

SHADRICK BOGANY, Chair
SONNY FLORES (absent)
GLORIA RAY (absent)

ALSO PRESENT:

C. KENT CONINE, Vice-Chair
NORBERTO SALINAS

STAFF:

MICHAEL GERBER, Executive Director

A G E N D A

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CALL TO ORDER, ROLL CALL	3
PUBLIC COMMENT	
CONSENT AGENDA	
Approval of the following items presented in the Board materials:	
<i>General Administration:</i>	
a) Minutes of the Audit Committee Meeting of February 1, 2007, and May 10, 2007	--
REPORT ITEMS	
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EXECUTIVE SESSION	none
ADJOURN 22	

P R O C E E D I N G S

MR. BOGANY: I want to thank everyone for coming. We have public comment. The Audit Committee meeting of the Board of the Texas Department of Housing and Community Affairs will solicit public comment. At the beginning of this meeting, we will also provide for public comment on each agenda item after the presentation made by Department staff and motions made in committee. We are going to do a roll call.

Shad Bogany, Chair, present.

Ms. Gloria Ray.

(No response.)

MR. BOGANY: Not here. Mr. Sonny Flores is not here. We do not have a quorum. And the only thing that we are going to have to vote on is our minutes, so it is going to be very informational. And then we when we go into full Board meeting we will vote on the minutes of the past Audit Committee.

At this time, I would like to welcome Sandra Hoffman. We now have Sandy and Sandra, so I think there is going to be a little confusion for a while, but we will get it together. She started September 1. Came from the Health and Human Resource Commission, Office of the Inspector General; over 17 years of experiences in state

government, a BA in International Business from St. Edwards University. And now, the Internal Audit Division is fully staffed.

Sandra, would you stand up for those who have not met you yet? Welcome, and we are glad to have you. And the pain is not that high. Thank you. Thank you very much. Agenda items, I am going to turn it over to Sandy. We are going to start off with agenda item 1.

MS. DONAHOE: Good morning, Mr. Chairman, member. For the record, I am Sandy Donahoe. I am the internal auditor for the Department. I have been on the job for about three weeks, so I am still trying to remember where I am at; get to know everybody, the staff, and the programs of the Agency; gain an understanding of the Internal Audit Department and the processes of the Agency.

The agenda item 1, the presentation and discussion of audit results from HUD's Consolidated Review for Section 8 is the first agenda item. The scope of the HUD review of the Section 8 program included rental integrity monitoring, up-front income verification and the Section 8 management assessment program. There were two findings and an overall assessment of standard performer. HUD found that there were inadequate processes for

determining income and deductions. They had a 23 percent error rate. Seven files of the 30 they tested, they recommended that the Department develop application materials to capture the required information. And the Department reports they have revised their personal declaration form. And I believe there is a copy of that in your packet, to ensure that the required information is obtained. The second finding was that the Department does not use HUD's income verification system, and the Texas State Wage Database to determine all sources of income. They recommended the Department revise their procedures for providing information prior to families' annual reexaminations. The Department reports they have revised their policies and procedures to provide income verification and information to local staff prior to the reexaminations.

MR. BOGANY: I have a question. How difficult is it for us to use the HUD income verification system and the Texas State. I realize we are using the OAG Child Support and the TWC. How hard would it be to get both, use both systems to try to improve the HUD findings.

MR. GERBER: Mr. Chairman, could I ask Eddie Fariss, Director of Community Affairs, which Section 8 is a part of that program to respond to that.

MR. FARISS: Good morning, Mr. Gerber, Mr. Bogany, Mr. Conine, and Mayor Salinas. The issue on that was not always using the EIV for every income determination. We do use both the TWC database and the HUD EIV income verification system. So it is not that it is difficult. We use that some. There was quite a few income determinations that didn't use both systems.

MR. BOGANY: Okay. Do you feel that that is something we can do? Because if we took 30 files, and we got 23 percent. Seven of those 30 that is not right, do you think it is going to be too much heartache to put both of them?

MR. FARISS: No. We are using them at the same time. And without having the seven files in front of me, I think the report goes through each individual ones of those files. And there was opportunity on our part to miss something. And so I think we have strengthened our process so that there will be fewer of that. But we are using both systems.

MR. BOGANY: Okay. All right. Thank you.

MS. DONAHOE: HUD also did a CEMAP assessment which reflects whether the housing choice voucher program helps a family afford decent rental property at the correct costs. And the Department received an overall

score of 63, which they consider a standard performer. There were four areas in which the Department did not receive the maximum points. There were two that were related to the two findings I just spoke about. The other two areas where the percentage of units leased was less than 95 percent. And the second area was that a policy should be adopted that encourages participation of owners outside of poverty and minority areas.

MR. BOGANY: Mr. Fariss, how are we working on that?

MR. FARISS: The policy for encouraging participation by owners outside of poverty is a HUD-accepted process, where we put notices in our local operator offices. Of course, the Housing Trust voucher program is housing choice, so that any applicant that is determined eligible can seek housing in any area of the community in which they want to live.

MR. BOGANY: So, and you are saying we do have a policy?

MR. FARISS: We have. We use those. We use forms. When they reviewed our CEMAP review, they didn't -- we weren't able to provide documentation that all of our local operators had those notices up.

MR. BOGANY: Okay.

MR. FARISS: We have ensured that they do that now. We sent guidance to them, and additional notices for them to use.

MR. BOGANY: Okay.

MR. GERBER: Eddie, what is the utilization rate? What is the percentage of units leased per week?

MR. FARISS: Based on the resources that we have, it is pretty close to 100 percent. We have on our last report to you, 999 units utilized. And we have additional units in the pipeline; people waiting to be determined eligible or find affordable housing.

MR. GERBER: And that reflects a lot of work on the Section 8 team's part in the waiting list.

MR. FARISS: In the waiting list. Yes. And pushing the local operators with the capacity and the housing available in those communities to use the resources available.

MR. GERBER: At that time that HUD had come by, we had about 150 outstanding letters.

MR. FARISS: That is right. And I think when HUD did its review, we weren't -- you know. We were just maybe about at 900. So it is a time-consuming process to get those people through the pipeline, but we were about to get to full utilization of the resources that we had.

MR. BOGANY: Had you found with the tightening of the -- I know, in the mortgage end, there we are seeing apartments leasing up quite, and especially housing available for -- it is getting leased fairly quickly, where people are not Section 8. So the other Section 8 buyers, tenants are having to compete in the market. Have you seen any slowdown at all, or any effect of the market, yet?

MR. FARISS: Not really. Because the housing availability has been very tight for some time.

MR. BOGANY: Okay.

MR. FARISS: That has been part of the slow utilization of resources. A lot of the areas in which we administer vouchers just don't have housing available. And if they do, it is often not affordable for the income level of the Section 8 applicants.

MR. BOGANY: Okay.

MR. CONINE: Eddie, how does that mesh with the comment, or comment before that says, percentage of units leased was less than 95 percent.

MR. FARISS: First of all, they were basing that on the 1,500 vouchers that we often referred to when we were being paid by voucher, as opposed to using the resources. HUD changed the way that they funded the

program, so we can't support 1,500 vouchers. We don't have the resources for that.

MR. CONINE: So they're doing it for percentage leased, based on, when they give you a dollar amount, instead of a number of units?

MR. FARISS: That is what they did.

MR. CONINE: Wow. Okay. Thank you.

MS. DONAHOE: Okay. HUD also noted some positive practices, including a plan to increase the number of vouchers sending staff to insist on issuing vouchers, and tracking the success of vouchers, which Eddie had just talked about. Also they noted that staff go beyond what is required for income verification by using the OAG's child support system and TWC's state wage systems. Are there any questions?

(No response.)

MS. DONAHOE: Okay. Agenda item 2, presentation and discussion of the results of the State Auditors Office classification compliance review. The SAO's classification audit evaluated the Department's compliance with the state plan for classifying employee's positions. What this means is, that they looked to see whether Department accurately identifies the correct job titles and salary groups for the type and the level of

employees and the work that they performed. They reviewed 250 positions at the Department. They found that eight or three percent were misclassified. They recommended that five positions be classified to another series. For example, a programmer six was reclassified to a systems analyst five. So it was like a different job title. That two positions be reclassified within the same series, but at a higher salary. For example, a manager three reclassified to a manager four. So just a different salary range. And that one position be restructured, and that was an administrative assistant position. They also recommended that the Department review job duties and job descriptions as part of the annual performance evaluation process. It is my understanding that all these positions have been reclassified. And the total cost of the reclassification that they had for the higher salary level was \$10,500 to the Agency. And the Department agreed to implement the recommendations. They also noted that they are going to be looking next year at the program specialist positions. There are 69 of those in the Agency, to determine if they need to add a new series to the state classification plan to address our real estate related positions like loan officers, underwriters, those sorts of things.

MR. BOGANY: Okay.

MS. DONAHOE: Is there any questions about this audit?

MS. PURDEY: I just wish I was the employee that got the boost.

MR. CONINE: Are you sure it was just one.

MS. DONAHOE: I am sure they were very happy.

Item 3, the status of prior audit issues. The Internal Audit Division, as you know, maintains a database of prior audit issues. The issues are tracked, and we gather information each month from management regarding the status of the outstanding recommendations. We generate two reports from the database. The first one has 57 closed issues. Thirty-one of those have been reported as implemented, or partially implemented, but have not been verified. The remaining 26 have been. The second report has 31 prior audit issues. There are 14 reported as implemented, but those have not been verified. The remaining 17 are still pending. This is the report that we pass around every month to management to get their responses, and it is included in your materials. In looking at this database, we have discovered some of the issues were closed, but the support has not been documented for them being verified, and that the issues in

the closed report only include issues identified since 2005. So we are currently looking at those 453 issues to determine which ones we can close. And at the next audit meeting, I hope to have a better count of the number of open issues. I think that number will increase from what it is now, and it will increase, and then hopefully go down, because we are looking at issues for the last twelve years that have not been followed up and closed. And some of them, it is just a matter of us asking the different divisions for the letters from HUD or the letters from external auditors that would close those findings.

MR. BOGANY: So you think you will have this by the next Audit Committee meeting, or probably the following would be better?

MS. DONAHOE: I hope. Well, for sure, we will have it by the following one.

MR. BOGANY: Okay.

MS. DONAHOE: And I have a plan for addressing the prior audit issues, which is first, to determine how many there are. And then, how many we can close, just based on getting the documentation that is available from the various sources. And then categorizing the remaining issues by division. Prioritizing them based on risk. And then determining, working with the Audit Committee,

determining if we need to do a followup audit or if we can just request some documentation like policies and procedures or something, or maybe do some limited testing that would close those issues.

MR. BOGANY: So you, and I am asking this question to see next month, I am going to say, where are we on these issues. Do you think you might, do you feel maybe two meetings out, the November meeting, we should have a better idea of where we are, realistically?

MR. GERBER: Yes. We will. I mean, for starters, we are just trying to identify the universe of outstanding audit findings. It is just handy, it is just taking or leaving that. Much of the material is already, and we have talked to staff. And it seems as though many of those supporting documents Internal Audit needs have been prepared by the respective program offices or staff offices. We just need to make sure that Sandy and her team have a copy of it and can independently do whatever additional verification they need to, and can move forward on it. But we have told our -- we had a director's meeting earlier this week, and we gave high priority to sort of clearing that outstanding stuff.

MR. BOGANY: Okay. So we will look for November as a time frame.

MS. DONAHOE: Okay. I also would like to note that the staff has worked hard to close some issues in the last six months or so, and there are about twelve issues that they have done additional work on, and were able to close. There are some issues that I would like to make note of. Issue number 403 on page 1. This issue relates to the Office of Colonias Initiatives, monitoring of the contract for deed program. I believe Mr. Gaines brought this up several times in different Audit Committee meetings. This issue was identified in June of 2006. It is still only partially implemented. The Department reported in August that the transfer documents were sent to the Community Action Council of South Texas, and letters were sent to all borrowers, informing them that the payment should be remitted to the Department. I understand from the Department that they are receiving those payments now. But that issue is still open.

MR. BOGANY: Okay.

MS. DONAHOE: And then also, there are three of the four findings, means in the Weatherization Assistance Program that have been reported as implemented, so those are ones that will disappear off the report. The fourth finding, related to the automated tracking system has been delayed. There are six of the eleven findings in disaster

recovery that have been reported as implemented. Five of the eleven are partially implemented. Since our last report was generated, the report that you have, management indicates that the issue 436 was also implemented, and should be reflected on the next report. Are there any questions?

MR. GERBER: Mr. Chairman, if I could just interject on OCI. I think, given the status of findings and other issues, I think one reality that we are facing is that we just might need to do a more extensive set of audits in that program area. And we are going to probably wind up talking to our Deputy Executive Director for programs and with others, and with Homero Cabello, the head of that office, along with Sandy, and see if we can bring a recommendation to you all about what the scope of that might look like as an amendment to the audit plan. I think we are a little ways from it. We are still working through prior issues, but I think there is just a body of stuff there that goes beyond just verifying and probably requires some additional audit work to be done. So just to put that on your radar screen.

MR. CONINE: Who is handling the backside, Mike, of OCI? Is that Compliance and Monitoring, or is that OCI?

MR. GERBER: Monitoring is going to be moved. It is being handled now by PMC. But Brooke, do you want to come forward and talk a little about that?

MS. BOSTON: If it is relating to a HOME contract, because HOME is what we use for contract for deed.

MR. CONINE: Right.

MS. BOSTON: Then it would roll actually into Jeannie's area now. If it is, correct me if I am wrong. If it is Bootstrap, that stays in OCI, and they do -- is just because it that once the house is constructed, then they have a loan with us. So it stays in OCI, and we do the draws in OCI. And then at some point, we get a loan service thing. Is that right?

MR. CABELLO: Right. When we originate our loan under the OCI, it is a permanent financing most of the time. It is a permanent mortgage takeout. Once we close the loan, it is transferred over to loan servicing for the collection of payments.

MR. BOGANY: Any other questions?

(No response.)

MS. DONAHOE: Agenda item 4, the status of internal external audits. For internal audits, the report on phase one of the three phases of low-income housing tax

credit program, the 9 percent program, which is pre-application and notification is that that audit has been completed, and it was presented to management for responses yesterday. So we expect it to be released around October 1, so you should see that report fairly shortly. Planning for phase two of the low-income housing tax credit program, which is scoring, thresholds and awards has started. We hope to complete this audit in November, instead of December, so that it can be used during the current award cycle. We were scheduled to start work on the third phase of, the third part of the first phase of disaster recovery, which is the plans for subrecipient monitoring. We would like to delay the start of this of project until February, and combine it with phase three which is the testing of subrecipient monitoring, so that the Department can finish developing policies and procedures, and so that there is sufficient number of subrecipients for us to test. Also the State Auditors Office is currently auditing this program, and I understand that they are testing some of the subrecipient monitoring. So we need to see their report in order to determine what work we can do. And maybe we can piggyback on some of the things that they have done, or follow up on their findings, if we do this work more like February than

now.

MR. BOGANY: Okay. I have a question, Mike, in regards to policy, no policy and procedures. How quickly can we get that? -- because I am kind of surprised that we don't have policies and procedures in place for this CDBG disaster relief.

MR. GERBER: Kelly, come forward.

MS. CRAWFORD: Good morning. Kelly Crawford. We can get those. And we can get those fairly quickly. What is involved is not just how we are going to monitor it, but we have to develop a risk assessment. We have to have, you know, a true monitoring-type plan that goes along with that. And those types of things will take some time. I know we can have them by February for the audit.

And we will need to, before then. Our focus and energies have been in actually program implementation and getting housing units on the ground to move into the next phase. We know so much about each and every single one of the homes that have gone on the ground right now, that there is no need to monitor, although we do need to have a monitoring plan.

MR. BOGANY: So I guess, if we are giving out money right now, and we are doing, trying to get houses on the ground, which I am all in agreement. But if we don't

have any policies or procedures to follow that, could it possibly be that we will be giving money to where it shouldn't be? Or do you think you have got enough things in place to keep that from happening?

MS. CRAWFORD: We have a program manual right now. I think the policies and procedures that Sandy is discussing are the actual policies and procedures to monitor.

MR. BOGANY: Okay.

MS. CRAWFORD: And that is different from the program implementation and delivery of services.

MR. BOGANY: Okay. All right. And you think February, that is as soon as you can possibly get that?

MS. CRAWFORD: No. I think we could do it sooner.

MR. BOGANY: Sandy, is it any advantage, us getting it done sooner, or is February in your opinion is okay?

MS. DONAHOE: Well, the State Auditors Office is expecting to have their report in late October. The other thing is, that we were hoping to have more to monitor. So they have tested the houses that are on the ground now, basically.

MR. BOGANY: Okay.

MS. DONAHOE: And I think they actually completed that work several weeks ago. So I think they may have only tested like, two or three. And so you know, we are hoping that maybe by early next year, there will be more testing to be done.

MR. BOGANY: So, it is okay, then. We can, in your opinion, wait until February to get it.

MS. DONAHOE: Yes.

MR. BOGANY: Okay. Thank you, Kelly.

MS. CRAWFORD: Thank you.

MS. DONAHOE: Also, phase two of the project is the testing of setups and draws. And again, that kind of goes with the subrecipient monitoring that BSA was testing that now, too. And we would want more time to pass, so that we would have more documents to test at that point. The 2008 Internal Audit work plan is under development. We will be seeking input from management. I have already talked to several of the managers, and Mr. Gerber as well. And we will be also seeking input from the Board on possible projects before submitting the proposed plan. I hope to have a draft plan for your approval in November.

MR. BOGANY: Okay.

MS. DONAHOE: And for the external audits, we just talked about the SAO is auditing disaster recovery

program. They are trying to determine if the Department appropriately awarded and disbursed the hurricane recovery funds. I think their end of field work is supposed to be this week, and we expect to see that report in late October. They will probably give us a draft probably in mid-October to respond to.

MR. BOGANY: Okay.

MS. DONAHOE: The Department's annual financial audits by Deloitte and Touche are in the planning stage. And they should be completed in November or December. Some of them are due in November. Some are due in December. Also, I would like to note that the State Auditors Office for their statewide annual financial audit is not planning on coming to visit us this year. I think last year, we only had one finding. And so we did not appear on their list of agencies to audit this year. So are there any questions?

MR. BOGANY: Well, I guess, in a nutshell, we are in good shape.

MS. DONAHOE: I think so.

MR. BOGANY: Okay.

MS. DONAHOE: I think so.

MR. BOGANY: All right.

MS. DONAHOE: And that concludes my report.

MR. BOGANY: We don't have any executive session. And since no one is here to disagree with me, we are going to adjourn this meeting. Thank you. This meeting is now adjourned.

(Whereupon, at 9:04 a.m., the meeting was adjourned.)

