

**AUDIT COMMITTEE MEETING
DRAFT MINUTES
OCTOBER 18, 2010**

COMMITTEE MEMBERS PRESENT

Mary Durham, Chair
Brenda Coleman-Beattie, Council Chair

Andy Crim
John Morris

STAFF MEMBERS PRESENT

Roger Webb,
Executive Director
Martha Cantu

Patrice LeBlanc
Koren Vogel

GUESTS PRESENT

James Faragoza, attendant
Don Mikeska

Jaye Stepp, Rupert and Associates

CALL TO ORDER

The Audit Committee of the Texas Council for Developmental Disabilities convened on October 18, 2010, in the Republic Boardroom at the Marriott Austin South, 4414 South IH-35, Austin, TX 78744. Committee Chair Mary Durham called the meeting to order at 9:04 AM.

1. INTRODUCTIONS

Committee members, staff and guests were introduced. Council Chair Brenda Coleman-Beattie advised members that Council member Marcia Dwyer asked to step down as a member of the Audit Committee due to time constraints. Coleman-Beattie was not able to fill that vacancy on the Committee prior to this meeting.

2. APPROVAL OF MINUTES

The Committee reviewed the minutes from the March 26, 2010, Committee meeting. No revisions were offered.

MOTION: To approve the minutes of the March, 2010, Audit Committee meeting as presented.

MADE BY: Brenda Coleman-Beattie

SECOND: Andy Crim

The motion **passed** unanimously.

3. ANNUAL REVIEW OF TCDD AUDIT CHARTER

Jaye Stepp, Rupert and Associates, contracted internal auditor for TCDD, reviewed the Internal Audit Charter for fiscal year 2011 and noted that no changes were made from FY 2010. The document defines the objectives and scope of work in the internal audit activities. Stepp indicated that although the document does not need Committee approval, signatures are required from TCDD Executive Director, Council Chair and Audit Committee Chair. Members agreed by consensus to make no changes to the charter for the coming year.

4. TCDD FY 2010 ANNUAL INTERNAL AUDIT REPORT

Stapp reviewed the FY 2010 Annual Internal Audit Report and provided a summary of findings and recommendations. The main areas of focus this year were information technology and follow-up to the prior year audit recommendations. Observations included in the report:

- Develop a written Business Recovery Plan for TCDD that will interface with TEA efforts for systems and business recovery in the event of an incident. – TCDD staff are working with TEA to develop this plan.
- TCDD management should encourage a reiteration of the risks of inappropriate technology usage to all staff periodically. This has been implemented.
- TCDD management should work with the TEA ISP to identify the level of security support to be provided by TEA and the activities for which TCDD is responsible. This has been implemented.

This report will be provided to the oversight agencies which include the Governor's Office of Budget, Planning, and Policy; Legislative Budget Board; State Auditor's Office; and the Sunset Advisory Commission by the November 1, 2010 deadline.

5. DRAFT TCDD INTERNAL AUDIT PLAN FOR FY 2011 AND RISK ASSESSMENT UPDATES

Stapp reviewed the proposed Internal Audit Plan for FY 2011 with a focus on grant monitoring activities. The document included a "re-evaluation" of the risk assessment of TCDD activities.

MOTION: To approve the TCDD Internal Audit Plan for FY 2011 as presented.

MADE BY: John Morris

SECOND: Brenda Coleman-Beattie

The motion **passed** unanimously.

6. REVIEW OF INTERNAL AUDIT REPORT ON TAC 202 STANDARDS

Stapp reviewed the TCDD Audit Report on TAC 202 Standards. This report provides the details of the information technology review as required by Title 1, Part 10, Chapter 20, Texas Administrative Code (TAC 202), Information Security Standards. This audit satisfied the requirement for a periodic audit of TCDD's major information systems and controls, including safeguarding of assets and data.

The key observations included:

- The Texas Education Agency (TEA), as the designated state agency for TCDD, is responsible for overall compliance with TAC 202. TEA has not had a TAC 202 audit specifically, but they have had multiple other audits that included various information security objectives. These previous audits have not identified any significant problems with TEA's information technology (IT) security. TEA provided written operating procedures that address the Department of Information Resources (DIR) requirements for IT security policies. These policies include specific steps that are the responsibility of TEA divisions.
- TCDD has policies and procedures in place to ensure that they comply with TEA's operating procedures as they relate to information security. Some of the procedures were revised during the audit to adhere to agency division responsibilities according to TEA procedures.
- TEA's oversight activities over TCDD's information security standards should be clarified. TCDD should coordinate with TEA to identify responsibilities of TEA and of TCDD to ensure that TCDD has adequate processes for the protection of their independent assets and activities.

- All prior audit recommendations have been addressed by TCDD.

Stapp further noted some weakness in TEA's oversight of TCDD because TEA policies were developed prior to the relationship with TCDD.

Council Chair Coleman-Beattie questioned if policies were sufficient regarding termination of employees and their access to TCDD files. It was noted that access is terminated by TEA computer support upon notification by TCDD staff and the access can be restricted prior to last workday if necessary. Committee Chair Durham questioned if all TCDD staff have attended IT training at TEA. It was noted that it was offered to all but she added that all should attend.

MOTION: To accept the Internal Audit Report #2010-1 as presented.

MADE BY: Andy Crim

SECOND: John Morris

The motion **passed** unanimously.

7. **QUALITY ASSURANCE AND IMPROVEMENT REPORT**

Stapp discussed the Internal Audit Activity Report on Quality Assurance and Improvement Program and explained that this is a new standard for audits that looks at internal and external assessments. Internal assessments include ongoing reviews and periodic reviews by staff and the contracted internal auditor. External reviews are required every 3 years by the Texas Internal Audit Act. Stapp described some of the ways that TCDD has met the performance metrics through internal audits, following up on audit recommendations, and the most recent quality assurance review in 2009.

8. **UPDATE ON TCDD GRANT PROCEDURES**

Grants Management Director Patrice LeBlanc discussed the current method of conducting risk assessments of TCDD grant projects. She explained the risk matrix that is used to place grantees in high, medium, or low risk categories. Categories are determined by the amount of the grant award as well as certain project activities (new grantee, award within the award, funding, compliance or performance issues, etc). Coleman-Beattie clarified TCDD's response to risk categories and noted that Executive Committee and Council review of audit activities should be included. Chair Durham asked that a footnote be added to indicate that a risk review is completed annually of each grant project.

LeBlanc further discussed TCDD's response to the situation involving Family Connections/Texas Association of Child Care Resource and Referral Agencies (TACCRRRA). Following the alleged embezzlement by the Family Connections executive director, it has been determined that all TCDD funds have been accounted for as they were used for large expenditures such as salaries and facilities rental. TCDD has developed enhanced grant monitoring measures regarding grantee audits to provide earlier awareness in similar situations. These measures include:

- Annual database query to determine which projects have provided copies of financial audits.
- Follow-up by Grants Specialist if any report is not received in a timely fashion.
- Confirmation with auditing firm that the audit work was completed by them.
- Question to grantee regarding how often the auditor reports directly to the Board.
- Require background investigations on anyone (volunteer or paid staff) who handles financial records. Coleman-Beattie further suggested background investigations on individuals who work with children or vulnerable adults.

- More stringent guidelines for travel reimbursement. – Committee members also discussed setting parameters regarding travel outside the United States and asked staff to develop a procedure reflecting for review by the Executive Committee.

LeBlanc presented a procedure developed to review grantee requests for “no-cost” extensions of the project. It was noted that grants management staff will review the initial request and make recommendations to the Executive Director. The Executive Director will determine if approval is within the guidelines established and report any action to the Executive Committee and Council.

NOTE: Committee member John Morris left the meeting due to illness. Internal Auditor Jaye Stepp also left the meeting as her presentations were concluded and the Committee would later be discussing confidential bids for future auditing services including a proposal submitted by Stepp’s firm.

9. TCDD GRANTEE INDEPENDENT AUDIT DESK REVIEW PROCEDURES

Don Mikeska provided a presentation on Independent Audit Desk Review Procedures. Mikeska is the contracted auditor to conduct desk reviews of annual independent audits received from grantees. He reviewed the responsibilities of a desk review auditor vs. the management of the grantee vs. the grantee’s auditor. One major deficiency he sees with projects is the lack of separation of duties between staff and individuals conducting audit functions. Those functions should be completely separate.

10. REVIEW TEAM RECOMMENDATIONS FOR INTERNAL AUDITING SERVICES RFQ

TCDD Operations Director Martha Cantu discussed the response to the Internal Auditing Services Request for Qualifications (RFQ) which was posted August 3 – September 30, 2010. Cantu worked with TEA contracts staff throughout the process to ensure accurate and objective procedures. Eight proposals were received and were independently reviewed by the review team which consisted of Cantu, LeBlanc, Crim and Morris. The top scoring proposals were selected for oral presentations. It was noted that one proposal scored highest and the next three were very close in their scores. Staff will arrange for the presentations to be conducted prior to the November Council and Committee meetings so that a recommendation can be made at that time. Audit Committee members agreed to have a short meeting on November 1, 2010, to finalize a recommendation to the Council.

11. OTHER DISCUSSION ITEMS

Members discussed the vacant position on the Committee and it was suggested that due to the nature of the Committee, a mentor would be appropriate for any new member.

ADJOURN

There being no further business, Committee Chair Durham adjourned the Audit Committee meeting at 11:23 AM.

Roger A. Webb
Secretary to the Council

Date