

TEXAS DEPARTMENT OF HOUSING AND  
COMMUNITY AFFAIRS

AUDIT COMMITTEE MEETING

8:30 a.m.  
Thursday,  
February 13, 2003

Room 437  
Waller Creek Office Building  
507 Sabine Street  
Austin, Texas 78701

PRESENT:

AUDIT COMMITTEE:

Vidal Gonzalez, Chairman  
Beth Anderson  
Shadrick Bogany

STAFF:

Edwina Carrington, Executive Director  
David Gaines  
Delores Groneck  
Suzanne Phillips

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P R O C E E D I N G S

1  
2 CHAIRMAN GONZALEZ: I'd like to call the Audit  
3 Committee Meeting to Order. And we'll start with a roll  
4 call. Beth Anderson.

5 MS. ANDERSON: Here.

6 CHAIRMAN GONZALEZ: Shad Bogany.

7 MR. BOGANY: Here.

8 CHAIRMAN GONZALEZ: Vidal Gonzalez, here. All  
9 members are present. And we'll start with the public  
10 comment. I don't believe we have anybody.

11 MS. GRONECK: Not for now. They want to talk  
12 during the items as they go.

13 CHAIRMAN GONZALEZ: Okay. Then we'll go to  
14 Item Number 1, the Presentation, Discussion and Possible  
15 Approval of Minutes of Audit Committee Meeting of October  
16 10 and November 14.

17 MR. BOGANY: So move.

18 MS. ANDERSON: Second.

19 CHAIRMAN GONZALEZ: We have a motion and a  
20 second to approve posted meetings of October 10 and  
21 November 14. All those in favor, say aye.

22 (Chorus of ayes.)

23 CHAIRMAN GONZALEZ: Opposed, same sign.

24 (No response.)

1 CHAIRMAN GONZALEZ: Motion carries. Then we'll  
2 call on Mr. David Gaines for the Quality Assurance Review  
3 of the department's Internal Auditing Division.

4 MR. GAINES: Good morning, Chair, members of  
5 the Committee, staff. Before we get started this morning,  
6 I'd like to first introduce to your our latest addition to  
7 the Internal Auditing Division, Kelly Crawford.

8 And, Kelly, please wave. Yes.

9 Kelly comes to us from the Texas Workforce  
10 Commission, where she served for four years as project  
11 manager, leading teams by conducting monitoring  
12 engagements, evaluating welfare reform programs.

13 She's worked closely with local workforce  
14 development boards regarding policy implementation,  
15 performance measurement, data accuracy, and program  
16 efficiencies.

17 Kelly has a background of experience, broad  
18 experiences in medical management and billing, as well as  
19 insurance and security industries.

20 And, Mr. Gonzalez, I was thinking of you in  
21 making my final hiring decision. Kelly has a Bachelor of  
22 Science degree from Texas A&M University.

23 CHAIRMAN GONZALEZ: It helps.

24 MR. GAINES: But I decided to hire her anyway.

1 Glad to have you, Kelly. We're real excited.

2 The first item on the agenda, behind Tab 4(a),  
3 is the Quality Assurance Review of the Texas Department of  
4 Housing and Community Affairs Internal Auditing Division.

5 This is an independent review of the  
6 department's internal audit function that's required by  
7 the Texas Internal Auditing Act and Professional  
8 Standards.

9 The lead auditor on the project, Catherine  
10 Melvin, is with us today. Catherine is a certified  
11 internal auditor, a certified public accountant, and was  
12 the Director of Internal Audit at the Texas Department of  
13 Protective and Regulatory Services.

14 And Cathy has graciously agreed to come over  
15 and give the results of her review. Cathy.

16 MS. MELVIN: Thank you, David.

17 Good morning, Chair Gonzalez, all the committee  
18 members, and Ms. Carrington. I'm pleased to present the  
19 results of the Quality Assurance Review.

20 In your packet we have a copy of that review,  
21 and I'll highlight some key things. The first thing I'd  
22 like to highlight is the actual objectives of that review.

23 As Mr. Gaines has probably explained to you, this is a  
24 mandatory requirement of all internal audit shops, even my

1 own shop. At some point I'll have to be peer reviewed  
2 also; not by David, by another auditor.

3 The purpose of the review -- the objective of  
4 the review, is fundamentally to ensure compliance.  
5 Compliance with -- actually right now we have two sets of  
6 standards that we must comply with, and the Texas Internal  
7 Auditing Act. So that was the main focus.

8 And also doing that, we also identified some  
9 Best Practices, and hopefully identified some suggestions  
10 for improvement. I'm pleased to report that your internal  
11 audit function fully complies with all requirements, both  
12 sets of standards, and the Texas Internal Auditing Act.

13 We did identify some practices that we wanted  
14 to highlight. These include involving management in the  
15 annual planning process, attending senior staff and  
16 administrative staff meetings, serving as a liaison with  
17 external auditors and reviewers, and providing  
18 consultative assistance.

19 I have highlighted a couple of -- or three  
20 actual noteworthy accomplishments I think should be  
21 mentioned. I'll just go over those very briefly. First,  
22 I'd like to say that the internal audit division is  
23 certainly very highly regarded in your agency.

24 It is a very consistent in the interviews that

1 me and another reviewer conducted, and also in feedback  
2 from the written surveys that we -- that were sent in to  
3 us. I think that speaks very well of your internal audit  
4 function.

5 The second is that the Internal Audit Division  
6 performs valuable assistance to management and its board  
7 through its various client assistance projects. I think  
8 this is an important function of any internal audit  
9 division. That the very definition of internal auditing  
10 includes both assurance activities, which are traditional  
11 audit activity, but also consulting activities.

12 And I think you get credit -- I believe a bang  
13 for your buck in utilizing your internal audit resources  
14 in those various projects that they do. One of the key  
15 advantages of that is some of the preventive work that  
16 they do, you know, come in up front rather than after the  
17 fact, saying, Okay. We should have done this, or we  
18 should have done that.

19 Lastly, I wanted to mention that we felt that  
20 the Internal Audit Division maintained a very strong  
21 agency presence, and that was fully supported by its board  
22 members. And we're pleased to see that internal audit is  
23 a regular agenda item, and it stays in close contact with  
24 its audit committee and the board members. And we felt

1 that that led to a very effective and strong audit  
2 function.

3 We had a couple of suggestions. None of these  
4 are related to compliance, do not affect the rating of  
5 fully complied. But you know, as auditors, we have to  
6 offer up something. Not doing our jobs if we don't have  
7 some suggestion.

8 The first one I have is to consider updating  
9 the internal audit charter. In about 2000 we underwent  
10 quite significant revisions to our standards, including  
11 revamping our definition of internal auditing.

12 Audit shops across the state, or across, you  
13 know, the country, are getting in line with the new  
14 standards. You know, all of us are in the process of  
15 updating the charter. I believe it would be a good time  
16 for you all to take a look at that and make sure it  
17 incorporates that new language and some of those  
18 requirements.

19 A lot of attention on auditing these days,  
20 considering recent events. And it's really important  
21 that, I think, our internal audit functions are in line  
22 with what the standards require them to be.

23 Second is to ensure that the job descriptions  
24 and the internal audit charter specifies compliance with

1 the Code of Ethics. Currently they do say that, "All  
2 professional staff of the Internal Audit Division shall  
3 meet standards." And I think part of the layman's  
4 understanding is that the standards typically incorporate  
5 the Code of Ethics.

6 And I think that we have -- the fact that we  
7 have a specific internal audit Code of Ethics is a strong  
8 point in our profession. And again, I think considering  
9 recent events, I think we ought to go ahead and state it,  
10 and say, you know, we ensure compliance with that. Not  
11 that I found any evidence, certainly, that they weren't.  
12 But I think it's good to go ahead and say that.

13 Lastly, my last recommendation is to actually  
14 request a board review of internal audit resources  
15 periodically. This is not a requirement. I mean, it's  
16 something for you to consider. Right now, currently, I  
17 think the actual internal auditing act states that the  
18 administrator of the state agency shall determine that the  
19 internal audit function has the adequate resources to  
20 conduct the work that they need to do.

21 But I think you as board members, and certainly  
22 as Audit Committee members, have a strong responsibility  
23 and oversight responsibility to ensure that your  
24 function -- your internal audit function that reports

1 directly to you, has the resources it needs to cover its  
2 risks.

3 Now, it's always a balance, you know. We --  
4 and times are very limited, and even more limited  
5 resources. And the risk is always high. But I think  
6 that's a call that the board members should periodically  
7 review and go over it and ensure that you're comfortable  
8 with accepting whatever level of risk that might lie  
9 there.

10 Okay. Finally, my very last comments. The  
11 last two pages of the reports are a very brief summary of  
12 the written survey results that were sent in. We either  
13 interviewed or sent a written survey to all of the  
14 managers and directors, including Ms. Carrington. And  
15 those people that we didn't actually interview face to  
16 fact, we sent these surveys. So this is really just a  
17 result of that.

18 And I think you can quickly see that the  
19 results were very positive. Some -- I included each of  
20 the comments verbatim. At the bottom you'll see those all  
21 in italics. And all of those I thought were very positive  
22 also.

23 Some recommendations, some ideas to consider,  
24 and -- but all in all, very strong and good comments. And

1 that concludes my presentation. If you have any  
2 questions, I'd be happy to answer any.

3 CHAIRMAN GONZALEZ: Any questions? Okay.

4 MS. MELVIN: Okay. Thank you very much.

5 MR. GAINES: Thank you, Catherine. At this  
6 point, I'd like to part from the Agenda just a little bit,  
7 and skip to the Agenda item behind Tab D.

8 This is the results of an audit by the State  
9 Auditor's Office on the Performance Measurements at 14  
10 different state agencies. The assistant project manager  
11 on the audit, Victoria Harris, is kind enough to break  
12 from her schedule to come over and present the results of  
13 this audit as it relates to the department. So at this  
14 time, I'll turn the podium over to Victoria. And her  
15 assistant manager.

16 MS. VICE: Good morning. Thank you for  
17 inviting us to provide some testimony on this report that  
18 was recently issued in November. These are results of the  
19 Performance Measures Audit. My name is Sandra Vice, and  
20 I'm the audit manager of this audit.

21 The project manager, Pam Ross, could not attend  
22 this morning, because she was providing testimony across  
23 the street for another agency. But with me today is  
24 Victoria Harris. She was the assistant project manager,

1 and will provide for you the results of the audit. Thank  
2 you.

3 MS. HARRIS: Good morning. The objectives of  
4 our audit were to determine whether or not the department  
5 is accurately reporting its key performance measures  
6 results into the automated budget database. It's called  
7 ABEST, and to determine whether or not the department had  
8 adequate control systems in place over the collection and  
9 reporting of this performance measures data.

10 We also reviewed controls over the collection,  
11 cancellation and submission of data used and reported  
12 performance measures.

13 We traced performance measure information to  
14 the original source documents whenever possible. The  
15 audit report was released in November 2002. State  
16 agencies and the LBB established an agency's performance  
17 measures definition and performance targets.

18 Accordingly, the agencies report their results  
19 into the automatic database, ABEST. Periodically, the  
20 state auditors office performs audits of these reported  
21 results.

22 State auditors office evaluates the agency's  
23 control system, tests the source documentation, and  
24 recalculates the measure's results. At the conclusion of

1 our audit, each measure is given an designation on its  
2 level of accuracy and reliability.

3 There are four definitions and designations for  
4 performance measures results. And they are: Certify,  
5 which means that when we recalculated the results, it was  
6 accurate and the control systems are expected. To be  
7 accurate, the agency results reporting ABEST must be  
8 within a plus-or-minus-5 percent variance of our  
9 recalculated results.

10 And the effective control system should provide  
11 reasonable assurance that the information is properly  
12 collected, calculated, and correctly reported.

13 A measure is designated as Certified with  
14 Qualifications if it is accurate, but control systems are  
15 not adequate to ensure continued accuracy. A measure is  
16 designated as Factors Preventing Certification if we are  
17 unable to determine the actual results due to missing or  
18 unavailable source documentation, or a deviation from a  
19 measured definition that prevents calculation of the  
20 correct result.

21 A measure is designated as Inaccurate if a  
22 reported result is not within the plus or minus-5 percent  
23 variance of actual performance, or if there is an error  
24 rate of 5 percent or more in the source documentation.

1           We considered the audit -- we consider  
2 designations Certified and Certified With Qualifications  
3 to be considered reliable reporting for the ABEST result  
4 as being accurate. The department reliability percentage  
5 rate as 43 percent. None of the seven audit measures were  
6 rated Certified. That is, none of the measured results  
7 were both accurate and had effective controls in place.

8           Three of the measures, and I'll name them --  
9 1), Percent of Household Individuals of Moderate Income  
10 Needing Affordable Housing that subsequently received  
11 housing or housing-related assistance, 2) project the  
12 number of very low and low-income households benefitting  
13 from HOME investment programs, loans and grants, and 3)  
14 the number of complaints resolved, were certified or  
15 designated with Certified With Qualification, and are  
16 considered reliable. That is, the result was accurate,  
17 but controls are not adequate.

18           We selected seven of the department's key  
19 performance measures. We audited results for Fiscal Year  
20 2001 to determine whether they were accurate. Four of the  
21 seven measures audited, 57 percent, cannot be relied upon.

22           These four measures were designated as Inaccurate, which  
23 means that they were not within a plus or minus 5-percent  
24 variance range, or they were over or above.

1           And those four measures were the percent of  
2 small community populations benefitting from public  
3 facility economic development housing assistance and  
4 projects, the percent of persons in poverty that receive  
5 homeless and poverty-related assistance, the number of  
6 persons assisted that achieved incomes above poverty  
7 level, and the average number of days for complaint  
8 resolution.

9           Additionally, we found that the department did  
10 not have adequate control systems in place to reasonably  
11 assure the accuracy of reported results for any of these  
12 auditing measures.

13           The department has agreed to implement all  
14 recommendations. And speaking of David, he wanted me to  
15 direct you guys to the distribution list for the report  
16 that was released in May. And it's on the last page of  
17 the back cover of the overall report.

18           This concludes my remarks. I'll be glad to  
19 address any questions.

20           CHAIRMAN GONZALEZ: Any questions?

21           MS. VICE: Do you all not have that page? It's  
22 on the back cover of the report.

23           MS. CARRINGTON: Oh, there it is. Okay. There  
24 we go. There we are.

1 CHAIRMAN GONZALEZ: Any questions?

2 MS. ANDERSON: I maybe have a question, Ms.  
3 Carrington. That the responsibility for preparing these  
4 measures -- is it spread all across the agency, or are  
5 most of these coming out of community services, or --

6 MS. CARRINGTON: We have one staff person in  
7 the agency who performance measure information is given to  
8 that staff person.

9 MS. ANDERSON: Okay.

10 MS. CARRINGTON: And they have the  
11 responsibility for preparing the information, entering the  
12 information into the performance measures.

13 CHAIRMAN GONZALEZ: Any more questions?

14 MS. HARRIS: Thank you.

15 MS. VICE: Thank you.

16 CHAIRMAN GONZALEZ: Thank you very much. I  
17 appreciate it. Thank you.

18 MR. GAINES: If I may, I'd like to just  
19 elaborate a little bit on Edwina's comments, and the  
20 calculations or the information is developed and compiled  
21 at the -- each individual area throughout the department.  
22 And this one person compiles this information for ABEST.

23 MS. ANDERSON: What kind of a work do you  
24 process does it go through? I mean --

1 MR. GAINES: That primarily is the control  
2 considerations the auditors were referring to. It's the  
3 review of documentation. And since that time, a form has  
4 been developed that's about the same in use on the most  
5 recent performance measurement report, which says that --  
6 it's basically the director saying, I've reviewed this and  
7 approved this report.

8 MS. CARRINGTON: Probably one other comment is  
9 that we are -- we have moved the responsibility for  
10 performance measures from the Community Affairs area,  
11 which just happened to be where the person was who was  
12 doing it --

13 MS. ANDERSON: Right.

14 MS. CARRINGTON: -- to the Center for Housing  
15 Resources Strategic Planning and Communication. Again,  
16 with the idea that since it's the overall agency  
17 performance measures and how well we're doing meeting  
18 those performance measures, and that should tie in with  
19 the strategic plan and of the agency that indeed would  
20 think that that's a more appropriate area for it to be in.

21 And I will say one thing in defense of staff,  
22 which I'm always going to do if I think it's defensible.  
23 And that is that the person who was doing the performance  
24 measures had really gotten some conflicting information.

1           If you look at the recommendations on each one  
2 of them, especially the ones that are noted with  
3 Inaccurate, basically what they had been told was if you  
4 had activity past August 31, you didn't go back and update  
5 based on number of persons served or households, or  
6 whatever that performance measure might be.

7           What the State Auditor's Office did was  
8 actually look at those adjustments that should have been  
9 made after the end of the fiscal year. So we really got  
10 caught in the middle of what we believe was certainly some  
11 conflicting direction on what we should be doing.

12           As David said, those control mechanisms are  
13 being put in place where we're clear with what the State  
14 Auditors Office has told us. And, you know, we believe  
15 that once those controls are in place, that next time we  
16 have this kind of review, that we will be much more than  
17 43 percent.

18           Sort of looking on the bright side, if you look  
19 at the chart, you're right in the middle. There were six  
20 of us who had percentage reliability that were less than  
21 we did. And then seven of us -- seven agencies that did  
22 have percentage reliability greater than we did, out of  
23 the 14 that were tested.

24           MR. GAINES: Thank you for those comments, Ms.

1 Carrington. And a couple of them I wanted to emphasize  
2 related to the information coming in after the end of the  
3 year. I believe in having the auditors that conducted the  
4 reviews to present them, because they might have a  
5 particular issue they want to emphasize, or a particular  
6 word that I would lose in that translation.

7 The other half of that coin is management  
8 believes these errors, for the most part, are  
9 representative -- are the results that their calculations  
10 fairly represent what has been reported.

11 One of the areas in the 5 percent calculation  
12 was relating to -- as the auditors were testing the  
13 documentation supporting their individual tests, exceeded  
14 their 5 percent error rate, at which point they stopped.  
15 So they never got to the final calculation of what they  
16 believed it should be.

17 They related to Manufactured Housing Division  
18 on the timing of resolving complaints. Just how do you  
19 calculate the point of time a complaint's received versus  
20 once it's disposed of? So and --

21 I want to point out a couple of things along  
22 those lines to you. Okay.

23 MS. ANDERSON: We're just in a tough climate,  
24 and we want -- you know, we have a very strong track

1 record here of serving significant numbers of people, and  
2 meaningfully impacting the lives of those people.

3 And you know, I appreciate manager -- I  
4 appreciate what the management and the staff have done to,  
5 you know, put a stronger process in place, because we all  
6 know we've got to be more -- about more than good  
7 intentions.

8 We've got to be about results in this agency,  
9 as I believe the staff is. And so we just want to not  
10 have, you know, doubt cast on these -- and some of these  
11 are really big numbers that we report in terms of number  
12 of people served and stuff.

13 So that's just a linchpin to our helping the  
14 Legislature and our constituencies understand, you know,  
15 the key mission of this agency, to have these numbers.  
16 These are something that everyone will look on credibly.

17 MR. GAINES: Finally, and one last comment on  
18 this agenda item is management believes that they were  
19 doing what they're now actually documenting. That the  
20 directors were looking over their results. And it's a  
21 matter of documenting, which is always a cost. And we  
22 just need to recognize some instances where you have to  
23 bear the costs.

24 The next agenda item -- we're going to go back

1 to 4(b). And this is the Annual Review of the  
2 Department's Performance of Duties defined under a  
3 Memorandum of Understanding between the Resolution Trust  
4 Corporation and TDHCA.

5 In general, these statements relate to the  
6 department ensuring that the owners of Affordable Housing  
7 Disposition Program properties satisfactorily live up to  
8 their commitments defined in their related land-use  
9 restriction agreements.

10 And I'll just refer you to a couple of phrases  
11 in the report that I believe summarizes the overall  
12 conclusions fairly well. On the first page, or your  
13 transmittal page of the report, second paragraph. "Again,  
14 you and your staff continue to be the benchmark that the  
15 FDIC uses to compare all other monitoring agencies for the  
16 FDIC affordable-housing program.

17 On the next page, under Conclusions, "TDHCA  
18 continues to produce an exceptional work product." And  
19 that summarizes the overall report. And the credit for  
20 these outstanding efforts is listed there under staffing.

21 And that's Suzanne Phillips, Director of Compliance. I  
22 don't know if any of them are -- yes, they are here.

23 Suzanne's here. Sara Newsom, Compliance  
24 Manager. Nancy Dean, Senior Compliance Monitor, and a

1 number of your staff. So thank you, Compliance Team.

2 The next agenda item, under Tab 4(c), A  
3 Legislative Summary Document Regarding Department of  
4 Housing and Community Affairs.

5 This document has previously been provided to  
6 you under an email that I've sent. And it was prepared by  
7 the State Auditor's Office for interested members of the  
8 Legislature, our oversight committees, the Sunset staff.  
9 And it's my understanding that similar documents were  
10 prepared for another 80 agencies.

11 You will note at the bottom of page -- the  
12 bottom text box on the first page that this is not an  
13 audit, and the materials included in the report have not  
14 necessarily been subjected to the same procedures an audit  
15 would go through.

16 The first page is a summary of the State  
17 Auditor's observations. And this information is based on  
18 recent reviews by the state auditors that were not  
19 considered audits, and also based on audits since the last  
20 legislative session.

21 In instances they refer to earlier audits, when  
22 the audits since the last session made reference to those  
23 earlier audits. So these -- some of these  
24 go considerably -- a good time period back.

1 I would like to just walk quite briefly through  
2 the report touching on some of the highlights, and the  
3 current status of some of these issues.

4 What's being reported to you is the status at  
5 the time of the report. And I suspect this could be a  
6 considerable source of questions going through the  
7 legislative session.

8 The first paragraph refers to inadequate  
9 controls over the subrecipient-monitoring function of the  
10 HOME Program, and refers to the fiscal year 2002 HOME  
11 audit currently underway. So this was last year's audit  
12 comment, and it refers to a current audit apparently  
13 underway.

14 The most recent status meeting in the current  
15 audit, in a draft report that the department is currently  
16 responding to, indicates that this issue has been largely  
17 resolved.

18 KPMG expressed continued concern in the status  
19 meeting and in their draft audit report. That continued  
20 concern relating to the first half of 2002, however,  
21 indicated no significant sections and processes or  
22 controls developed or applied during the second half of  
23 2002.

24 The only concern expressed relating to the

1 second half was the need to better document technical  
2 assistance visits. They summarize by basically saying  
3 continue doing what you did in the second half.

4 They also recommend that these monitoring  
5 procedures applied during the second half be applied to  
6 all of our contracts. We have been applying those  
7 procedures only to the more recently awarded ones  
8 beginning with the HOME 2001 cycle.

9 The next paragraph refers to the certification  
10 audit that was just discussed with you. The following  
11 paragraph relates to recent nonaudit reviews by the SAO,  
12 of data supporting the department's legislative audit  
13 request -- appropriations request. Excuse me.

14 And the SAO concludes that the department had  
15 reasonable processes in place for estimating revenues and  
16 legislative appropriations requests, and expressed  
17 concerns that the department did not have written  
18 procedures for estimating expenditures.

19 However, they didn't note any problems, you  
20 know, in estimating the expenditures. They did point out  
21 that the department's expenditures in the previous LAR  
22 were significantly less than actual expenditures.  
23 However, there was reasonable explanation. And that  
24 relates to unexpended federal government spending

1 authority that wasn't originally known or anticipated at  
2 the time of preparation of the LAR.

3 And the final paragraph refers to the Sunset  
4 Commission's staff recommendation that the department be  
5 continued for 12 years.

6 The next couple of pages discuss this financial  
7 data and reasons for significant fluctuations between  
8 appropriations years. This is just some explanation of  
9 our cash flow, and why some of these fluctuations are  
10 significant. The fact that they are significant is not a  
11 problem in itself. You just have to understand the cash  
12 flow and the reasons for that. And that's what we're  
13 trying to explain here.

14 Beginning on the bottom of page 3, the SAO  
15 reports key findings from previous audits. Their  
16 reference also makes reference to an ongoing audit of the  
17 Community Affairs and Section 8 Program. At the most  
18 recent status report on this engagement, the SAO indicated  
19 that this project was being completed in February, and  
20 they expected a report to be released late February or  
21 early March.

22 So we expect a report on that soon, and you'll  
23 be provided a briefing on that audit as that occurred,  
24 once that happens.

1           Page 4 provides summaries of some of the more  
2 significant audit issues over the last couple of years.  
3 The first one relates to soft costs not being adequately  
4 documented. This report was released February 2002. It  
5 relates to the 2001 year.

6           The department believes that it's -- the  
7 current documentation requirements were adequate. The  
8 remaining pieces to this finding is the disposition of the  
9 costs that were questioned.

10          The department also continues to negotiate with  
11 HUD on its required corrective action relating to this  
12 issue. HUD has prescribed corrective action requiring the  
13 department to go back and document soft costs for 1999,  
14 2000 and 2001.

15          The next issue, Subrecipient  
16 Monitoring/Monitoring Visits, also relates to the 2001  
17 period. And it relates to the tracking of monitoring  
18 visits and outstanding monitoring reports.

19          This issue has been reported by management as  
20 implemented during KMPG's recent status reports and draft  
21 report. The issue is not brought back up, which implies  
22 it's been satisfactorily resolved.

23          The Allowable Cost Issue relates to funds  
24 embezzled by one of the department's subrecipient

1 employees. As you know, this issue has been resolved.  
2 The subrecipient has refunded the department, and the  
3 department has refunded its funding sources.

4 The next issues, Subrecipient  
5 Monitoring/Allowable Cost Activities relate to a HOME  
6 audit of administrative funds conducted by HUD's Office of  
7 Inspector General. This report was released in January  
8 2000. If my memory serves me, this was discussed with the  
9 last Legislature and committees of that session.

10 All issues within this report and related  
11 questions to cost have been resolved with HUD at this  
12 point.

13 At the top of page 5, the SAO is referring to  
14 OASES, which is the Integrated Statewide Accounting --  
15 excuse me -- Administrative System of selected state  
16 agencies. A review conducted by the SAO, including  
17 TDHCA -- was included in the selected state agencies.

18 They reported that the department had not fully  
19 implemented OASES at this time. That was January 2001.  
20 It was reported to the board April 2001 that this issue  
21 has been implemented. And you will note in the text box  
22 that the department has more recently reported to the SAO  
23 that this issue was resolved.

24 Then there is a brief comment about the

1 department implemented in the SAO recommendations relating  
2 to quarterly investment reports being provided more  
3 commonly to the board. And I'm sure you recognize those  
4 activities by the Accounting Division and Financial  
5 Services.

6 The next section on page 5 is a discussion of  
7 performance measure certification audit again. We just  
8 went through that. Page 7 relates to various technology  
9 considerations that are general in nature and do not  
10 require corrective actions by the department.

11 Likewise, on page 8, the department's travel  
12 expenditures over the last several years. This is  
13 information for the Legislature. It does not require any  
14 corrective action by the department.

15 Okay. I felt it was important to go through  
16 that, because again, across the street this is being  
17 passed around.

18 The Status of Prior Audit Issues -- Tab 4(e).  
19 Please note before we get started that the status order --  
20 the way it's being presented to you has changed from  
21 previous reports. The most recent status reports are  
22 being listed first. And the prior status updates, if you  
23 will, are being listed in descending date order.

24 MS. CARRINGTON: The idea is you want the good

1 news first. We've got good news to tell. We want make  
2 sure you all have an opportunity to see it.

3 MS. ANDERSON: And I have to say, these reports  
4 are very helpful, to see some of the history. To see, oh,  
5 yes, last April we said this. And now we're -- it's  
6 very -- I think these reports are well done. I mean, they  
7 give -- at least for me, they give me kind of a sense of  
8 what's going on. And most of that is a -- is good news.

9 MR. GAINES: I will say it's a real challenge  
10 in keeping them brief, while trying to provide a complete  
11 history, and prior comments on prior reports are maybe  
12 dropping off, because I don't think they're that relevant  
13 considering the current circumstances. If anyone is ever  
14 interested, we have a complete history.

15 Well, I'd like to -- well, there are 16 issues  
16 being reported to you. Seven of these issues are being  
17 reported as implemented, or otherwise resolved. Eight  
18 issues have been reported as in progress of  
19 implementation, and one of the issues is being reported as  
20 delayed. And I'll explain the reasons for that --  
21 acceptable reasons.

22 While I'd like to give credit for those issues  
23 that have been reported as implemented, for the sake of  
24 expediency, I'll move to the other issues.

1           The first issue is Issue 119. This is being  
2 reported as partially implemented, no further actions  
3 intended. And I always point these out. It's considered  
4 resolved. I point them out because there is always some  
5 remaining risk that something isn't fully addressed.  
6 However, it's considered an acceptable corrective action.

7           This issue relates to the department  
8 establishing formal policies and procedures regarding  
9 joint monitoring visits, whereby the department would  
10 monitor multiple programs simultaneously in instances  
11 where a contractor or subrecipient was administering more  
12 than one of the department's programs.

13           With the reorganization, this is not as  
14 important as it used to be. All housing programs are to  
15 be monitored by the Portfolio Management Compliance  
16 Division.

17           It's been agreed that in instances where a  
18 contractor also has contracts with programs administered  
19 by the Community Affairs Division, the division or program  
20 initiating the monitoring visits will coordinate with the  
21 other division or programs.

22           MS. ANDERSON: Have we actually done one yet,  
23 where it's a joint monitoring visit, where we're looking  
24 at multiple things?

1 MR. GAINES: We have done one, and we've done  
2 two. I'm not sure how many we've done. We've done, I'd  
3 say a small handful. Someone may be able to speak to that  
4 better.

5 MS. ANDERSON: Is it going okay? Is it going  
6 all right?

7 MS. CARRINGTON: Is it a small handful,  
8 Suzanne?

9 MS. PHILLIPS: Suzanne Phillips, Director of  
10 the --

11 MS. CARRINGTON: Portfolio Management and  
12 Compliance.

13 MS. PHILLIPS: Thank you. I will have it.  
14 It's hard to write. We've been doing joint monitoring on  
15 and off for about eight years. We've actually implemented  
16 some procedures to do team monitoring following specific  
17 portfolios in the last two years, and have done, I'd say,  
18 maybe four to five as a team. And they've been very  
19 successful.

20 The subrecipients were helped quite a bit,  
21 because we had both the programmatic view, and a financial  
22 view from the CPAs. So it has been very beneficial.  
23 Thank you.

24 MR. GAINES: Thanks. I'd like to point out in

1 that respect that I believe the visits -- two visits up to  
2 this point have been prompted by problems noted at a  
3 subrecipient or significant financial issues, which the  
4 reason I'm bringing that up is it's more the problem subs  
5 where this is occurring. And I'd just like management to  
6 consider doing it, regardless of it's a problem or not.

7 MS. ANDERSON: I mean, is it now it's more of a  
8 standard operating procedure?

9 MR. GAINES: Well, no, it's not. But the  
10 recommendation itself is encouraging management to do it  
11 regardless of if there is significant issues relating to  
12 that sub. I believe it would be more effective, more  
13 efficient, and you have opportunities to test for  
14 duplicate payments of the same documentation by multiple  
15 programs, which is real difficult if you're monitoring  
16 each program individually.

17 And that is such a problem, it's been  
18 prescribed in the state law that we need to design  
19 procedures to do that. So again, I think we can move  
20 further in that direction.

21 MS. ANDERSON: We've just had horrendous past  
22 problems with selected subrecipients.

23 MR. GAINES: And that's generally what's  
24 prompted the partnership visits.

1 MS. ANDERSON: Okay.

2 MR. GAINES: The next issue, issue reference  
3 252 on page 2 of eight, relates to the department  
4 considering the establishment of an agency-wide  
5 construction and inspection section contracting with third  
6 parties to conduct inspections and similar considerations.

7 The department is centralized to this function  
8 in the Portfolio Management Division under the new  
9 organization, and plans to fully development -- fully  
10 develop this function in connection with the  
11 implementation of the reorganization.

12 Issue 187 on the same page, page 2, is the  
13 issue that's been delayed pending a response from HUD.  
14 This issue relates to the department established of family  
15 self-sufficiency program for the Section 8 program. And  
16 the department submitted plans to HUD, and is waiting to  
17 hear back from HUD regarding 90 percent of those plans.

18 MS. ANDERSON: I have a question about this  
19 because I get confused. We asked for a waiver because  
20 there are -- I think we originally asked for a waiver  
21 because we didn't feel like there were sufficient  
22 supportive services in these market areas, or something?

23 MR. GAINES: Yes, ma'am. That was --

24 MS. ANDERSON: To -- right? To establish an

1 FSS program. And now it looks like either they declined  
2 our waiver request, maybe. And so now we're saying we're  
3 going to model it after something -- we're going to try in  
4 Brazoria County. I'm confused.

5 MR. GAINES: HUD basically almost declined our  
6 waiver request. They requested that we do a survey of  
7 capacity, which we did. The results of that survey  
8 indicated that maybe we can do this.

9 MS. ANDERSON: Okay.

10 MR. GAINES: We developed a program in Brazoria  
11 County --

12 MS. ANDERSON: Brazoria.

13 MR. GAINES: -- which we've submitted to HUD.  
14 If that's acceptable, we'd like to apply that plan to the  
15 other areas.

16 MS. CARRINGTON: And actually, we have been  
17 requesting waivers on an annual basis. And we're already  
18 looking at the possibility of doing it and not requesting  
19 waivers anymore from HUD, because we felt like it was  
20 something we indeed could implement.

21 MS. ANDERSON: Good.

22 MR. GAINES: Of the remaining seven issues that  
23 are in process of implementation, six of them relate to  
24 the HOME Program. In general, in October 2002, the

1 department provided HUD with a comprehensive status report  
2 relating to each of these issues.

3 The department reiterated and summarized the  
4 communications to date, and made references to  
5 documentation previously submitted, and provided current  
6 status of each of the issues and planned strategies for  
7 addressing the remaining issues.

8 Considerable documentation was provided to  
9 substantiate the actions taken to date, in addition to  
10 considerable documentation provided in July 2002. We had  
11 a status update communicated that the department was in  
12 general agreement with all the findings, and is proceeding  
13 with the corrective actions, except in one instance. And  
14 this relates to Issue 253 on page 3 of eight.

15 You'll note that HUD has concluded that the  
16 state is not providing an adequate monitoring oversight of  
17 HOME processing and construction activities. HUD  
18 concluded that the properties assisted by several of the  
19 HOME activities have insufficient or no documentation that  
20 they are in compliance with equitable standards and code  
21 requirements.

22 HUD's corrective actions require that all units  
23 assisted from 1998 through present with HOME funds should  
24 be reinspected to ensure compliance code requirements.

1           As previously reported to you, the department  
2 disagrees with this assessment, and contends that HUD's  
3 monitoring and sampling techniques were faulty, not  
4 representative of the type and quality of projects  
5 developed by the subrecipient, and that HUD did not review  
6 complete files.

7           Based on work done by the department, and  
8 concluding the 23 files that HUD had sampled, plus an  
9 additional 120 files which tested successfully for  
10 completed inspection forms, the department believes and  
11 communicated to HUD it's not reasonable to use the  
12 department's limited resources reinspecting all units  
13 since 1998, and proposed a 7.5 percent sample, which is  
14 108 properties, to provide additional assurance into the  
15 work and documentation we've already provided.

16           HUD responded in a November 6 letter that it  
17 expected a 25 percent sample, or 350 inspections. The  
18 department has responded to HUD in December that  
19 includes -- we continue to negotiate with HUD over this  
20 number.

21           It includes let's stratify the populations and  
22 test separate activities, separate lays, separate sample  
23 sizes. We believe it would be more efficient.

24           HUD indicated in a recent conference call that

1 it is working with the Washington office to consider  
2 information and proposals offered by the state. HUD has  
3 agreed to sit down with the department to consider the  
4 documentation provided by the department up to this point,  
5 which we still have not had response to the adequacy of.

6 And we have had different correspondences, but  
7 they've never spoken to the documentation we've provided  
8 them.

9 And I'm not real sure when this meeting is  
10 going to occur, or if it's been scheduled or not. But  
11 that's in the works at this point.

12 The department continues to work on the  
13 remaining five issues in accordance with HUD's corrective  
14 actions, plans. And I'll just touch on a couple of these.

15 I'd like to refer you to Issue 255 on page 4 of eight.

16 This issue relates to correcting errors on  
17 IDIS, HUD's management information system. This issue has  
18 been going on much longer than even reported there in  
19 front of you. I believe this issue first became an issue  
20 by a HUD technical assistance visit. Their report for  
21 that visit was dated 1998, and speaks of errors in CMIS,  
22 the predecessor system to IDIS.

23 Uncorrected errors in that system rolled over  
24 to the new system during conversion. So this is an old,

1 outstanding issue. And the reason I wanted to emphasize  
2 that is because I wanted to point out the recent progress.

3 1,598 -- 1,592 of 1,885 required corrections,  
4 or 85 -- 84 percent are being reported as complete, and as  
5 a result of a fairly recent initiative by the department  
6 to clean up IDIS.

7 The division -- the Compliance Division is  
8 doing this work. It expects another four months for full  
9 cleanup. Not only does this clean up the system, it  
10 clears the finding, and it may also result in identifying  
11 funds previously committed that could be deobligated for  
12 other purposes. Yes, ma'am?

13 MS. CARRINGTON: David, I have even better  
14 news. It was on my desk this morning.

15 MR. GAINES: Okay.

16 MS. CARRINGTON: The staff has completed 1,792  
17 corrections. These corrections total about 95 percent of  
18 the HUD-identified corrections.

19 MR. GAINES: Well, that's outstanding. That's  
20 another 200 corrections since these board materials were  
21 submitted.

22 The next issue, 256 on page 5 of eight, has  
23 been reported as implemented by management. This relates  
24 to the contract for deed conversions for the purchase of

1 land, whereby construction of housing units was not  
2 started within the required 12 months.

3 Although HUD has not reported this issue as  
4 cleared, management believes that the action to date fully  
5 addresses the corrective actions required.

6 Management continues to work on the next two  
7 issues with the subjects of subrecipients here. These  
8 issues relate to amending land use restriction agreements,  
9 which is Issue 258, and Issue 260, which relates to  
10 compliance with the Model Energy Code and a complex's  
11 compliance with Section 504 accessibility requirements.

12 If you'll all note, the next two issues, 274  
13 and 276 on pages 6 and 7 have been reported as  
14 implemented. These are financial reporting issues that  
15 have resulted from last year's opinion audit.

16 Once Deloitte and Touche releases their  
17 management later this year, and there is no reference to  
18 these issues, these issues will be classified as  
19 implemented, based on the independent assessment. We  
20 don't expect these to be repeat comments. There has been  
21 no mention of them.

22 Next I'd like to refer you to 264 on page 7.  
23 This issue relates to developing process and procedures to  
24 acquire all necessary loan documentations to support the

1 department's financial interests in the HOME Program's  
2 Homebuyer Assistance Program loans.

3 Management's reporting this issue as corrected  
4 by implementing processes to ensure complete  
5 documentation, including holding future draws of  
6 administrators who fail to remedy long-standing  
7 documentation issues.

8 On this I just wanted to point out the internal  
9 audit comment. The time period for long-standing  
10 documentation issues, I believe, needs to be specifically  
11 defined so advance collection efforts can be consistently  
12 applied.

13 Without a clear definition, the department  
14 risks increased difficulties in collections with the  
15 passage of time. Currently there is many lines that have  
16 long outstanding documentation issues. Some of these we  
17 may not even be contracting with any longer. So this  
18 continues to be an area that's -- we're reporting as  
19 implemented. And I just wanted to point out those  
20 remaining risks on that.

21 MS. ANDERSON: I have a question.

22 MR. GAINES: Yes, ma'am.

23 MS. ANDERSON: How do you decide that you're  
24 going to classify something as reported as implemented?

1 MR. GAINES: The legend to the report. There  
2 is two --

3 MS. ANDERSON: I know. But how do you decide  
4 that it moves --

5 MR. GAINES: Let me respond to you. Of course,  
6 management can report it as implemented. And I'm  
7 satisfied with that --

8 MS. ANDERSON: Right.

9 MR. GAINES: -- I accept it. If I'm not, I'll  
10 have some follow-up comments, da da da da da. Independent  
11 auditors can consider something implemented, at which time  
12 I don't question it too much. And if I know something to  
13 the contrary, that would be worked out before they ever  
14 reported it.

15 MS. ANDERSON: Uh-huh.

16 MR. GAINES: So those are the two ways. In  
17 this respect, I feel like they do have procedures to  
18 accumulate necessary documentation. I haven't seen  
19 instances of draws being withheld to ensure all  
20 documentation comes in. I'm not real sure how well that's  
21 going to work. And I -- in instances I don't think it's  
22 going to work at all, because we have old, outstanding  
23 documentation issues that have not been fully addressed.

24 MS. ANDERSON: Then my question to you is, is

1 this not one that you might want to see a little more  
2 evidence of implementation before you classify it as  
3 implemented? I mean, I know we're trying to get this  
4 report -- you know, we're trying to move the report south,  
5 not north, in terms of its volume and number of pages.

6 But --

7 MR. GAINES: But I guess that is a large part.

8 But at the risk of being negligent in my duties, I guess  
9 what I was having in mind was that this was one of those  
10 implemented issues that we need to follow up on and see  
11 exactly where we're at. We have responsibilities to  
12 follow up on --

13 MS. ANDERSON: I just wondered what your  
14 mechanism is for following up if it's not on this report.

15 And I don't know if we're -- long standing -- I mean, I  
16 don't know if we're talking about a bunch of them, or if  
17 we're talking about three of them.

18 I don't know how significant, either in dollar-  
19 wise, or you know, risk-wise to the agency, how big this  
20 risk is. But I guess I just want to make a general  
21 statement. I don't want us to unnecessarily declare  
22 things as implemented because we're more interested.  
23 We're making great progress.

24 The staff deserves a lot of credit for working

1 on these very old, stale items that require all of this,  
2 you know, going back in, you know, to the Stone Age to  
3 figure out what happened years ago. You all are doing a  
4 great job.

5 But we just don't want to get overexuberant  
6 about reducing the size of the report, you know, at the  
7 expense of something that -- you know, I'm not trying to  
8 give you 72 things to manage -- monitor, David.

9 But I just want to say let's be -- let's give  
10 credit to things that are implemented when they're really  
11 implemented, but let's just make sure that we're still  
12 tracking by whatever mechanism works for you and this  
13 committee, things that you feel in your judgment, you  
14 know, still need some follow-up.

15 MR. GAINES: Those are all excellent comments,  
16 Beth, and I guess my question to management is do we have  
17 confidence that holding future draws is going to be  
18 effective? And it would be effective, you know, if we  
19 were consistently applying it, if we had a definition of  
20 long outstanding documentation issues, which we don't  
21 have. And that's what I'm suggesting here.

22 This is -- and I guess I was accepting  
23 implementation considering, you know, if this works,  
24 great. And it will be something we have to follow up on.

1 Now, we'll follow up on things that are reported as  
2 implemented, even though they fall off the system, if they  
3 have not been implemented per an independent review or  
4 assessment.

5 We just don't want to leave all the --

6 MS. ANDERSON: Right. I mean, I just hate to  
7 see this show up in an audit -- you know, in an  
8 independent auditor's report. So anyway, I've probably  
9 spent too much time on this. But --

10 MR. GAINES: Okay. Well, let me suggest  
11 visiting with management, seeing where we're at on this,  
12 seeing if this is something we feel like we should  
13 continue reporting until we're fully satisfied.

14 MS. ANDERSON: Okay. Till the -- till we have  
15 a little history. I mean, I'd feel more comfortable if we  
16 had actually withheld a draw based on some standard, and  
17 we knew --

18 MR. GAINES: Right.

19 MS. ANDERSON: -- that we had actually took --  
20 to me, that tells me we're implemented.

21 MR. GAINES: Yes, ma'am. Okay. The final  
22 issue I want to discuss is on page 8 of eight. This is  
23 issue reference 268. And this relates to the soft cost  
24 issue that we spoke of in the legislative summary report.

1 And in a recent status meeting with KPMG, they indicated  
2 that they are satisfied with corrective actions taken by  
3 the department.

4 And so going forward, we don't see this as  
5 being a problem. We feel like the issue has been  
6 resolved. However, that still leaves open the question on  
7 the prior costs and documented soft costs since 1999,  
8 pursuant to HUD's corrective action.

9 Any further comments relating to these issues?

10 MS. ANDERSON: I have a couple of questions.

11 MR. GAINES: Yes, ma'am.

12 MS. ANDERSON: I have a question on the first  
13 finding, which is 136 on page 1 of eight. Again, I'm just  
14 very sensitive to all of the prior problems with  
15 subrecipients, which is just part of our standard. I  
16 mean, that's how we get a lot of stuff done here.

17 So subrecipients aren't going away. But given  
18 this, I guess it's sort of the same issue on this one that  
19 I had on the last one. We're showing it as implemented.  
20 We have a monitoring and tracking, you know, checklist.  
21 You're --

22 I save these old reports, which is everybody's  
23 worst nightmare. So I went back and looked at the  
24 November report. The checklist was running in November --

1 I mean, on October 25, per your November 5 report. Now --  
2 and now we're -- you know, now we're in a reorg, and  
3 expected March of this year. And so now we're going to  
4 implement it in connection with the effective date of the  
5 reorg.

6 You know, my question is, you know, is this  
7 something that we want some experience with, because it's  
8 just the source of myriad other audit findings. So I  
9 just -- maybe the thing to do is just to, you know -- I'll  
10 just note my same concern I had on the other one, and you  
11 know, maybe that's a conversation with management, or some  
12 sort of rigorous follow-up process so that you know it's  
13 implemented and working.

14 MR. GAINES: And if I may, I'll speak to that  
15 just briefly. This is an issue that Ms. Carrington and I  
16 have talked about. And all the preliminaries have  
17 indicated they are now capturing this information, and  
18 it's available for other program areas.

19 We jointly discussed our concerns about how  
20 available it is for that area, and expect them to really  
21 use and benefit from, which of course the database will  
22 help address.

23 Recognizing those continued concerns, and Ms.  
24 Carrington asked if I would include this in my audit plan

1 for this year to do a follow-up. And I kind of imagine  
2 that review to look at the adequacy of the information  
3 being made available to people, and how is it that the  
4 other program areas are aware, so that they can access it.

5 MS. ANDERSON: The last question I have, Mr.  
6 Chairman, is on page 5 of that. It's Issue 256. And it's  
7 really not an audit question. It's a question or a  
8 comment, really a question for Ms. Carrington. This again  
9 is on a HUD audit.

10 And there is an issue around contract for deed.

11 And what got my attention, and maybe this was on the last  
12 report, was that we had a contract-for-deed program that  
13 we contracted for \$2 million, and we just -- you know, we  
14 just -- it didn't get very far off the ground.

15 And you know, given our commitment to serving  
16 the people in the colonias, this is -- you know, I'm -- I  
17 just wanted to kind of go on record -- use this as an  
18 excuse to say, you know, I'm very concerned that we  
19 develop creative ways to have effective programs in the  
20 colonias, including contract for deed.

21 And if that means we need tighter coordination  
22 with the Water Development Board, who is doing a lot of  
23 infrastructure in colonias, or whatever it means, it --  
24 you know, I'm just -- you know, I want us to have an

1 effective program in the colonias, and I think contract  
2 for deed is an important component of that.

3 So this was just -- I read it, and I was just  
4 disappointed that we didn't get it done in this vehicle.  
5 We just need to make sure that we're doing everything we  
6 can to have effective programs.

7 MR. GAINES: Yes, ma'am. Tab 4(f). This is --

8 MS. CARRINGTON: David, I'd like to make one  
9 comment --

10 MR. GAINES: Yes, ma'am.

11 MS. CARRINGTON: -- related to the chart, and a  
12 knowledgeable staff, Ruth Cedillo and Suzanne Phillips and  
13 Lucy Trevino had a call with HUD maybe two weeks ago, I  
14 guess, because HUD finally reviewed the July information  
15 we sent them, and the November information we sent them,  
16 which was either one or two boxes. We just sent  
17 everything to them again. We wanted to make it as easy as  
18 possible.

19 And on that conversation, on that conference  
20 call, which I think lasted at least a couple of hours,  
21 they were able to resolve many of the audit findings.  
22 There are still about three or four, that as David said,  
23 we are negotiating with HUD on. But they have finally  
24 agreed on several of the audit findings, and are clearing

1 them. So I just want to acknowledge that that worked on  
2 that, and has gotten that accomplished.

3 CHAIRMAN GONZALEZ: That's great.

4 MR. GAINES: On Tab 4(f), behind Tab 4(f),  
5 Status of the Construction Inspection fees, you'll note  
6 that the top half of the page, and I've indicated there,  
7 that that information has not changed from that previously  
8 reported to you.

9 There is a net \$100,000 balance due to the  
10 department. And that's consistent with approximately  
11 \$203,000 in fees due from project owners, less 103,000 in  
12 overpayments to the department that may need to be  
13 refunded.

14 About midway through, for a couple of status  
15 comments as of January 31, 2003: The division -- the Tax  
16 Credit Division continues to investigate project-level  
17 details, supporting balances due from and due to project  
18 owners.

19 The investigations have identified some minor  
20 adjustments to the balances reported to you. But again,  
21 they are minor. They don't affect the net balance. It's  
22 just how some of the payments have been applied to  
23 individual projects.

24 The second bullet relates to additional

1 collections since the end of September. So another \$8,000  
2 have come in. So you can reduce those amounts due from --  
3 by that 8,000.

4 Since the board book was prepared, the  
5 Accounting Division has decided that it was comfortable  
6 enough with the analysis work performed and the  
7 documentation in place to bill an additional 56 projects  
8 \$108,000.

9 Within the next several days, it expects to  
10 bill another approximate 40,000. Documentation on the  
11 remaining balances of the due funds totaling \$47,000 is  
12 being evaluated to determine if there is sufficient  
13 support for the billings, and if so, Accounting, Financial  
14 Services Division believes they can make it through those  
15 reviews, come to a conclusion, and bill those remaining  
16 projects within the next two weeks.

17 On Monday of this week, the Internal Auditing  
18 Division -- we added a copy of our formal draft report to  
19 management for input and for expected comments back by  
20 close of business this coming Tuesday. We'll incorporate  
21 what's reasonable, and then route to Executive, allow them  
22 a similar opportunity for input.

23 Once we go through that process, we'll release  
24 the report. We've also started our review of other fees

1 collected by the department. Sam Ramsey is the lead  
2 auditor on that project, and he's currently in the  
3 planning phases of that engagement. This was something  
4 that was requested, I believe, it was by Mr. Conine back  
5 in September or August.

6 Any further questions relating to the  
7 Construction Inspection Fees?

8 MS. ANDERSON: I just want to make sure we  
9 leave no money on the table that's owed to the department.

10 MR. GAINES: Well, the final agenda item is  
11 behind Tab 4(g). And this is the Status of the Central  
12 Database.

13 The information being provided you is very  
14 similar to that that's previously been provided to you.  
15 It's less voluminous, as we aren't providing the  
16 supporting detail that's been provided in the past.  
17 Should you decide you would like this, it's available, and  
18 we can certainly provide it, either in connection with the  
19 board book, or just give us a call, we'll send you a copy.

20 The first several pages are a high-level time  
21 line for each of the major system modules with sub-time  
22 lines, if you will, for the development phase and  
23 functional planning and deployment phase for each module.

24 The modules are listed in order. Work is being

1 performed. And while there may be adjustments later in  
2 the project, this is the current order.

3 For each module, there is an associated note  
4 that describes the module and the associated capital costs  
5 with that module to date.

6 The first two modules listed, the Compliance  
7 Monitoring Tracking System and the Fund Allocation  
8 Contract Module -- that's where the majority of the work  
9 has been performed to date.

10 If I may, or if I can, I'll first discuss the  
11 status of CMTS, or the Compliance Monitoring Tracking  
12 System. You'll note that the development phase of the  
13 module has recently been completed. This is pretty  
14 exciting, a significant milestone. And I just  
15 congratulate the team on that.

16 In connection with the CMTS functional planning  
17 and deployment, the remaining task of significance relate  
18 to entering tax credit data that has not previously been  
19 captured in an automated data format.

20 The functional team -- functional users  
21 anticipate that it's going to take six individuals six  
22 months working 70 percent of their time to get this data  
23 into the system.

24 The resources to complete this task have not

1 currently been specifically identified. Until this is  
2 done, the benefits of the system relating to tax credit  
3 program will be limited. Reporting information will be  
4 incomplete. And the Automated Compliance Testing will  
5 only be possible as the ownership, project and tenant data  
6 are entered into the system.

7 An the more positive side, in connection with  
8 the functional planning and deployment phase, the final  
9 task necessary for the system to be used by the Affordable  
10 Housing Disposition Program contractor, or AHDP contractor  
11 that administers the program for the department will be  
12 completed by the end of February.

13 This is on the positive side, because the  
14 original cost estimate for these services was reduced by  
15 over \$100,000 per year based on the availability of a web-  
16 based replacement for the AHDP -- the Legacy software that  
17 had been used.

18 These savings are anticipated to be ongoing  
19 year in, year out. So that's real good news.

20 Additionally, the directions and instructions  
21 to the department's multifamily business partners are  
22 planned for mailing at the end of March. With these  
23 materials and security clearance, these business partners  
24 will then be allowed, and will be entering tenant

1 information going forward.

2 Automated compliance testing will be possible,  
3 which will identify sections for further investigation.  
4 So now we can start focusing on just the problems. Four  
5 visits, we'll focus on the quality of the data being  
6 submitted. So we're kind of seeing a little bit of light  
7 there in the plan.

8 Are there any questions relating to this  
9 module, the Compliance, CMTS module?

10 MS. ANDERSON: I have a comment.

11 MR. GAINES: Yes, ma'am.

12 MS. ANDERSON: I agree with you. I'm very  
13 excited to see this continue to get closer and closer to  
14 fruition. And I understand that the pilot, you know,  
15 deployment out in the field is, according to our  
16 conversations is going okay. And that's good news, too.

17 I -- you know, and as Walt and Curtis and you  
18 and I have discussed before, you know, there are often  
19 delays in software development projects. But I think the  
20 other modules of this system have paid a pretty  
21 significant price for continued work on CMTS.

22 And I'm not close enough to it to know how  
23 mission-critical that additional work was. And I -- you  
24 know, I saw in a report, you know, a month ago that, you

1 know, the steering committee decided we were going to  
2 limit the technical team to 10 percent.

3 And now I, you know, see in the notes today  
4 that that blew back up to more like 40 percent. And I'm  
5 not close enough to it to make a value judgment about  
6 whether or not that was a have-to-have or a nice-to-have.

7 But what I will say today is that I feel very  
8 strongly that after we have spent so much time and money  
9 on CMTS to get it to this point, at -- to the detriment of  
10 some of these subsequent modules, then to have it be said  
11 that we have not identified the resources to finish the  
12 data -- the gathering of the missing LIHTC data, so that  
13 we can make this system fully usable -- to me, I'm very  
14 surprised that that would be our position, because we have  
15 made a huge investment.

16 And to get this far down the pike and then not  
17 be committed to finish it. And you know, and that's --  
18 that is a part of finishing it to get it really usable.  
19 And I just urge the staff and management and the agency,  
20 you know, let's find the resources, and let's get the  
21 missing data collected and input so that we can begin  
22 receiving some return on our investment that we've made in  
23 the CMTS module.

24 MR. GAINES: In that respect, I do believe that

1 the department's real familiar. Of course, everyone has  
2 full-time jobs. And one of the -- and the planned start  
3 date for that piece is within the deployment time line.  
4 And we weren't planning on starting, I believe, until the  
5 first of March or end of March. So I've got a little bit  
6 of time to get those resources in place. And all kinds of  
7 strategy that's been discussed.

8 And there's advantages and disadvantages of  
9 both approaches, because that all properties are inspected  
10 on a three-year cycle, and load the information per  
11 property as we visit them.

12 Of course the downside to that is that it will  
13 be three years before we'd have full reporting capacity.  
14 You can do the automatic compliance testing, but that  
15 would be only after it was set up in connection with that  
16 filmed visit.

17 So these are kind of some of the pros and cons.  
18 We try to pull away six people for half a year and do it  
19 all at once.

20 MS. ANDERSON: I agree. That's a huge  
21 commitment.

22 MR. GAINES: Right.

23 MS. ANDERSON: But we have spent all this time  
24 getting to where we are, and to the delay -- and you can

1 look at the waterfall effect of this. And I keep the  
2 prior project records. And I -- I mean, I'm seeing on  
3 paper how these other modules are slipping.

4 MR. GAINES: Yes, ma'am.

5 MS. ANDERSON: So, you know --

6 MR. GAINES: I'm going to speak to those --  
7 that slippage a little bit. So forgive me if I repeat  
8 you. The development date -- let's go to the Fund  
9 Allocation Module. The development date has been extended  
10 from 3/28 to 6/18/03, and the functional planning date is  
11 extended to the same day.

12 You know, so accordingly, this is going to take  
13 a lot of coordination and parallel work by the technical  
14 team and the functional team to meet June 18 with  
15 completed product.

16 The reasons for these delays are kind of  
17 discussed a little bit further on, let's say, on page 4.  
18 You've touched on some of those. The delivery was  
19 extended over the last two months, we believe primarily  
20 because it's been necessary to devote a large percentage  
21 of time we originally anticipated on completing the CMTS  
22 enhancements and bug fixes.

23 The technical team originally planned to spend  
24 10 percent of their time. It turns out the work required

1 to successfully deploy a HDP functionality, which was kind  
2 of prioritized due to the 100,000 a year consideration I  
3 had previously touched on, accounting for about 40 percent  
4 of the technical team's time during this period.

5 So at this time, the most recent strength  
6 meeting, January 29, for functional user team, the  
7 technical team, and the strength may be agreed that the  
8 technical team's time is no more than 10 percent for any  
9 further work on CMTS, unless there are fixes that have  
10 been identified that have to work for the system to be  
11 operable.

12 All future technical work, except as it relates  
13 to the planned deployment issues, is considered  
14 maintenance or enhancements, and will not fall within the  
15 scope of this project. Any enhancements throughout the  
16 department, in addition to this one, should be coming  
17 before the steering committee for approval before  
18 resources are dedicated to that.

19 The target date for completion of the second  
20 phase of this module -- the functional planning piece,  
21 again, has been pushed back to June 18 for the same  
22 reasons. Any other questions or comments relating to  
23 that?

24 You'll notice that the remaining modules are

1 being asterisked. This is explained at the bottom of the  
2 page. Basically, the project teams are not far enough  
3 along. Then these modules to have detailed plans in  
4 place.

5 However, please notice that there is progress  
6 being made even on these. The team's goal is to develop  
7 detailed plans for each module as the design  
8 specifications of the module are finalized.

9 The only other thing I wanted to point out to  
10 specifically discuss was the status of funds as of January  
11 31, this -- January 31, 2003. This is the last page under  
12 Tab 4(g). I specifically wanted to point out the bottom  
13 line, the \$12,000 balance and the related note.

14 It's anticipated that this \$12,000 will be used  
15 for continued contract-programming services. However, all  
16 other capital outlay funds appropriated for the project  
17 will be expended by the end of March.

18 The department's strategy is the technical team  
19 believes there is sufficient design work completed on the  
20 system, and will be completed with the program module and  
21 tax credit modules to keep the development team busy  
22 throughout the end of this fiscal year. It's hoped that  
23 appropriated funds will be made available for -- to  
24 continue with the contract or business analysts --

1 contract business analysts, beginning September 1.

2 To the extent these appropriated funds don't  
3 materialize, the department intends to continue developing  
4 the system with the resources it has on staff. They will  
5 also be able -- these modules can stand alone and can be  
6 used, and are being incorporated into our operating  
7 processes, and we'll have the benefit of their efforts put  
8 to date.

9 I didn't have any other plan comments. So it  
10 concludes my presentation. If you have any further  
11 questions or comments, well --

12 CHAIRMAN GONZALEZ: Thank you. Excuse me.  
13 We'll entertain a motion to adjourn.

14 MS. ANDERSON: So moved.

15 MR. BOGANY: Second.

16 CHAIRMAN GONZALEZ: The motion seconded. All  
17 those in favor, say aye.

18 (Chorus of ayes.)

19 CHAIRMAN GONZALEZ: Motion adjourned.

20 (Whereupon, at 9:50 a.m., the meeting was  
21 concluded.)

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MEETING OF: TDHCA Audit Committee

LOCATION: Austin, Texas

DATE: February 13, 2003

I do hereby certify that the foregoing pages, numbers 1 through 61, inclusive, are the true, accurate, and complete transcript prepared from the verbal recording made by electronic recording by Penny Bynum before the Texas Department of Housing and Community Affairs.

\_\_\_\_\_  
(Transcriber) 02/24/2003  
(Date)

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