

AUDIT COMMITTEE MEETING OF THE
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Room E1.016
State Capitol Extension
1400 Congress Avenue
Austin, Texas

8:50 a.m.
Friday,
October 13, 2000

COMMITTEE MEMBERS:

C. KENT CONINE, Chairman
MARSHA WILLIAMS
JAMES DAROSS (not present)

ALSO PRESENT:

DAISY STINER, Executive Director
DAVID GAINES, Director of Internal Audit

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P R O C E E D I N G S

MR. CONINE: Let's call the Audit Committee meeting of the Texas Department of Housing and Community Affairs to order. It's roughly 8:50 in the morning on October 13.

The first thing we'll do is call the roll. Kent Conine is here.

Jim Daross will be here, I think, a little after 9:00. And Marsha Williams.

MS. WILLIAMS: Here.

MR. CONINE: We've got a couple present; that constitutes a quorum.

Is there any public comment today? No public comment. All right, we'll move on to our action items then. Tab 1 is the presentation, discussion and possible approval of the amended minutes of July 27 and the minutes of our Audit Committee meeting on August 11, 2000.

MS. WILLIAMS: Move for approval.

MR. CONINE: There's a motion for approval, and I guess I'll second it. All those in favor, say aye.

(A chorus of ayes.)

MR. CONINE: All opposed?

(None.)

MR. CONINE: So approved.

Tab 2, presentation and discussion of possible approval of fiscal year 2001 internal audit plan by our internal auditor, Mr. David Gaines.

MR. GAINES: My name is David Gaines, director of Internal Audit, for the record. Good morning, Mr. Chair.

MR. CONINE: Good morning.

MR. GAINES: Members of the Committee. I thank you for the opportunity to get together today to go over the audit plan and some report items that we have.

Behind the second tab of the materials you have in front of you is the proposed audit plan for the current fiscal year 2001. The Internal Auditing Division solicits input from Board members, external auditors and management in the development of this plan. It's based on this input as well as our understanding of the Department and an annual risk assessment that we perform.

The risk assessment, we use nine different risk factors and apply each of those factors to the auditable units of the Department which are entities unto themselves that we consider an auditable unit, basically, audit subjects, and we define those auditable units as the LBB

Strategies that are measured to determine how well the Department accomplishes its goals and objectives.

We also identify significant operations of support services and administration, such as data services, human resources, facilities and support, payroll disbursements, purchasing, grant accounting, and the cash receiving processes as other auditable units that aren't strategies unto themselves.

One area of risk we didn't consider in our plan this year is the results of the Sunset Review. The activities that the Department is undertaking relating to this review are pretty much ongoing activities. It's a moving target, so accordingly, we've decided to delay consideration of those issues until they're either fully implemented or established in the legislation, and of course, that should be happening sometime this fiscal year.

Based on the process we go through, the projects we're proposing for this year are those in front of you, and I'd like to just briefly walk through these projects with you.

The first project is a software audit, and this is a biennial audit required of the Department by House

Bill 1895 that came out of the 76th Legislature. I understand the Information Services Division has performed the first audit this last August. The objectives of the internal audit will be to assess whether we've complied with the requirements of HB 1895 and whether the Department has established adequate policies and procedures to protect the software purchased by the Department. This would include licensing, agreements, those considerations.

The next project is an internet security project, and the purpose of this project is to assess whether the Department has adequate controls to provide reasonable assurance that internet access to the Department's computer systems is appropriately restricted and adequately controlled.

The monitoring project you see of the Community Services Block Grant, this is a project real similar to the recent projects we did on the HOME Program and the Housing Trust Fund. The review will be to assess whether the subrecipient monitoring function provides reasonable assurance that the Community Services Block Grant funds are used for authorized purposes in compliance with laws, regulations and the provisions of contract or grant

agreements, and that the performance goals are achieved.

The next project is a follow-up project on the recent Section 8 monitoring review performed by HUD. The objectives of this audit will be to assess the status of the recent report's recommendations and the corrective actions taken by management. We planned on doing this project later in the year to allow the Section 8 staff time to take those corrective actions.

MR. CONINE: Can you tell me how that differs from our normal monitoring report which we're getting ready to go over here in a few minutes.

MR. GAINES: The HUD monitoring report?

MR. CONINE: No. Our own internal prior audit issues. Since we've already had one and we're kind of tracking all the issues, here we're following up with, I guess, a full-scale audit of the audit.

MR. GAINES: Yes, sir, I'm with you now. The other project you're referring to is, for the most part, a tracking project, and we may not necessarily go in and independently assess the corrective actions: that they're appropriate, that they're complete, that they address the underlying conditions and problems. So this will be much more audit-oriented where we go in and look for support,

look at the substance of the representations made by management that yes, this has been fixed.

And we do have responsibilities generally across the board to follow up on current audit recommendations, and we base that follow-up really on the significance of the issues. We don't necessarily independently follow up on all of them; very oftentimes we don't follow up on them at all, recognizing that the external auditors that performed the project have a responsibility to follow up when they come back.

We're also proposing a payroll audit. The objectives of this audit will be: to determine if access to the payroll system is adequately restricted to those that need access to perform their job duties; that payrolls are properly authorized, calculated and supported; and that the Department complies with applicable state and federal reporting requirements. We'll also be determining that terminated and resigned employees are properly removed from the payroll system.

MR. CONINE: When was the last time we did something like that, or have we ever?

MR. GAINES: I'm not aware, since I've been with the Department, in 1996, when that would have

happened -- not within that time frame.

MR. CONINE: Do other departments, state agencies do that occasionally?

MR. GAINES: I would suspect so. Normally an agency's most significant expenditure is payroll, and so that's a big chunk of money, and of course, that's one of the reasons it moved to the top of our risk assessment. One of our risk factors is the amount of funds involved; another risk factor is the experience level of management.

We just had a turnover in our payroll officer that is actually responsible for doing that work, and so the combination of those factors moved it up on our risk considerations.

MR. CONINE: I'm sure looking forward to us uncovering all these underpaid employees I'm sure we have. We won't find anybody overpaid, I don't imagine, will we?

(General laughter.)

MR. GAINES: I know of one, anyway.

MR. JONES: He's talking about you, Mr. Conine.

MR. CONINE: Yes, my payroll is so good.

(General laughter.)

MR. GAINES: That concludes our proposed plan for the current year. Are there any questions or other

concerns you'd like to address during the year, and you don't necessarily have to respond at this time. I really don't necessarily expect a response, but that's just something to keep in mind. This is just a plan and being a plan, if something comes up that you believe demands our attention, we'll adjust the plan as the Committee sees appropriate.

MR. CONINE: Any questions, Marsha?

MS. WILLIAMS: No, I have no questions.

MR. CONINE: On the internet security audit issue, is that something we're going to have go to outside to see if we can get, I guess, the technical resources to make sure we don't have hackers coming into the system and so forth, or do you have the capability of doing that internally?

MR. GAINES: I'd like to think we have the capability, and one thing I was going to mention is a position I'm in the process of trying to fill. The paperwork is in the pipeline, and I expect to be able to make an offer at any point. I was going to mention this at the end of the meeting, but since we're on the subject, this particular individual I'd like to come on board and I'm going to make an offer to will be coming on -- I hope

to have him on by the end of October.

He possesses or has two professional certifications directly related to the position: he's a certified Internal Auditor and a certified information systems auditor which, of course, is automated systems. That's a designation that demonstrates competency in that respect.

He has several other certifications as well: he has a bachelor of science in accounting in addition to an undergraduate degree and graduate degree in management; he has over seven combined years of audit-related experience at the State Auditor's Office, as well as assistant state auditor and at the Texas Department of Health as a supervising internal auditor.

He has considerable other experience in areas such as -- as diverse as financial management, administration, information systems, and purchasing, and over 20 years in the Marines where he achieved the status of a Marine lieutenant colonel. So I'm real excited about bringing this fellow on board.

Additionally, this last spring I sat for the certified information systems examination and successfully passed that. So I'm hoping between the two of us we know

what we don't know and we'll deal with that at that time.

MR. CONINE: Any other questions, I guess, of Mr. Gaines on the internal audit plan?

MS. WILLIAMS: I assume we will vote on this, but not today; it's just proposed. Is that correct? Or how does that work?

MR. GAINES: Well, it's proposed to you and if you accept it, you'd vote today.

MR. CONINE: We probably ought to recommend it to the Board.

MS. WILLIAMS: Do you want me to move?

MR. CONINE: Yes.

MS. WILLIAMS: I move that the fiscal year 2001 proposed internal audit plan be adopted.

MR. CONINE: And referred to the Board.

MS. WILLIAMS: Correct, and referred to the Board.

MR. CONINE: I second.

MR. JONES: All in favor, say aye.

(A chorus of ayes.)

MR. JONES: All opposed?

(None.)

MR. CONINE: So passes.

Next, Mr. Gaines, the report items.

MR. GAINES: Yes, sir. The first report item is the annual internal auditing report. This is required by the Texas Internal Auditing Act. The format is prescribed by the State Auditor's Office, and it's basically a summary of our fiscal year 2000 internal audit activities for the fiscal year just ended with comparison to that year's audit plan. It includes audit findings and the status of those findings for the year.

This plan, for the first time, or this report for the first time, the State Auditor has requested that we include our audit plan for the current year, the plan you just approved, so I'll be incorporating that as the final exhibit in this annual report.

Just a couple of things I'd like to point out to you as it relates to the annual report. We're required to present this report to you and the report is distributed to the State Auditor's Office, the Sunset Advisory Commission, the Office of the Governor, and the Legislative Budget Board.

On page 1 of the report is last year's annual plan, and we had several deviations from the plan that I'd like to go over with you. On page 1, the first deviation

I discuss there relates to the review of the conditions put on awards by program areas, the Underwriting Division, and the Board. You may recall the recent Low Income Housing Tax Credit project we did relating to a similar project.

Originally we were going to do the same type of review for HOME and Housing Trust Fund; however, based on the results of that report on Tax Credits and the feedback we received on that project, I felt like the project was of such narrow purpose, narrow scope, that maybe we weren't accomplishing a whole lot. I wasn't real satisfied with the end product of that when it was all said and done, considering the effort involved.

Additionally, it was brought to our attention during that review that management was developing an agency-wide standard operating procedure to ensure that the various conditions are satisfied prior to funding, and that was the objective of the audit was to see if we didn't have those processes in place, that we get them in place. And management has indicated that they were going to do that.

The Note 2 on the first page relates to reviewing for subrecipient monitoring of the Section 8

program. I'd suggested delaying this project until completion of the HOME subrecipient monitoring review, believing that similar problems may exist in the Section 8 program. The intent of my suggestion to delay it was to allow the Section 8 program time to recognize the HOME issues, and to the extent they had similar issues, to correct them before we came in and did a review.

Well, since that time, HUD has come in and confirmed my impressions that Section 8 may have similar problems, and accordingly, I believe the best strategy at this time is to allow Section 8 program staff time to deal with the HUD issues that have been identified and that we follow up on it later in the year, as I suggested during that audit plan you just approved.

Notes 3 and 5 on the second page both relate to the HOME program's usage of HUD's CMIS [phonetic] system.

We had considerable reporting problems relating to that system. We assessed HOME's procedures in trying to resolve those issues, make corrections to them, and during that review we made several recommendations to HOME Program management in that respect.

Due to the recent conversion from the CMIS system to the HUD IDIS system, a new information system

that they've got in place, we don't see any value in tracking the status of those prior recommendations relating to CMIS at this point.

And additionally, as we were reviewing the processes being used to correct those problems, we've recognized that we didn't have the resources in the Internal Audit Division to provide assistance in resolving those problems, and that's the project that is on the plan identified as the Client Assistance Project that you see there. So recognizing that we didn't have the resources at that time I had mentioned, this is something I don't believe we want to pursue any further.

And finally note 4 discusses our plan to audit the Single Family lien procedures. About the time we were getting started on that particular project, the lead auditor assigned resigned. And at that time I decided to consider for inclusion -- for consideration in this year's audit plan, and I decided against that for varying reasons that I'll be glad to discuss if you care to, but that project was not performed because of that reason, primarily the lead auditor resigning and me rolling it over into consideration for this year's plan.

I also wanted to point out to you on Section 4

that begins on page 5, these are audit findings made during the year and their current status, so this section will give you some idea as to where we stand on current audit reviews. And page 14 is where we'll incorporate the current year's audit plan.

So that's my presentation for the annual internal auditing report.

Good morning, Ms. Stiner.

MS. STINER: Good morning.

MR. CONINE: Traffic is lovely this time of day, isn't it.

MS. STINER: Traffic was fine.

(General laughter.)

MR. CONINE: This is a report item, obviously, that goes to us. Does it go to the Board as well? Are we going to submit this to the Board, or can we do that?

MR. GAINES: Yes, sir.

MR. CONINE: There's not needed much discussion on it relative to the Board, but I'd like for them to at least have a copy of it.

MR. GAINES: I'll see that this is distributed to the Board. If we don't do that today, I'll provide copies in the mail.

In that respect, I do have different things that I am obligated to present to the Board, are approved by the Board, and I've interpreted myself that providing that to the Audit Committee is in substance providing it to the Board. And I believe that's an okay interpretation of that, but we'll provide copies to the full Board as well.

MR. CONINE: That would be great.

MR. GAINES: The next report item is the status of prior audit issues. This is a summary listing of all outstanding prior audit issues except those previously reported by management as implemented. Those issues previously reported by management as implemented, we continue to track, but we take them off the reporting system in an attempt to minimize information that you're receiving. We continue to track those issues until they're independently verified as implemented, either by Internal Audit or by the external auditors.

Basically, the report is a summary of the recommendations and a history of the implementation or corrective action status, and the plan's target dates for full implementation of the recommendation or resolution of the issue.

While we can discuss any of these that you'd like, I've selected several of the more significant issues for specific discussion, and we'll go into those.

The first ones I'd like to focus on are issues 145 and 146 and these are on page 5 of your summary. These are the HUD OIG issues relating to HOME administrative expenses. Between those two issues identified by HUD, they identified a total of \$1,671,000 in questioned costs. We have a letter from HUD stating that we've provided adequate support for \$743,000 of that; that leaves a remaining balance of \$928,000.

In addition to still needing to provide support for this remaining balance, the Department also needs to support all the direct administrative costs charged to the program since February '99; that's when their field work ended. So they're just saying as a caveat, even though we're finishing now, you've got to continue writing support since this point in time and provide support for the administrative costs of subrecipients that were not included in their sample items, sample of 19.

And that's the issue we discussed previously at the last committee meeting that the Department and me and anyone knowledgeable of the subject considers a

significant -- maybe overwhelming might be more appropriate -- challenge for the Department. We're continuing to work with HUD to resolve these remaining questioned costs and come to a satisfactory agreement on how to deal with that issue. Those efforts are in progress.

MS. WILLIAMS: Well, I remember from the minutes, wasn't it November 1 that we were to have that resolved, or do I have a different issue?

MR. GAINES: No. In the minutes --

MS. WILLIAMS: Is that the same issue?

MR. GAINES: You may have a different issue. Ms. Cedillo had mentioned some information that we needed to provide to HUD by November 1; I don't believe it was all this information. I'm not real sure what she was referring to and I'm sorry to say Ms. Cedillo is not here today. I didn't realize that was going to be the case, so I was kind of hoping she could speak to that, and I'm not sure any other management can speak to that or not.

MS. STINER: What particular issue are we talking about, David?

MR. GAINES: This is the HUD OIG HOME administrative expenses. Ms. Cedillo, at the last

committee meeting, mentioned something about a November 1 date. But the people most directly involved in working through this, I've spoke to and they aren't real sure what that November 1 date is, so I don't think it's real significant. But I'll confirm that with Ms. Cedillo and let you know if there's something otherwise.

MS. WILLIAMS: In the minutes it says: "The Department and HUD have set a deadline of November 1 to settle the differences on funds in subrecipient administrative funds."

MS. STINER: I'm not aware of a November 1 date that we've agreed to.

MR. GAINES: The way that reads is that would be all of this, and I don't believe that's the case.

MS. STINER: We have until 2001 to resolve the issues, so I'm not sure what that November 1 date is about. I'm sorry.

MR. GAINES: The director of the program mentioned April 2001, and that's the date that comes to my mind when I think final drop dead date on all of this.

MR. CONINE: But that probably includes the stuff from February of '99 forward and all the other stuff.

MR. GAINES: Yes, sir. There may be some interim information we should be providing by November 1, and presumably if that's the case, we're doing that, but I'll have to look into that and get back with you on that.

MS. STINER: May I just add something?

MR. CONINE: Yes, please.

MS. STINER: Ms. Cedillo has worked with the staff to lay out a schedule for various parts of information is due; I don't have that schedule with me. What comes to my mind is November 1 is one of the dates on the schedule, but in terms of the agreement we have with HUD, we have until April 2001 to provide all the information to support all the issues. So we'll have to look at that report and determine if November 1 is one of those dates where we're submitting various pieces of the overall report.

MR. CONINE: Can you comment on your gut feel at this point on the old, old stuff, since there is a \$900,000 number still floating around out there?

MS. STINER: I can comment on it -- it's probably not very useful -- in that it's pretty difficult to go back and create information that is required now that had not been required to this particular time, but

HUD has been very cooperative in allowing us to have as much flexibility as we can.

The third part of this puzzle is that we have OIG; HUD and us work on various things and then that has to go back and pass OIG's okay, so that's where we're having several of the difficulties in getting documentation together that's acceptable to the IG. But HUD continues to work with us, but we will have some difficulty, but like I said, they've been cooperative.

Some things they've accepted in terms of if you allow me to substitute for documentation that did not exist at that subrecipient level, and the subrecipients have been cooperative in going back and trying to recreate as best they can documentation that would be acceptable. HUD has always said they never doubted that the money has been expended in the amount that it should have been expended, but there are specific kinds of documentation that's acceptable to support that, so that's where the difficulty lies: trying to meet the test of the IG as to what is acceptable documentation to support the expenditures.

So we will continue to have that difficulty, but again, it's been a tedious process in terms of us

submitting, and HUD saying okay it's looks pretty good, let's see what the IG's take on it is, and the IG saying well, it looks okay but we need something else. So I think we'll continue in that vein until we reach some kind of consensus with them in 2001.

MR. CONINE: And just as a follow-up to that, I assume that everything we're doing in the year 2000 and 2001 and everything going forward, based on what we've learned that the reporting function needs to be in the prior years, we're taking care of those issues today.

MS. STINER: Oh, absolutely. I mean, these things, sometimes the most simple of things kind of trip you up. I've been in this business for 30 years and the easiest thing in the world for us is to keep a time sheet, but we keep electronic time sheets.

But you have to keep them to a level and detail that lists, you know, sometimes on an hourly basis what you're doing if you're being paid through various sources.

So some of those things, it's so simple, but it can trip you up down the road if you've got nine years of that kind of documentation missing.

So those things, yes, definitely have been implemented and it's been deemed acceptable by HUD moving

forward; it's the things in the prior years that we're going to continue to spend a better portion of our time trying to address.

MR. CONINE: Okay. Thank you.

MR. GAINES: One other consideration I'll just mention, and I'm a little bit hesitant because it's still a little speculative at this point. However, based on research done by the director of the program and her discussions with HUD, one of the issues relating to subrecipient questioned costs is the fact that possibly -- and we're pretty confident based on our knowledge -- that some of the questioned costs related to awards that were not drawn down, and so in other words, it's overstated by \$150,000.

That remaining \$900- would be overstated by \$150- that were included in the questioned costs, but upon research, they misunderstood that these were not funds drawn down and expended; these were funds that were awarded and never drawn. So we're cautiously optimistic maybe there's another \$150- there.

MR. CONINE: Okay.

MR. GAINES: The next issue I'd like to discuss is issue reference 157 on page 7 of your summary. This is

the State Auditor's finding that identified the HOME monitoring function as a material weakness in last year's single audit report of federal programs.

Based upon management's comments today regarding their status, most of the material weakness issues identified by the SAO have been resolved. There are some outstanding items that continue, but most of the issues, being a risk assessment model is now in place and is being incorporated into the HOME subrecipient monitoring procedures, the subrecipient monitoring function has been separated from the program functions by transferring monitoring responsibilities from the program area to the Compliance Division.

A new checklist to ensure compliance with federal regulations was put in place by the HOME staff in October of '99 to ensure compliance with federal requirements. The compliance Division is currently in the process of reviewing and working with this checklist to assess the completeness and adequacy of the checklist and to determine if there's any needed modification to that checklist.

Management anticipates that this process will be completed by the end of December 2000, and I believe

maybe your status report indicates and earlier date; that's been reassessed since that last reporting.

MR. CONINE: Okay.

MR. GAINES: Although the great majority of this issue appears to be resolved, in my discussions with the SAI, this will probably be a repeat finding for the fiscal year just ended. This is because for a considerable portion of that year, the same conditions continued to exist, so we do expect to see it as a repeat comment for this year ended August 31, 2000. It will probably be a material weakness. This just emphasizes the importance of us resolving the remaining outstanding issues early in this fiscal year so it will not again be a repeat comment for fiscal year 2001.

MR. CONINE: Mr. Gaines, along those lines, maybe in future meetings of the Audit Committee, November or December, we might ask the Compliance Division to be here and update us relative to their progress on that in the future so that we can, I guess, be as up to speed as we possibly can about understanding where we are relative to that issue. So if you could ask them, or Ms. Stiner, if you could ask them to report in the future.

MS. STINER: Sure.

MR. GAINES: I don't believe the director is here today but some of her staff is here, and I'll be sure to let her know.

MR. CONINE: As I remember, there are several other issues kind of floating around the Compliance Division too, so it might be good to have that in the future.

MR. GAINES: That's a good idea.

In dealing with this issue, I'd also like to just point out that the most significant issues identified by issue 137 on page 3 and 152 on page 6 -- and you don't necessarily need to be referring to these -- but those two issues, the most significant issues involved in that will be taken care of by dealing with this issue that we just discussed. So accordingly, what I'm going to do, I will continue to track those two issues but I'm going take them off future reports for your purposes, again, in an attempt to minimize the information we're routing to you.

The next issue I'd like to discuss is issue 136 on page 4 of your summary. This issue relates to formal policies and procedures to identify, capture and make available the monitoring information necessary for staff to officially carry out their monitoring responsibilities

and to be used in making award decisions.

Management has basically responded that they're in the process of developing a department-wide database. Management has also indicated that each program's area is responsible for maintaining monitoring data necessary for the risk assessment process and for award decisions.

While we believe that a department-wide database is a desirable goal of the Department, this issue really relates to identifying and making available monitoring-related information to those that need it to perform their job duties, and this information should be available with or without an automated system.

Management needs to specifically identify what is needed and executive management needs to establish a department-wide SOP that requires the program areas to accumulate this information in some form and make it available for those that need it.

This issue roles into issue 118 on page 3 that discusses the need for a risk assessment process to identify subrecipients for monitoring purposes. The Compliance Division has taken the initiative to develop a risk assessment model and they've started using that model in selecting subrecipients for monitoring purposes for the

CDBG and HOME Program. That's why the status of that particular issue is indicated as implemented on your report. However, I believe there are issues that the Department must address before we have a complete viable risk assessment process.

Based on my understanding of our current procedures and our current plans, the Housing Trust Fund and Section 8 subrecipients are not included in the risk assessment considerations.

To help ensure that the risk assessment process accomplishes its goals, executive management needs to clearly establish the expectation that all applicable programs will be included in the risk assessment process, that the applicable programs are expected to provide specific information to the Compliance Division in order to facilitate this process, and that each of the Department's programs will use the results of the risk assessment in selecting subrecipients for monitoring. Subrecipients should be scheduled for review based on their risk ranking and then deviations from that should be clearly explained and documented.

That pretty much wraps up my planned discussions for the prior audit issues. If you have any

questions or any suggestions on how this might be a more productive process in the future, of course we're always receptive to anything along those lines.

MR. CONINE: Sure. Any questions, Ms. Williams?

MS. WILLIAMS: No.

MR. CONINE: A couple of things -- maybe Ms. Stiner will be able to address some of this -- again, just an overall generic comment from me. It seems -- obviously this is a ten-page report; we'd like to have it down to one or two so that we get some of this stuff behind us. And some of these are fairly old and have had a couple of target dates set and reset and so forth, based on what we're looking at.

There may be some of these that under a cost-benefit analysis we don't feel like it's really necessary to follow through and get done with. And on the other hand, there may be some stuff that we just need to get finished and wrapped up.

I guess I would either appreciate your comments or some written summary or response to some of these that have been a couple of years old and see if it's feasible to wrap them up rather quickly or if it's going to take a

while longer, or if we just don't really need to do them at all.

MS. STINER: I think the way I'd like to proceed on that is to provide this Committee with a written response on each of those where we're a couple of years in the making, for instance, on the HOME subrecipient monitoring. There are some systemic problems that existed in the HOME Program administration, and we think we're trying to corner some of those but it's not very informational to you right now for me to talk anecdotally. I'd like an opportunity to respond to those in writing.

MR. CONINE: That would be great. Do you think you can do that for the November meeting?

MS. STINER: Yes, sir.

MR. CONINE: That would be great. You know, my goal is to get this thing down, again, to one or two pages and get some of these issues behind us, because it will help everybody: help the Department run in a smoother manner, help everybody feel that issues that have been brought up in the past are being addressed and resolved and put behind us.

MR. GAINES: Yes, sir. And one deficiency

related to this report is it is difficult to see what has been implemented and taken off the report since it's not there.

MR. CONINE: Yes, and this probably is thicker than what's left, and that's a positive. That's an absolute positive.

MR. GAINES: I see that, but oftentimes it's not real obvious from your end.

The final report item is the status of audits, and if you'll turn to the last document in your report materials. The first audit, if you will, or review is Sunset. And as you, I'm sure, are aware, their final decisions will be November.

The next section of audits or reviews is at the State Auditor's Office. They're in the process of completing their audits of selected programs and the Department's ISAS accounting software. These reports are also anticipated for November.

The SAO has also started on their follow-up of last year's single audit issues. That's not reflected on the schedule. I believe they began that work last week or possibly the week prior. This follow-up is required under the Single Audit Act federal requirements, so they have

begun that follow-up.

The next is Health and Human Services has completed a program implementation assessment of the Community Services Block Grant. This was completed in May of 2000. At that time they indicated a report would be provided to us in June; the most recent update we've had -- which is fairly dated at this point -- is that we should be receiving a report sometime this month.

HUD recently completed a Section 8 management review that I know you're aware of. There were some considerable problems that we need to respond to in that, and the date of that report was September 19. HUD has asked that we respond within 30 days of that report which will be by next Friday.

MS. STINER: I have something you don't know. I've asked HUD for an extension since those problems are -- there are a lot of things that we need to work on in that area.

MR. GAINES: I'm glad to hear of that extension.

MS. STINER: Given that we have new management, I think I asked for a couple of weeks, based on what the new management told me they're going to be able to do and

report on. I'll provide the internal auditor with that date, but I just asked for that yesterday.

MR. GAINES: Yes, that would be great.

MR. CONINE: Thank you.

MR. GAINES: HUD has also recently completed the combined CDBG review and HOME OIG follow-up on the administrative expenses we just got through discussing. The results of the CDBG review were positive and in some instances very complimentary of the program. The follow-up of the HOME OIG status was fairly limited due to scheduling problems they ran into while they were out here, and for the most part, was inconclusive.

They did give us some hope -- and this kind of refers back to your question earlier where are we on some of this -- they did give us some hope accepting some of the Department's proposed strategies on resolving some of those issues, and they indicated that in that follow-up report, so again, that provides a little bit more evidence that maybe we've got reason for cautious optimism.

The Comptroller is in the process of performing a cash expenditure and payroll audit. This is due for completion in February 2001. And then the listed internal audit projects you see there are the projects -- these are

actually the deviations from fiscal year 2001 audit plan that we just discussed a few moments ago in discussing the annual report.

Are there any questions on that status of audits?

MR. CONINE: I was just curious about how the Comptroller, his review is going to parallel or correspond with your own internal review on payroll, for instance.

MR. GAINES: On the payroll system?

MR. CONINE: How does that work?

MR. GAINES: The way I understand, the Comptroller is reviewing -- and of course, as we approach a project, we'll consider other audits, try to use whatever information is available to avoid duplication. Maybe they're accomplishing our objectives. The way I understand that particular project is that it's predominantly a disbursements audit, and to the extent payroll falls in that, they'll be looking for some of the same objectives as ourselves: support in the personnel files, payroll actions.

I don't believe some of the other objectives were being accomplished, such as access to the payroll system itself. I don't believe they're necessarily going

into reporting requirements, because that would not necessarily be something that you would test in a disbursement review. But again, we consider what work has been done, and to the extent we overlap, we'll avoid doing that.

MR. CONINE: Are they going to pretty much be here and done before you get started in your effort?

MR. GAINES: Yes, sir. They're scheduled in February for report release and we're scheduling the payroll audit later in the year.

And that's all I have for report items today.

MR. CONINE: The Single Family lien procedures, it says delayed here. And I think -- did I hear you mention that we've got it scheduled for sometime next year, or thinking about doing it?

MR. GAINES: Actually, the way I've dealt with that, what I've discussed up to this point is that I considered it for inclusion in this year's plan and did not select it. Actually, I had that listed as what I call an optional project, and I do that -- it's just kind of hanging out there on my audit plan in case, for example, the payroll audit is not necessary, the Comptroller's Office accomplishes our objectives.

We get into an area and early in a project we see that things are running well and we get through it faster than anticipated, in which case that would be a fall-back project, if you will. In response to your question, we don't have that audit currently scheduled or planned.

MR. CONINE: I'd like to encourage you to see if you can work it in next year, just as a comment. That is a core competency of ours, I think, and one of which not only do we deal with home purchases but payoffs as well. I'm interested in kind of the payoff side of things and not only the implementation of a lien but the release of a lien and the procedures that we go through. I'm sure Marsha hasn't heard as a Board member how that works, and I don't think I have either in my Board service. And I'd just be curious to see how it works.

MR. GAINES: Yes, sir. And one thing -- I guess this might be a good opportunity to bring it up -- that I've been thinking about to help us accomplish our objectives of internal audit, I've been considering the idea and possibility of maybe working with the some of the universities in the surrounding area to see if there's possibly students that could do some intern work. I

understand that sometimes there's avenues available where they can get credit for working in the real world, if you will, and maybe that's a possibility to get some resources like that or for other projects that we're trying to accomplish.

MR. CONINE: Why don't you look into that and let us know at the next meeting or two if that's something that's plausible to do.

MR. GAINES: And regardless of that outcome, we'll see to what extent we can work in that review.

MR. CONINE: Any other questions of Mr. Gaines at this point?

MS. WILLIAMS: No.

MR. CONINE: Ms. Stiner, any questions of Mr. Gaines at this point?

MS. STINER: No, sir.

MR. CONINE: We're showing on our agenda an executive session. I don't think it's going to be necessary. Mr. Gaines, we will let you know that the performance evaluation referred to there is in a draft form; we'll endeavor to try to finish that up and get it back to you over the next week or so, and be prepared to probably have this again on our agenda at the next meeting

so we can go into that in further detail at that time.

MR. GAINES: Yes, sir.

MR. CONINE: Anything else to come before the
Audit Committee?

MS. WILLIAMS: No reports.

MR. CONINE: 9:35, we stand adjourned.

(Whereupon, at 9:35 a.m., the meeting was
concluded.)

