

AFFAIRS

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY

AUDIT COMMITTEE MEETING

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

October 14, 2009  
5:00 p.m.

MEMBERS:

GLORIA RAY, Chair  
LESLIE BINGHAM ESCARENO (Not present)  
TOM GANN

STAFF:

MICHAEL GERBER, Executive Director  
TIMOTHY K. LEVINE, Deputy Executive Director  
SANDY DONOHO, Director, Internal Audit Division

INDEX

<u>AGENDA ITEM</u>	<u>PAGE</u>
CALL TO ORDER, ROLL CALL	4
CERTIFICATION OF QUORUM	4
PUBLIC COMMENT (No commenters)	5
REPORT ITEMS	
Item 1 Presentation, Discussion and Possible Approval of Audit Committee Minutes for July 15, 2009	6
Item 2 Presentation, Discussion and Possible Approval of the FY 2010 Audit Work Plan	6
Item 3 Presentation and Discussion of Status of Prior Audit Issues	17
Item 4 Presentation and Discussion of Recent Internal Audit Reports	19
Item 5 Presentation and Discussion of Status of External Audit Reports	23
Item 6 Presentation and Discussion of Recent External Audit Reports	24
Item 7 Peer Review Process	55
EXECUTIVE SESSION (none required)	
ADJOURN	59

PROCEEDINGS

MS. RAY: The scheduled meeting of the Audit Committee for the Texas Department of Housing and Community Affairs will please come to order. The presenter for this particular meeting will be Ms. Sandy Donoho, and I'd like to have a few little preliminary remarks before we get into your report, if you don't mind.

MS. DONOHO: Sure.

MS. RAY: For those of you that participated, you know it was wonderful. Those of you that didn't, you really missed a wonderful experience with the NCHSA meeting that was held in San Antonio. I just want to comment about how proud I was of the TDHCA staff. So many times we, members of the Board and select members of the staff, get to attend these conferences all over the country. It is so rare and was so very rewarding for me to see so many of our staff members working, not just attending but actually working and making our visitors outside of the State of Texas welcome, to show them our level of efficiency within our Department.

I was so pleased that in so many of the meetings I got to see staff members that I recognized and I was introduced to staff members that I had not had an opportunity to meet, and I want to thank Mr. Gerber for his leadership in getting so many of our people out into the world to see how other people do it, but just as importantly, getting our people out there to let the rest of the world see how well we do it in Texas. My heart was this big like the State of Texas.

So I want to thank you for your leadership, Mr. Gerber, and all the managers and directors that were there at the conference, and most

importantly, for our staff members that worked so hard and showed such big hearted Texas hospitality and made us all look so good. I was proud.

So with that, the Chair would like to recognize Ms. Sandy Donoho to take us through her report items, beginning with item 1.

MR. GERBER: Madame Chair, I don't know if you want to first call the roll and then call for public comment also.

MS. RAY: I do apologize. I'm so excited about how well everything went, I just lost myself. And we have a visitor too. She cares.

Mr. Gann, present?

MR. GANN: Yes, here.

MS. RAY: Ms. Bingham is absent, and Gloria Ray, the Chair, is present. So we do have a quorum with two people present; that's adequate for the Audit Committee. At this time the Chair would call for any public comment. I didn't have anything that showed that we had anybody that was going to address the committee, but we do want to recognize our guest and give you an opportunity to speak if you have something.

MR. GERBER: And Madame Chair, it's always a pleasure to have Stella Rodriguez with the Texas Association of Community Action Agencies with us. The community action agencies are important partners of ours.

MS. RAY: Absolutely.

MR. GERBER: We appreciate her sticking with us late into the evening.

MS. RAY: And bigger this year than ever before, lots of money floating in your world. We're very thankful for the support, not only of yourself

personally but the members of your council, who do a lot of the work for us to get resources in the hands of our Texas citizens. We thank you.

Is there any other public comment at this time?

(No response.)

MS. RAY: Hearing none, Mr. Gerber, do you have any comments that you'd like to make prior to Ms. Donoho?

MR. GERBER: No, ma'am, ready to go through the agenda.

MS. RAY: Mr. Gann?

MR. GANN: No.

MS. RAY: Okay, I think we're ready now.

MS. DONOHO: Item 1 is presentation, discussion and possible approval of Audit Committee minutes for July 15, 2009, and staff recommends approval of those minutes.

MR. GANN: I make the motion we accept staff's recommendation.

MS. RAY: And I second the motion. The motion has been moved and seconded to accept staff's recommendation for the approval of the Audit Committee Minutes for July 15, 2009. Are you ready for the question? 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 the minutes are approved.

MS. DONOHO: Item 2 is presentation, discussion and possible approval of the Fiscal Year 2010 Audit Work Plan. As you know, and we've

discussed before, the Department is receiving additional federal funds from the American Recovery and Reinvestment Act, ARRA, and is adding new programs and expanding existing programs. For example, Neighborhood Stabilization is one of the new ones, and I think that's ERA and ARRA funds. In addition, we anticipate several external audits will provide coverage over programs that are or could be on Internal Audit's work plan.

As a result of these factors, the work plan could change, so I just wanted to tell you that up front. Any changes that need to be made will be discussed during future Audit Committee meetings.

This year we're trying a new approach with the audit plan, instead of identifying audit objectives up front when the plan is developed, we're merely identifying the program to be audited and then we will identify specific objectives during the planning phase of each audit and will discuss and reach agreement with management on the objectives before starting our field work. I think this will help us avoid past problems that we've had with programs changing and reflecting the objectives before the audits can start.

For example, when we audited the Office of Colonia Initiatives Programs last year, we had in our objectives to look at a couple of things like the Contract for Deed program and the setups and draws, and both of those functions during the reorganization move to the HOME Division, so when we got ready to start that audit, we had two objectives that didn't apply. So I think that if we just target which area of the Department we want to audit and then we work to develop objectives during our planning phase, that will help us to get focused on our audits.

Highlights of the 2010 audit plan include a focus on the ARRA

funds with audits of the Weatherization programs monitoring process, the Neighborhood Stabilization Program, as well as ongoing monitoring of ARRA issues. Other ARRA funded programs are either not far enough along to audit yet or we anticipate or know that they will be covered by external auditors. Also, some of these programs like TCAP and Exchange may be proposed for next year's plan.

The plan also includes an audit of accounting operations and an audit of construction quality for the Disaster Recovery Program. There are two audits that are required by the Institute of Internal Auditors auditing standards: one of these is an audit of the Ethics Program and the other one is an audit of information technology governance. We also have on our plan to provide support for the Department in reviewing issues related to ARRA funds, to support and advise the Department's management in developing internal controls over these funds. This includes serving as a point of contact for the Government Accountability Office, the GAO, in their ongoing review of ARRA -- they're looking at ARRA on a bimonthly basis, so they've been out here three times already -- as well as other external audit groups.

For example, in 2009 we had 14 external audits, so part of Internal Audit's responsibility is to coordinate with those external auditors, make sure they get everything they need and that they get in touch with the right people in the Department, that sort of things, so that takes a fair amount of time.

The Manufactured Housing Division provides half of one full-time equivalent for Internal Audit and we're required to perform and audit of their programs periodically, so we have an audit on the plan for them and

we've started this audit. We'll be reporting the results of that audit to their board, but I'm mentioning it here because it's a time commitment for us, so I felt you needed to know about that.

Also, to complete the required peer review of the Internal Audit Division, as well as other routine administrative tasks.

Are there any questions regarding the proposed audit plan?

MR. GANN: I have none.

MS. DONOHO: Staff recommends approval of the Fiscal Year 2010 Audit Plan.

MS. RAY: Before we get to calling for approval on that plan, I know we have some ongoing issues in terms of bringing on additional staff. Last year I thought the audit plan was extremely ambitious; now with the deluge, if you will, of the ARRA funds and Neighborhood Stabilization and all the other money that we've gotten, it's even more ambitious. Could you bring us up to date, or did you want to do that later?

MS. DONOHO: I'd be happy to do that now.

MS. RAY: Okay, thank you.

MS. DONOHO: We are now fully staffed. One of the problems that we had last year was that at one point we lost two of our staff and so that left me and one auditor, so last year we weren't nearly as productive in terms of producing audits as I had dreamed we would be. And then the ARRA came along and we had other commitments that came up and additional audit requests and that sort of thing.

So this year we have seven things on the plan which is roughly one more than we had last year, however, we're adding two staff and we've



interviewed and selected and are in the hiring process for those two staff. One is a senior position, one is an entry level position. So that we'll be fully staffed at that point and we'll have six auditors in addition to myself. So I think that we can cover everything that's on the plan and have a little bit of room from special requests from the Board, fraud investigations, some of the other things that we do.

MS. RAY: The audit plan was extremely ambitious and I do want to commend what little audit staff we had last year for accomplishing the work that you did because you really got a lot things thrown at you that were not anticipated. And the point of this information of what the, quote, plan is, I think I can speak for the Audit Committee and Mr. Gann that we certainly understand that it is a plan and allow you, as the manager and the director of the Audit Department, to have maximum flexibility in adjusting the plan as contingencies arrive.

MR. GANN: I'd make a couple of comments. Number one, hearing that many audits and talking about that many audits, as a businessman it scares me to death, but here it gives me confidence to know that we're going through this system of audits, and I think that's a big plus for us all.

I had one comment, I just came from the governor's training seminar, and I know probably you two know more about this, maybe some of the others, but they're concentrating on the ARRA funds and the reports and the monitoring and the audits that are going to go on, and they've stressed that it's not going to be as we normally know it, they're going to be really tough on that and I think that's somewhat reflective of the campaign year

getting rolling, and I think they're going to be real hard on us.

I know there was a deadline like last Saturday and they've got a ten-day window in there for any corrections or something like that -- you know that better than I do -- but we need to really watch that, and I think you do. But I'm just really emphasizing, hey, they're going to get serious about these things.

MR. GERBER: Mr. Gann, I would just interject that we do follow those deadlines closely. One of the things that the Governor's Office has done, really to their credit, is they have twice weekly meetings -- they're getting ready to switch to once a week -- but we've been an active participant in those. Texas, of course, is one of what's called the Sweet 16 States, 16 states specially identified for lots of extra attention from the Government Accountability Office and from agency inspectors general, and so we're finding an awful lot of visits from Washington, and that's good.

One of the things that's nice about this plan that Sandy has proposed is that we won't duplicate, hopefully, because of that flexibility that you're hopefully going to approve in a few minutes, we won't duplicate work that's already been done, but the work that Internal Audit will do is really focused on those high risk areas but will be real value added, and we'll have the flexibility to really hit those value added points once that audit is ready to begin. She'll scope it out and then, of course, report back to you on what exactly it is she's going to go in deep on. And we have found that to be very, very valuable to us.

Brooke is going to talk in a few minutes, I think, about the ARRA funds in general and there's some reports coming in just a few minutes,

but I will tell you that we've certainly worked hard to meet all the deadlines -- which is important because there are a lot of them. We also did something that was really the idea -- it was a team effort to come up with the idea of creating a separate ARRA oversight and accountability office which is headed by Brenda Hall, and Brenda reports to Brooke. And we use that as really a central clearing house to meet all the various requirements associated with these ARRA funds so that we're going just a little bit above and beyond to make sure that we're fully covered, because we know there's a lot of expectations placed on us in Texas and we're going to be looked at closely.

MR. GANN: And one other thing, I want to give you the numbers because sometimes we don't know what everybody else is doing, but the numbers were just under \$16 billion for the state and we got \$2 billion -- if I remember right on my first day of coming on the job -- I think we get approximately \$2 billion, if that's close to the case

MR. GERBER: About a billion in ARRA funds.

MR. GANN: And that's a large percentage of the total is what I'm trying to say, so they're going to be looking at us like they're looking at the rest of the people. Thank you, that's all my comments.

MS. DONOHO: I also would like to add that we developed our audit plan based on risk assessment, it was pretty complex, we did a survey of all the directors and managers, I personally went and interviewed all of the deputy executive directors and upper management in the agency. A lot of thought and planning went into the audit plan. I anticipate that the State Auditor's Office -- having worked there for years and knowing how they think -- will be auditing the ARRA reporting.

I also anticipate that they'll come look at our Weatherization programs since that's a good chunk of the money. One of the things that we wanted to do was get this plan approved so that we can start looking at the Weatherization process monitoring from internal audit so that when they get here we'll have done some work to kind of identify what we need to start working on on the front end.

Also, there's a group of internal auditors from state agencies and we meet periodically to talk about various issues related to internal audit. There's a subcommittee of that group that's now headed by the Governor's Office for ARRA funding, and they've been meeting regularly, they've developed some internal controls training for state agencies, they're developing some audit plans and audit programs or even steps that you would go through to do an audit on various ARRA topics, and so we've been involved in that. And then I attended a lot of our internal meetings on ARRA funds to kind of make sure that the internal controls are addressed and what about this or that sort of thing. So I've been trying to keep on top of the ARRA stuff as well.

MR. GANN: That's where that confidence comes in on this side. We appreciate you.

MS. RAY: Yes, we do.

MR. GANN: Are you ready?

MS. RAY: Almost, not quite.

MR. GANN: Okay.

MS. RAY: As we are in the process of approving this plan -- and I'm so glad to see our staff members present and our directors present at

our audit committee meetings and department heads -- the point that I would like to make with all of you, we're not looking for exactly perfection but we are looking for very high operational standards as we go through our audit process. I am a strong proponent that nobody is 100 percent right and nobody is 100 percent wrong, all of you are right and all of you are wrong.

What I see the role of the Audit Committee being is an eye to try to find the truth and those high operational standards in the middle because you need to have an unbiased eye looking at your operations to help you with continuous process improvement. The process is never perfect, it will never be perfect, but we're moving toward very high operational standards so we can get to as close to perfect as we possibly can.

So please know when the auditors come to work with you we are looking for very high operational standards, and they will help to open your eyes so that we can do a better job because we're all accountable for the work that we do and we're accountable not only to the governor but to the citizens of the State of Texas.

MR. GERBER: Madame Chair, I, on the other hand, am looking for perfection.

(General laughter.)

MS. RAY: Very high operational standards.

MR. GANN: I move approval of staff's recommendation.

MS. RAY: And I second the motion. It has been moved and seconded to approve staff's recommendation for approval of the 2010 Internal Audit plan. Is there any further discussion?

(No response.)

MS. RAY: Hearing none, are you ready for the question? 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 the audit plan has been approved.

MS. DONOHO: Thank you.

Item 3 is the status of prior audit issues, and this is just information only. The report in your Board book covers prior audit issues from internal and external audit reports released since September 2007. That's roughly when I started as Internal Audit director. We started a new database after we cleared out the prior audit issues that I inherited.

There are 107 issues in the new database; of these, 42 were recently verified as implemented and closed by Internal Audit. The point there is that we're trying to keep on top of them and not let them collect like they did in the past. There are 36 issues that have recently been reported by management as implemented. We'll verify and close these issues as time allows. Of the 36, two were in HOME, nine in Financial Administration, 14 in Community Affairs, three in Bond Finance, seven in Information Systems, and one in Program Services.

There are 14 issues reported as pending or action delayed; we'll verify and close these issues when they're reported to us as implemented, and we send those out periodically for updates. Two of those are in OCI; nine are in Community Affairs, one in Financial Administration, one

in Disaster Recovery and one in Information Systems. There are two issues that are currently not implemented yet, one is in Disaster Recovery and one is in Community Affairs. Both of those are waiting on policy type changes. We did not response from management on the status of 13 issues. So that's the total.

Are there any questions regarding the prior audit issues?

MS. RAY: I don't have any questions other than do we have concerns about the issues that have not been responded to by management?

MS. DONOHO: No. The issues that we didn't get responses on were from Multifamily, and as you know, they've had TCAP and Exchange and the tax credit season, so we're willing to cut them a little slack until they can get back to us with those.

MS. RAY: Mr. Gann?

MR. GANN: No questions.

MS. RAY: Thank you for the report. Moving to item 4.

MS. DONOHO: There's not any of those that would cause any issues.

Item 4 is discussion of recent Internal Audit reports. The last report of the year that we haven't discussed is the Office of Colonia Initiatives followup audit. This was the audit that the Board requested that we do followup on in six months.

MS. RAY: Yes.

MS. DONOHO: OCI fully or substantially implemented 17 of 19, so about 89-1/2 percent of the audit recommendations from the November 2008 Internal Audit report on Bootstrap and December 2008 on Self Help

Center. We combined both of them in this report. All ten of the prior audit recommendations for Self Help Center were fully or substantially implemented.

Although progress was made in implementing these recommendations, the most significant one was not completely addressed. Since September 2008, \$2.8 million in Bootstrap loans was committed and partially spent. Of this, only 22.9 percent, or about \$646,000 was for properties located in 45 counties eligible for financial assistance under the Water Code. It's a two-thirds/one-third split, so it was 22.9 percent, should have been 66 percent.

Management made a decision to honor all previous commitments from the first audit report prior to correcting the one-third/two-thirds allocation, but the problem was that OCI did not reconcile the 2008 amounts in the reservation system to the correct counties, so then those incorrect counties were carried forward as incorrect balances which then threw off 2009.

After we completed the audit, Harriet, my Internal Audit staff, worked with the OCI staff to reconcile the end of the fiscal year allocations and help them arrive at the correct balance to carry forward for 2010. So we feel like that will correct the problem, get things back on track, and hopefully ensure compliance with the statute going forward.

Are there any questions on this audit report?

MS. RAY: Mr. Gann?

MR. GANN: No questions.

MS. RAY: The only issue that I would have, since the Audit Committee specifically gave you a mandate to follow up on that audit, I'd like



to re-institute or re-emphasize that we wish to continue to follow this audit until we are comfortable that the recommendations that have been recommended have, in fact, been implemented, and hopefully, the actions that were taken to move this into 2010 will resolve the issue, but we would like to be kept informed that that is, in fact. So let's not close this process, let's keep it open so you can keep us informed. It's very, very important that we follow the statutes.

MS. DONOHO: And we would be happy to go back in a couple of months and look and make sure that those numbers are heading in the direction they're supposed to be.

MS. RAY: Then can we agree here in this forum that at the next Audit Committee meeting we will have yet another report, that we should have another report by that time?

MS. DONOHO: Sure.

MS. RAY: I'd appreciate that.

MR. GERBER: And Madame Chair, if I could have Homer Cabello to maybe just talk about two actions that you're going to be voting on tomorrow that are substantial in helping.

MS. RAY: Okay.

MR. CABELLO: The two pending that are pending on the audit, we reconciled the balances and we rolled them into the 2010-2011 NOFA for the Bootstrap funding for the next two years. We'll reconcile the balances and then we're going to redistribute the funds according to the statute and that will get us into compliance. That NOFA is in tomorrow's Board meeting under the consent agenda, item 1(k).

And then the other item that is pending was updating our Bootstrap manual, and we could not update our Bootstrap manual until we updated our Bootstrap rules. That included legislative changes, the audit recommendations, and then some policy changes, and those also are being presented tomorrow at the Board meeting. And once the Board approve the rules, the manuals will be finalized. The manuals have been printed but we need the rule to be adopted so that we can distribute them. Then once the NOFA is approved tomorrow, hopefully, and the rule, we will then have implemented the two pending items.

MS. RAY: Very good. So that when we come back at the next Audit Committee they'll say it's a done deal.

MR. CABELLO: Correct.

MS. RAY: Nailed to the wall. I'll be looking forward to seeing that, Mr. Cabello.

MR. CABELLO: I will be looking forward to the approval.

(General laughter.)

MR. IRVINE: Madame Chair, as a participant that's sort of been a little bit of a facilitator here, I just really want to commend Homer and Sandy and the entire Audit staff, Harriet. The way you guys have worked together through these intricate issues has been really gratifying, and I've got to just underscore there's a complete commitment to getting the benefit out of the audit process and really striving for that constant improvement you were talking about earlier. I'm so thankful for the spirit of cooperation.

MS. RAY: It's a well-oiled machine when we listen to each other, isn't it. It's a matter of communication, all of our problems are just

communications issues, and when we communicate and we work together, all is well.

Mr. Gann, did you have any other comments?

MR. GANN: No.

MS. RAY: Does anyone else have any comments on this particular subject before we move forward? Thank you, Ms. Donoho, let's move on to item 5.

MS. DONOHO: Item 5 is the status of external audit reports. There were 14 external audits of the Department in fiscal year 2009. All of these reports have been finalized or are as final as they're going to get. I'll be discussing seven of these reports, the last seven that you haven't heard about in agenda item number 6. There are three audits that are going on right now: our annual financial report that's being done by Deloitte, and the annual bond audit for fiscal year 2009, and the financial portion of the statewide single audit which is being performed by KPMG -- it's the State Auditor's Office responsibility to contract that to KPMG. They're looking at Weatherization and Disaster Recovery funds.

Are there any questions on the status of the external audits before we start talking about the audits themselves?

MR. GANN: No.

MS. RAY: No. Thank you for the report. Is there any other comment, anybody else have any concern about the external audits before we move forward?

(No response.)

MS. RAY: Hearing none, we'll move on to item number 6.

MS. DONOHO: Item 6 is the recent external audit reports, and again, there are seven of these so this is going to take a little while. The first one is a followup audit report on hurricane recovery funds administered by TDHCA and ORCA. This was a State Auditor's Office audit, it was released, I believe, in August, and they found that the Department fully or substantially implemented 12 of the 12 applicable recommendations from their October 2007 report.

MS. RAY: Very good.

MS. DONOHO: There were two recommendations that were no longer applicable that fell off of their radar. The one issue that they had was as of June 5, 2009 the Department had spent only \$135 million which was 31 percent of the \$440 million in hurricane funds for Hurricanes Katrina and Rita. The SAO reviewed the reliability and completeness of data, they tested 90 application files at the COGs and 43 at ACS contractor, they reviewed HOME disaster contracts, they tested 30 HOME disaster draws and the contract files for those and they found no errors. So that was the good news, but the bad news was they felt like we should have gotten the money out faster.

MS. RAY: And lord, nobody knows that better than we.

MS. DONOHO: That's true.

MS. RAY: Nobody knows that better than we, but we believe that the growing pains that we learned through the program execution for Rita and Katrina will certainly help us in the future that we won't have that considerable delay in program execution for future disasters. We learned some very hard lessons, I believe, and I think we've come a mighty long way,

but it just really was not quickly enough, and I think there's no one in the room that disagrees with that assessment. But I'm glad that what we did, we did it right.

MS. DONOHO: That's the point. Sometimes it takes some time to do it right.

MS. RAY: Mr. Gerber.

MR. GERBER: Madame Chair, I would just interject -- and we did do it right and it's a real testament to the Disaster Recovery team and some of the others who have pinch hit over the years to make this agency proud of our work in South East Texas. You know, it's interesting, I think as we get ready to expend \$650 million for housing recovery for Ike and then probably another \$850 million or more on Ike from Round 2, the question of speed becomes a big one. And when we're having conversations with the State Auditor's Office -- and I think it's going to be a continuing discussion -- the thing I keep asking now is what would you have us do. When you're hamstrung by some of these federal rules, you really do get sort of locked in to a process that is not really built for speed. CDBG wasn't really built for speed.

MS. RAY: It wasn't built for disaster recovery either.

MR. GERBER: Exactly. And so we feel great and have a lot of confidence in the integrity and the success, we've built a system that's second to none -- Mississippi, Louisiana, Alabama, God love them but they're not having the kinds of reports that we're getting from outside auditors, whose biggest complaint consistently -- this is just one, we're going to have another one you'll hear about a little later -- where the big argument is they move too slow.

Well, we need on the federal level -- and something we're going to be talking about through NCSHA with other states that were impacted by disasters -- is you've got to really work to streamline the CDBG regulations and treat an emergency or a disaster like the emergency and disaster that they are and move those dollars more quickly and waive the two-phase, eight-step environmental review process, the months-long historic preservation requirement process, the excessive title clearance issues that are attendant. Now, some of those on the state level we had to deal with, we did get it changed to state law that Representative Eiland carried forward on.

But that big issues of what would you have us do really is one we've been struggling with because no one wants to see the light at the end of tunnel for expending all these disaster recovery dollars more than the folks who have been in the trenches as long as we all collectively have. I think the SAO sort of appreciated that and tried to characterize that in here, and it was nice having them come in and validate that what we were doing had a lot of integrity to it. But you'll notice that's pretty skimpy when it comes to recommendations on how you actually move dollars quicker.

MS. RAY: I especially appreciate the work that the staff has done, and not just the Disaster Recovery Department but the entire Department, working with great sensitivity to the citizens of the State of Texas down in the Rita GO zone. Many of the delays, as you just articulated, were certainly beyond our control, particularly the thing that's very near and dear to my heart -- and I understand the difficulty with the title issues, big problem, big problem. And it's not just a problem in the Rita area, it's a problem in every municipality in the nation, not just in the State of Texas when you have air

laws and all those kinds of things. So we certainly understand some of the reasons why we were not able to be more efficient.

But I do believe we learned a lot of lessons as we went along the way, and that we did improve our process and we did take the actions that we needed to do within the State of Texas to be more efficient in areas where it was within our control to be able to make the adjustments. And I commend not only the Disaster Recovery but the Department for the intent of serving the citizens of Texas and being very sensitive to what the bottom line is. It's not so much even getting it all right, the bottom line is not getting all right by the rules, the bottom line is getting the resources to the citizens of Texas so people can have a roof over their head, and we understand the problems we have when we commenced that. We commend the director and the heads of department for the work that you did to be sensitive to the citizens of the State of Texas.

MR. GERBER: Ma'am, one thing I would just interject that is nice in the audit plan that you just approved for this coming year is that there's going to be an audit done of construction quality out there because we want to make sure that the folks in South East Texas and in any area we're doing disaster recovery work get a safe, decent home that's going to hold up well. So we're pretty pleased that that's included in the audit plan, and thank you for that.

MS. RAY: Very good. Does anyone else have any other question before we move on? We're not finished with that report item, we're just finished with that area dealing with that SAO audit on disaster recovery. Moving right along.

MS. DONOHO: The next audit is Government Accountability Office, the GAO, they're doing bimonthly reports on ARRA funds. They've completed three of those already. Texas, as Mike mentioned earlier, was selected as one of 16 states to receive ongoing monitoring by the GAO.

MS. RAY: Aren't we lucky.

(General laughter.)

MS. DONOHO: The first two reports did not address the Department specifically, the third one did. The most recent report covered the Weatherization Program. They stated that the Department and its sub-recipients believe that compliance with the Davis-Bacon Act may create delays and increased costs for the program by requiring additional payroll and administrative costs for sub-recipients. This is because Davis-Bacon requires workers to be paid weekly based on an hourly rate. Many of our sub-recipients pay their contractors by the job. Also the hourly rates are different between counties and some sub-recipients cover multiple counties, so that's going to be an issue.

When we were at the NCSHA conference, there was a presentation by a GAO auditor and they were talking about not only a TCAP and Exchange audit that they've started but also that they were going to be looking at the Davis-Bacon Act, specifically at the request of a member of Congress to see how it impacted the ARRA funding and getting those funds out. So I think we can look forward to hearing from them on that front too.

They also mentioned in their report that the Department was taking steps to mitigate ARRA risks, including increasing our staffing, our internal risk assessment processes, not only in Internal Audit but also in the



program areas of monitoring, the prior participation reviews to ensure that sub-recipients are not in material non-compliance with other Department programs, and our increased training for sub-recipients and contractors. So I think they pointed out that we are taking some steps to watch those funds carefully.

They plan to more specifically address the ARRA funds at the sub-recipient level in their next report. My understanding is that they're actually going to go out to some sub-recipients and do work at that level.

MS. RAY: And I'm sure you're going to just welcome that, just can't wait, can you.

(General laughter.)

MS. DONOHO: So are there any questions on the GAO report?

MS. RAY: I don't have any. Does anyone else have any concerns?

MS. BOSTON: Can I just update you guys a little bit on a couple of things?

MS. RAY: Sure, Brooke.

MS. BOSTON: Since this was written, I just want to share a couple of things. One is that we do have all of the information finally for Texas from Department of Labor relating to Davis-Bacon, but it is not all well disseminated down to a subs yet and so it takes a lot of training, understandably, because these are entities who have never had to deal with Davis-Bacon. So I think that's one of the biggest struggles on this is it's a lot of money, I think we've finally gotten past some of the earlier hurdles in getting the contracts executed and kind of getting the money out, and now,

unfortunately, we're still at this point of needing to make sure that they're well trained in Davis-Bacon.

They have been inundated with training which is good, but it also has meant that aside from just their normal work of working on non-ARRA weatherization, they are having to come here or around the state to training a lot. So we have four regional Davis-Bacon workshops scheduled for our sub-recipients and their contractors that should be before the end of the month -- we're still trying to make sure they're scheduled. But I do want you to know that that's one of the areas, and to kind of echo what Mike had said earlier about the disaster recovery, that CDBG wasn't necessarily designed to be quick, I think some of the conduits for the ARRA money coming through the agency were not necessarily designed to be fast for having a stimulus effect. And in particular in this case, adding regs that were not regs in place before for particular programs doesn't necessarily help to make the money get out quickly.

We have done our first 1512 reporting -- which is what you were alluding to -- it was due on Saturday, we actually got all of ours in on Friday, and it looks good. Our feedback from the Governor's Office is that Texas looked as good or better than many other states in terms of the quality of what we turned in and the completeness of the data, as well as just kind of the quantity.

And we also do weekly reporting to the Comptroller's Office every Friday. We let them know for every ARRA pot of money that we have how much we have actually drawn from the federal agencies which is different from the numbers that would be coming up from our subs on our 1512

reporting because what they report is what they've requested from us which would generally be higher from what we've ultimately turned around and drawn federally. And then we also it split out so executive gets every Monday a report that shows us not only what has been drawn federally but also what the split is between our admin costs of us drawing versus our actual subs drawing program money.

You know, the numbers right now are still very little, with the exception of CSBG. Really almost within days of the CSBG ARRA contracts being executed we went from a couple thousand dollars of ARRA admin to 50,000 to the following week like a million, and then the following week two million, so that's really moving now which is great. And we will be kind of watching to track that it's not just our admin moving, of course.

And the only other comment I would make is you kind of laughed and said, Oh, aren't we lucky to be in the Sweet 16. And I actually do feel kind of blessed to some degree that we are because I would much rather have GAO, and for the WAP monitoring business, Internal Audit, I would much rather have those occur now and get some good feedback about where we might need to make some self correction than here it 12 months from when then we all look bad and we feel bad. So I actually feel like the GAO visits have been very helpful for us.

MS. RAY: That's exactly the way I would expect you to see it, Brooke.

(General laughter.)

MS. RAY: Because that's just your nature to be a positive spirit.

MR. GANN: I've got a question for Brooke. Do you mind, Madame Chairman?

MS. RAY: No, Mr. Gann.

MR. GANN: They used to contract jobs, and that's pretty standard in that part of the country, and they're going to have to switch to Davis-Bacon which is completely different setup. How are they accomplishing that with the setups?

MS. BOSTON: Well, I think that's a great question, and to be candid, I don't have an exact answer for you. I know that -- I was talking about this with our staff actually right before I came down -- the subs can still procure a contractor on a job-by-job basis or by a number of homes, they just have to make sure that that contractor is paying their subs on an hour rate as opposed to a per-job rate. So if a contracting firm was working with three guys and originally it said I'll pay you three guys to do these ten houses for me, instead he now has to make sure he's paying his guys hourly, but the sub, the community action agency can still procure with that subcontractor for a number of homes.

So I think part of that will still deal with some of the challenges because they won't have to totally change their model. I do think it may make some subcontractors feel like it's an unattractive approach, they may feel like they can't the money that they would have made, the wages they were paying would not be competitive anymore.

MR. GANN: Right, and plus there's more paperwork too.

MS. RAY: Oh, absolutely. That's a problem, one of the problems.

MS. BOSTON: Entirely. And the paperwork is, of course, not only for that contractor who now has to keep the paperwork differently and pay the wages differently, but the subs now have to keep all of that payroll that's reported up to the subs who now have to keep it and then we'll come out and monitor for it and audit it to be sure that they're keeping it properly. So it is onerous on all sides.

I think we won't know for sure the implication on whether our subcontractors out there are truly a diminished population because of that reporting until we get a little bit further along. I think we are hoping and anticipating that where one entity maybe steps out because he feels like it's no longer attractive enough for their entity that someone else will step in. But I think we'll also continue to get some really good feedback on that during these regional workshops that we do with the subs to see how they think they can deal with it and based on the training and what we can say they can and cannot do.

MS. RAY: I think that because the Davis-Bacon rules are so extremely onerous and it has a cascading roll down the hill effect, and administrative oversight is not free, there's a large cost associated with it, I would like to ask Mr. Gerber and Brooke, if we can really keep a close. I think this Davis-Bacon implementation on this program is going to be even more difficult to overcome, I believe, than adjusting the CDBG to serve a disaster situation because the contractors that work with this program are small, they don't have much administrative staff, and you're cutting into their profit motive, and I'm concerned about that.

And I think that the alarm is going to have to be sounded very

early on in the process as we see things bogging down because of it to see if we can come up with some workout solutions before we get too far into this and we run into a problem that we're not having effective program execution because of the onerous rules of Davis-Bacon. We need to nip that in the bud as quickly as we can so we can come up with some workout solutions.

We've got to really watch that because this time next year -- it's only a two-year program, and I wouldn't want to get to the end where we're running into not having effective and efficient program execution because of this thing here. We've got to talk about it early and we're going to have to run it up the flagpole to see what relief we can get before it bites us.

MS. BOSTON: I agree, and we'll be working very closely with Stella. Stella is great about letting us know when she starts to hear rumblings about things in any direction really which is great. And we also have part of our staffing plan for Weatherization includes hiring additional staff specifically for Davis-Bacon, not only to help with the monitoring but really just to go out and kind of hold hands and get people just feeling better about it, whether that's a contractor or a sub-recipient.

MS. RAY: Stella, we need you like we've never needed you before. We need you because I don't know if it's going to be just the product of forcing the end contractors to comply with Davis-Bacon, as it might be going in the opposite direction to see how we can adjust Davis-Bacon to be more program specific for times such as this. I think it's going to be a process of both of those things before we can come to what's really beneficial. Always remember it's not about the rules, although it's very important, it's about serving the citizens of the State of Texas and getting the houses weatherized.

I don't care how much administrative staff you hire, the more you hire, the more citizens are not going to be served. So we really need to look at that very, very closely.

MR. GERBER: I think that's a point really well taken. We've known that Davis-Bacon has been coming for a while, and one of the reasons we broke out Program Services -- and that's headed up by Laura Myrick, who is here -- is so that we could really begin the process of developing some real expertise.

MS. RAY: Absolutely.

MR. GERBER: We have that in house, but in the past it had been the needs were less significant than they are now. And without sounding gratuitous, tracking Davis-Bacon is something they're very familiar with if you're running a weatherization program in unionized Chicago.

MR. GANN: Jersey is not going to have this problem.

MR. GERBER: That's right.

(General laughter.)

MR. GERBER: And I don't know that our biggest cities are going to struggle, as well, but we're going to have a devil of a time, and the result is going to be -- and we've made this case at the national level and Stella, I know, through her national associations -- that fewer people are going to get served because of the applicability of something that never applied before.

MS. RAY: Never applied in the first place.

MR. GERBER: So it's frustrating but we'll work through it and we will add this as an item that we will report out in each Audit Committee

meeting, and actually, the issues are significant enough on the expenditure rate of Weatherization funds that we'll be reporting on it at every Board meeting, so each month and then every three months at the quarterly Audit Committee meetings, we'll be reporting on this and we'll add that to the list, with your indulgence.

MS. RAY: Mr. Gann, do you have any other questions?

MR. GANN: No.

MS. RAY: Stella, do you have any comment?

MS. RODRIGUEZ: I think you all are on top of it and we're here to support it, and it's very challenging and difficult because it is a new area.

MS. MYRICK: Well, I think the other thing, if I may?

MS. RAY: Sure.

MS. MYRICK: Laura Myrick with Program Services -- is that we're also going to continue working with the Department of Labor and talk to them about how these are new requirements for a program that wasn't there before, and this is also very new for the Department of Energy. HUD usually is used to dealing with Davis-Bacon and what to do with it, and so the Department of Labor and HUD have been in contact and communication for a number of years because of the programs where they share with Davis-Bacon. The Department of Energy, this is the first time that they're also dealing with Davis-Bacon so there is a lot of, I guess --

MS. RAY: Opportunities for growth.

MS. MYRICK: And so we've been also speaking with the Department of Energy. Recently I attended a conference where it was all



Davis-Bacon for three days -- in fact, I learned some things that I wish I hadn't been exposed to.

(General laughter.)

MS. MYRICK: However, we want to talk and we've been in communication about flexibility and about things that are going to impact our program and what we can do to work together to still meet the requirements that they want met but also providing the agency and the sub-recipients of the money some flexibility so that it's a win-win situation for all of us.

MS. RAY: That's what we're looking for win-wins. Thank you so much for that input.

If there are no further questions on that one, Ms. Donoho.

MS. DONOHO: The next one is the Department of Health and Human Services Community Services Block Grant. They performed the state assessment back in February and we got the report, I believe, in July -- so they take even longer to get out an audit than most of us -- to determine if the Department's CSBG program complies with federal guidelines. They were unable to determine if the Department has a system in place to accurately validate whether individuals were served at 125 percent of poverty based on annual income. This was also a finding in our Internal Audit's 2008 audit of Community Affairs.

I would like to point out that when they did this audit they found they had some issues with Financial Administration but they didn't find anything that Internal Audit missed, so we were very happy about that. So this one finding was one that we pointed out, and they also pointed out they felt like the Department has an effective process to monitor sub-recipients for

performance goals, administration and financial management standards. They found no instances of non-compliance in data collection or recapture and redistribution of funds.

They did have an issue with the Department not submitting its financial status report within 90 days of the end of calendar year 2007, as required -- so they were testing calendar year 2007. In addition, they were unable to adequately validate the financial information that they requested. They identified \$480,802 in administrative allocation funds that were held beyond the grant period that ended September 30, 2007.

So are there any questions on this report?

MS. RAY: I do not. Mr. Gann?

MR. GANN: I don't.

MS. RAY: Before you move on, Ms. Boston?

MS. BOSTON: I just wanted to make one comment. This actually, what they sent us in July, based on a visit in February, was a draft and what they say is that if we don't respond, then that report is considered final. However, we sent a pretty significant response, seven pages just like giving our management response. We have not heard back from then since. I found out from staff today that they're saying they will probably let us know in November what the final report version is in response to the management response.

So a good bit of our response back was addressing the Financial Services components because we do, indeed, feel like we have some of those controls in place. And so I guess I would just say we may want to bring this one back to you again to make sure you guys see what the final

response is and see how they reacted to our management response.

MS. RAY: Could you make a note to make sure that this item is covered?

MS. DONOHO: And I'd also like to point out that the responses that management sent them are also in your report packet.

MS. RAY: Yes.

MR. GANN: What does that really mean that they identified \$480-plus in administrative allocation funds that were held beyond the grant period? What does that really mean?

MR. GERBER: You're supposed to expend your dollars within the grant period.

MR. GANN: And we still had it.

MR. GERBER: I'm sorry?

MR. GANN: And we still had it.

MR. GERBER: And we still hold onto it.

MR. DALLY: Well, we spent it in year three, so it's a two-year grant.

MR. GANN: So we should have spent it quicker.

MS. RAY: Should have spent it before the 30th.

MR. GANN: I thought it might be that, I didn't know for sure.

MS. RAY: It was really spent, right, it just wasn't recorded?

MR. DALLY: Yes, it was recorded. My comment on this is this group, if you look at this report and read it, is you had a group of four folks that came in for about a week and they spent about two days here in our office and then they needed to go out and see the sub-recipients, and I think they left

with whatever accounting material they had asked for but there never was that point where they sat down with staff and said, We've got some questions.

So the way the thing reads is I feel like I had a big course and I got an incomplete in it, and can I sit down with the professor and can we go over it, what I think I turned in and can we talk about it.

MS. RAY: Right, and that's what the management report was.

MR. DALLY: They're saying in November we'll look at your responses and close it up, but to date we don't know sort of what those specific things financially that they want addressed.

MS. RAY: Even though we've already submitted a management response.

MR. DALLY: We'd like to dispense with the incomplete and get credit for the course.

MS. RAY: Exactly.

MR. GANN: Wait till November.

MR. GERBER: And of course, this is 2007, so they're right on top of it.

(General laughter.)

MR. GERBER: And I know we've made changes to some processes and we've taken it to heart.

MS. RAY: We'll look to revisit this at a later date.

MS. DONOHO: The Financial Administration portion of this audit was not something that Internal Audit had in our scope when we went to this division, so that was part of the reason they had these, and we also looked at 2008 and they're looking at 2007.

MS. RAY: There's a lot of stuff in Bill Dally's pot, lot of stuff.

MS. DONOHO: He's a former auditor so we have great faith in him.

MS. RAY: Lot of stuff in that pot, you can't look at it all, I understand that.

MS. DONOHO: That's true. And a lot of times when the federal auditors come, their process is different than ours, so in many cases they don't actually issue a final report, they issue a draft report, we give them responses -- we will hear about another one shortly -- and then they either clear those findings or not, so their process is kind of different from what Internal Audit does.

The next audit -- if there are no more questions on that one -- is HUD OIG's audit of Disaster Recovery's Flood Plain Management Program. HUD OIG's objective was to determine whether the Department's Flood Plain Management Program was administered as required in accordance with applicable federal, state and local flood plain regulations and policies. However, they felt like the Department should have required homeowner's insurance on properties reconstructed or rehabilitated with Supplemental 1 funds, and only three years of homeowner's insurance was required for homes reconstructed or rehabilitated under Supplemental 2.

They sampled 59 Supplemental 1 homes and found that 38 of those homes were later damaged by another hurricane or storm, and of the 38 that were damaged, 23 did not have insurance. Twelve of them had not even been repaired or replaced yet --

MS. RAY: Kind of hard to insure something you don't have.

MS. DONOHO: Right, it's hard to insure a house that's been destroyed. They projected the results from their testing of Supplemental 1 funds to the population of both Supplemental 1 and 2 funds -- which statistically is a questionable practice -- and determined that 143 of the 453 of the reconstructed or rehabilitated homes that the Department is working on were at risk of being damaged by another storm. They suggested that an estimated \$60.2 million in program funds could be saved if we insured these homes and they were all later damaged by another storm, but they didn't include the cost of providing homeowner's insurance for these homes. The Department estimates this at \$105 million, so to possibly save \$60 million if all of these homes are wiped out, it would cost us \$105 million.

Internal Audit, as well as the Department, has issues with how this audit was conducted, as well as the conclusions reached by HUD OIG. I don't know if Mike wants to comment on that or not.

MR. GERBER: I would say this was a difficult audit, it was a fishing expedition by some overzealous auditors out of the San Antonio office who really went down a path that it just didn't reflect the realities of the program. The original draft of the thing was far worse and so the tone was reworked significantly because we all balked at it. But this is an audit that I don't think seen the last of because I think management has a significant issue with the way it was conducted with this particular audit team that really doesn't understand the program but is looking for something that's just not there.

We even had the HUD program staff on the line defending the Department for the choice that we made not to go and provide this insurance,

except for those that were the constructions in the flood plain, as required. And you'll see in my response that you ought to go and get agreement between what HUD OIG and what program staff wants and then give clear guidance to the states, we'll be happy to implement that. But we implemented what we were told to implement and it's hard to be judged to a different standard.

So Tim, do you want to interject anything? It's probably the most frustrating audit.

MR. IRVINE: Well, I think the staff that OIG dispatched came in with it's, frankly, conclusions out ahead of its field work. After the audit was done, the field work was done, report was in draft form, they realized, oh, my gosh, they hadn't read our program documents specifically contractually require recipients to maintain insurance on their homes.

MS. RAY: Can I ask a very sophomoric question about this whole issue of insurance, disaster insurance? Does HUD provide the resources to insure the houses or do we require the homeowner maintain the insurance, and at what financial burden to the homeowner? Do we know that?

MR. IRVINE: We require the homeowner to maintain the insurance, we do not use the program dollars for the insurance other than first year of coverage in a flood area. As the write-up here indicates, if you take average homeowner insurance costs and extrapolate them out over the anticipated life of the home, it would cost many times what HUD says could be theoretically saved here. And we would certainly even question those theoretical savings because they're assumed on extrapolating very small amounts of damage to the entire population and also assuming that the homes

that we're building -- which are very strong and withstand much higher levels of hurricane damage than the prior stock did -- that it's just apples to oranges.

Anybody who has seen a new home that's designed under -- either a HUD code that's built to the new Wind Zone 2 requirements, or a site-built home that's built to the International Residential Construction Code, they're just fundamentally stronger than the old stock that was destroyed along the coast.

MS. RAY: The second part of my question was does anybody have an idea -- this is just for my own edification -- what the cost of insurance in a community where there has been a disaster like Rita, what does the average homeowner have to pay annually for insurance? I'm just curious.

MR. IRVINE: We were assuming about \$1,200 a year for the average home in our calculations.

MS. DONOHO: I think we used \$1,200 or \$1,400 a year.

MR. IRVINE: And that's probably on the low end.

MS. RAY: And that's over and beyond the cost of just regular homeowner's insurance. Right?

MR. IRVINE: That is the cost of the insurance.

MS. RAY: The total insurance bill.

MR. DALLY: Does that include the flood insurance, obtaining flood insurance?

MR. IRVINE: I do not believe so. That would be on top.

MS. RAY: Recognizing the cost of those houses and the value of those houses, that's a big insurance bill for people at that level of income, that's a very big insurance bill.



MS. DONOHO: And I think they were assuming with their \$60.2 million estimate that when they extrapolated how many houses they thought could be damaged in a subsequent storm, they were taking pretty much the total amount of those houses which means they were assuming a total loss for all those houses which is not realistic.

MS. RAY: So it's, again, a matter of communication, I guess, between the auditor and the Department. When do we expect to have some more information on this particular audit finding, or where are we in that process?

MS. DONOHO: Well, this audit is final and closed.

MS. RAY: It is what it is.

MS. DONOHO: Yes, and our understanding is that they're starting some other work at the Department but we're not real sure yet what the scope of that work is going to be -- same audit team, this will be the third audit that they've done.

MS. RAY: Well, hopefully we will have learned some lessons from dealing with this particular audit team and implement a process to try to close the loop before they get out of town and communicate a little bit more efficiently with them so that we don't get an incomplete, Bill.

MS. DONOHO: Any other questions?

(No response.)

MS. DONOHO: On another note, HUD program staff reviewed the Disaster Recovery Program again, and their objective was to determine if the Department was implementing its action plan for Disaster grant funding as required. They did an audit of this last year and they came to kind of follow up

on it again this year. They did not identify any new findings from their last visit and they determined that all of the ten findings and two concerns from their April 2008 review were all clear. So in contrast. Any questions on that report?

MR. GERBER: We're looking forward to introducing the program staff to the HUD OIG staff.

(General talking and laughter.)

MS. RAY: Mr. Gann?

MR. GANN: No comments.

MS. RAY: Anybody else?

MR. GANN: I like it.

MS. RAY: I like it too. We're clear. So the program staff did that one. Right?

MS. DONOHO: Right, the HUD program staff.

MS. RAY: Let's see if they communicate with each other before they come down here next time. Go right ahead.

MS. DONOHO: The next one is the Texas Workforce Commission did an unemployment insurance data review. We utilized their data for some Section 8 functions. They didn't have any significant findings so they didn't issue a report, but I'm telling you about this one because they did do audit work here and you probably need to know that.

They identified one Department employee who terminated their employment but who still had access for a brief period to the unemployment insurance data. We have a contract with them to use that data for Section 8 purposes to verify employment and salaries and that sort of thing. But the employee no longer has access to that system and they didn't feel like that

was, I guess, a significant enough finding to write up.

MS. RAY: Sounds like they were looking, trying to find something.

MS. DONOHO: Are there any questions on this review?

MS. RAY: No.

MS. DONOHO: The next one is the State Auditor's Office looked at the program specialist position, they did a review of that. They do classification reviews to make sure that all of the job positions are classified appropriately. They found eight of 78, about 10 percent of program specialist positions at the Department were misclassified. All of these have been corrected and Internal Audit has followed up on these recommendations already and verified that they were all implemented, so all those positions are now correctly classified.

Are there any questions on that report?

MS. RAY: No.

MS. DONOHO: Finally our last item, item 7, I wanted to talk a little bit about our peer review process. The Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing and our Government Auditing Standards, as well as the Internal Auditing Act -- which is our Texas statute that governs internal audit -- required that the Internal Audit Division undergo a peer review every three years. The peer review process is an outside review of our policies, procedures and functions to ensure that Internal Audit is complying with audit standards.

The peer reviews are performed by representatives of other state agencies' internal audit departments. We, in turn, do peer reviews at

other state agency internal audits -- it's a points system so we have to do enough peer reviews to get points to cover the cost of our peer review.

The peer review process consists of surveys and interviews with Department's management, directors of areas receiving internal audits since the last peer review, as well as discussion with Audit Committee members and Board members. They also do a review of our division level policies and procedure, our continuing education credits, they do a detailed review of the working papers for selected audits to make sure they comply with standards.

So our peer review is scheduled for the week of November 9. As Audit Committee members, you may hear from our peer reviewers, they may call and want to interview you or send you a survey, so just so you know if you hear from them that's what that's about. Our peer review lead is a woman named Linda Schirrad, She's from the Department of State Health Services. Assisting her will be Cindy Hancock from Parks and Wildlife Department. So you should be hearing from them soon.

Are there any questions on the peer review process?

MS. RAY: I feel very good about it.

MS. DONOHO: We do too.

MS. RAY: I think I've learned more about the peer review process, Sandy, since you've been here, because I know you have assisted other agencies in serving as a peer review auditor, and that was an educational process for me. I feel very comfortable with our Audit Department, with you at the helm, and so I'm comfortable, it gives me a confidence level.

Mr. Gerber.

MR. GERBER: A big part of that, the way Sandy approaches internal auditing -- it's their Department too and they're seeking this Department to be successful and effective, and the great thing is that management and I think all of our staff really can embrace it. They certainly have learned a lot about our programs, and those are valuable people who can really tell you a lot, and bounce ideas off of and share things -- does this make sense? But they're not necessarily in the weeds on a day-to-day basis. Those are very valuable people to us, and so do appreciate the partnership, understanding the independence and the great feedback that will improve our programs and processes to be as effective as they need to be.

MS. RAY: And that is your last item?

MS. DONOHO: Yes, ma'am.

MS. RAY: Thank you very much, Ms. Donoho.

And before we adjourn this meeting, I'd like to ask if there are any comments from anyone else. Stella, you still don't have anything? Thanks for coming and keeping us honest.

Mr. Gann?

MR. GANN: No more comments.

MS. RAY: Anyone else have any?

MR. GOURIS: Madame Chair, did you get to meet all the members of team? Did you meet everybody here?

MS. RAY: I met two new friends -- one of them is gone already. Ernie, we're old friends now. I met him when he was coming in the door; I had not met him previously. And the other young lady from Bill's shop,

I had not met her either. Everybody else, we're old, intimate friends now, and I want to thank you for your work.

I want to thank Mr. Gerber and Sandy for this new format that we have for the Audit Committee process. This process for me -- I can't speak for Mr. Gann or anybody else -- this has been the best education since I have been on the Board, because not only do we deal with audit issues in areas of our business, but we also get a much deeper sense of what's going on, what's coming up, and a much better education than you could ever get when you're in the heat and throes of a Board meeting sitting up there on the dais.

And I want to thank each and every one of you staff members for staying late, working a little overtime -- you probably don't even get paid for it -- but staying late and guiding us through this process. It's been very beneficial to me. You know, it's going to get so good the other Board members are going to just be clamoring to come to our Audit Committee.

(General talking and laughter.)

MS. RAY: With that, the Chair would entertain a motion for adjournment.

MR. GANN: I move we adjourn.

MS. RAY: Second. It's been moved and seconded that we adjourn the Audit Committee meeting. Now, here at 6:13 p.m., the meeting is adjourned.

(Whereupon, at 6:13 p.m., the meeting was concluded.)

C E R T I F I C A T E

MEETING OF: TDHCA Audit Committee

LOCATION: Austin, Texas

DATE: October 14, 2009

I do hereby certify that the foregoing pages, numbers 1 through 47, inclusive, are the true, accurate, and complete transcript prepared from the verbal recording made by electronic recording by Nancy King before the Texas Department of Housing and Community Affairs.

10/18/2009  
\_\_\_\_\_  
(Transcriber) (Date)

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