

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS  
AUDIT COMMITTEE MEETING

8:30 a.m.  
Thursday,  
October 10, 2002

City Hall  
City Council Chambers  
1201 Leopard Street  
Corpus Christi, Texas

COMMITTEE MEMBERS:

VIDAL GONZALEZ, Chairman  
SHADRICK BOGANY  
ELIZABETH ANDERSON

STAFF PRESENT:

EDWINA CARRINGTON, Executive Director  
DAVID GAINES  
BILL DALLY  
ROBERT ONION  
RUTH CEDILLO  
CHRIS WITTMAYER

A G E N D A

CALL TO ORDER, ROLL CALL  
CERTIFICATION OF QUORUM

PUBLIC COMMENT3

ITEM

PAGE :

1Presentation, Discussion and Possible3  
Approval of Minutes of Audit Committee  
Meetings of August 8, 2002, and  
September 12, 2002

2Presentation and Discussion on:

- a) Status of Prior Audit Issues7
- b) Internal Audit Annual Report4
- c) Status of Review of LIHTC  
Inspection Fees 14

ADJOURN

19

P R O C E E D I N G S

1  
2 MR. GONZALEZ: We'll call the Audit Committee  
3 meeting to order and we'll start off with the roll call.  
4 Beth Anderson?

5 MS. ANDERSON: Here.

6 MR. GONZALEZ: Shad Bogany?

7 MR. BOGANY: Here.

8 MR. GONZALEZ: Vidal Gonzalez, here, so the  
9 committee is present. We'll go to item number 1, the  
10 presentation, discussion and possible approval of minutes  
11 of Audit Committee meeting of August 8, 2002, and  
12 September 12, 2002.

13 MS. ANDERSON: Mr. Chairman, I move approval of  
14 the minutes.

15 MR. BOGANY: Second.

16 MR. GONZALEZ: We have a motion and a second.  
17 All those in favor?

18 (A chorus of ayes.)

19 MR. GONZALEZ: All opposed?

20 (None.)

21 MR. GONZALEZ: Motion carries. We'll go to  
22 item number 2 and we'll call Mr. David Gaines to visit  
23 with us on the status of prior audit issues, internal  
24 audit annual report, and status of review of Low Income  
25 Housing Tax Credit Inspection Fees.

1 MR. GAINES: Good morning, Mr. Chairman.

2 MR. GONZALEZ: Good morning.

3 MR. GAINES: Members of the committee, Ms.  
4 Carrington. If you'll turn to Tab 2 in your board book,  
5 the agenda lists one order and your materials are in  
6 another order, so why don't we go in the order of the  
7 materials.

8 If you'll turn past the agenda to the first  
9 report item, which is the Annual Internal Auditing Report.

10 This is an annual report required of the division, it's  
11 required under the Texas Internal Auditing Act; the format  
12 and content of the report is prescribed by the State  
13 Auditor's Office, and it's required to be distributed to  
14 the Office of the Governor, the Legislative Budget Board,  
15 the State Auditor's Office, and the Sunset Advisory  
16 Commission.

17 I'll just briefly walk you through the report  
18 just giving you an overview of the contents in this  
19 report. The first page is just a transmittal letter,  
20 table of contents follows, and the first piece of  
21 information on page 1 of 16, this is our annual audit plan  
22 for the 2002 fiscal year, August just ended, and if you'll  
23 note in the first column -- excuse me -- the second column  
24 to the right, that was the original plan and the date it  
25 was approved by the board. The plan was amended June 13

1 of '02 which is reflected in that final column, and this  
2 presents the plan, the amendment to the plan, and then any  
3 deviation or explanations for the amendment to the plan or  
4 deviations from the original plan. Those were all  
5 discussed in connection with the June '02 report with the  
6 exception of one item, and that particular item relates to  
7 the second project listed on page 1 of 16.

8 This is a project that has been on hold,  
9 delayed, pending completion due to several circumstances,  
10 the foremost being turnover in some staff that I've had,  
11 and talking with -- this particular project was a project  
12 of particular interest to one of the board members and  
13 I've discussed this with him and we've agreed that this  
14 can be a rollover project into the next year's plan and  
15 something that needs to be wrapped up, so that's kind of  
16 where we're at on that.

17 MS. CARRINGTON: David, for the record, would  
18 you read what that project is?

19 MR. GAINES: Yes, ma'am, I'm sorry. That's the  
20 review of controls over Tax Credit project deliverables,  
21 do we have controls in place to ensure what we're agreeing  
22 to do on Tax Credit property allocations come about.

23 Just walking through the report, that audit  
24 plan goes on through page 4 of 16, and then on page 5 of  
25 16 this is a brief discussion about the Internal Auditing

1 Division's quality assurance review process. This is a  
2 required process pursuant to professional standards in the  
3 Texas Internal Auditing Act; we are required to go through  
4 an independent review of the internal audit function once  
5 every three years. The division is currently going  
6 through a review and anticipate a report coming out of  
7 that review within the next two to three weeks; I expect  
8 to be providing that to the board at the next board  
9 meeting, and then I had a brief discussion as to our last  
10 review, when that was conducted and the results of that  
11 review.

12 On page 6 of the report is a listing of audit  
13 findings and recommendations made during the year and the  
14 current status of each. While you realize there's a  
15 separate report that the division provides you on a  
16 periodic basis reporting the status of these prior audit  
17 issues, that report is for all prior audit issues going  
18 back prior to this last, most current year, but this will  
19 provide you a pretty good overview of what's transpired  
20 this year.

21 On page 13 of the report is a copy of the  
22 department's organizational chart -- which is soon to be  
23 outdated -- and the purpose of this chart is primarily  
24 that focus three boxes when you're looking at this: the  
25 Executive Director box, the Board of Directors, and then

1 the Internal Auditing Division box, just to see what sort  
2 of reporting relationship has been established. It's  
3 established in such a manner to facilitate the  
4 independence of the Internal Audit function and compliance  
5 with the Texas Internal Auditing Act.

6 Page 14 of the report provides other activities  
7 of the Internal Auditing function during fiscal year 2002,  
8 and this would be activities that wouldn't typically be  
9 associated with straight audit activities, and the impact  
10 of those activities is summarized.

11 Finally on page 16 of the report is a  
12 discussion of the status of the Audit Plan for 2003. I  
13 wouldn't expect to have a plan ready for your review and  
14 approval until first calendar quarter of 2003. Until that  
15 plan is approved, a listing of our planned activities is  
16 provided. I believe the board and the committee are  
17 pretty familiar with these activities. And if there's any  
18 questions on the Audit Plan or the annual report, I'll be  
19 glad to speak to those.

20 MR. GONZALEZ: Any questions?

21 (None.)

22 MR. GONZALEZ: Okay.

23 MR. GAINES: If you'll just continue on in your  
24 board book, immediately following that we have the status  
25 of prior audit issues, and I have two reports here for

1 you: the first one is pages 1 of 11 through 11 of 11.  
2 I'd like to just refer you to the one immediately  
3 following that first and we'll start off with that. This  
4 report is a little bit different. We spent a lot of time  
5 discussing the outstanding audit issues -- which we  
6 certainly need to -- this report, the seven-page report is  
7 a report of the progress made over the last year. These  
8 are audit issues that have been implemented during fiscal  
9 year 2002, and during that time frame the department  
10 implemented 21 issues, those that are listed there. If  
11 you haven't had an opportunity yet, you might just scan  
12 through that at some point to focus on some of the issues  
13 that management has been dealing with over the last year.

14 Now I guess the important issues are those that  
15 haven't been resolved, and so we'll turn back to the 11-  
16 page report. There's 24 issues being presented to you;  
17 five of those 24 have been reported as implemented, 18 are  
18 in the process of implementation, and one is classified as  
19 delayed, and that's pending further action from HUD at  
20 this point.

21 I was planning on just a high-level overview.  
22 If there's any particular issues you'd like to drill down  
23 to, please let me know, but of the 19 issues being  
24 reported, there are a couple that have significance from  
25 one perspective or another I'd like to just point out.

1 Issue reference 271 on page 10 of 11, this is the sub-  
2 recipient where embezzlement was detected and identified.

3 This sub-recipient has reimbursed the department \$194,543  
4 relating to Health and Human Services funds and Department  
5 of Energy funds that the department funded through the  
6 Energy Assistance and Weatherization Programs. Of course,  
7 this is great news, and these funds will be used to  
8 satisfy any claims from our funding sources.

9 That leaves 18 issues, and if you'll refer to  
10 issue reference 237 on page 3 of 11, this was still in  
11 progress when the report was compiled a week and a half  
12 ago. Management was expecting to have that implemented by  
13 last Friday; I haven't had an update since then but I  
14 believe that's probably happened, so that would be six of  
15 these issues implemented.

16 Of the remaining 17 issues, seven of them  
17 relate to the HUD/HOME monitoring issues -- actually six  
18 do and an associated or related finding in the KPMG audit  
19 finding that HUD has picked up and having us respond to  
20 relating to soft costs. And as you're well aware, these  
21 issues have been the center of discussion over the last  
22 several meetings. And the status of these issues, issue  
23 reference 253 on page 4 of 11 through 260 on page 7 of 11,  
24 the status of these issues as you see them have not  
25 changed significantly as they're reported to you.

1 Management is in the process of drafting a  
2 letter to HUD that's planned for release no later than  
3 October 25. At that time the department plans to provide  
4 a comprehensive summary of where we're at on the  
5 outstanding HUD issues, the department's position  
6 regarding these issues, the department's strategies on how  
7 it's going about resolving the issues, obstacles that the  
8 department has run into, challenges that they'll be  
9 facing, and this letter, I believe, is going to be the  
10 summary or the update that will be of great interest.

11 MS. ANDERSON: I have a question for management  
12 on this issue. Ms. Carrington, on page 4 of 11, this item  
13 253 that David referred us to, this indicates that the  
14 letter is just requesting HUD to tell us when they're  
15 going to respond to the July -- maybe I'm misreading this,  
16 but as I read this on page 4 of 11, it says: "We're  
17 drafting a follow-up letter requesting probable date of  
18 issue of response to our July 26 letter." But with what  
19 I'm hearing from David, that's not the only thing that's  
20 going to be in our letter.

21 MS. CARRINGTON: That's correct, Ms. Anderson.  
22 We have gotten a draft letter from HUD that I think was  
23 dated September 23 or 25 which was a draft that they did  
24 deliver to us in person, and they have outstanding items,  
25 basically culmination going back to 2000, that they're

1 asking us to respond to, but they admitted in that meeting  
2 that they had not finished reviewing the July response  
3 from us. So as we complete our responses -- and I believe  
4 that David told me the other day that we're looking at the  
5 responses back from our staff on the 20th of October so  
6 that we will easily meet their 30-day time frame -- we're  
7 also going to address and request an update, where are we  
8 on the information that we provided to you in the July  
9 letter.

10 MS. ANDERSON: Thank you.

11 MR. GAINES: That leaves a balance of ten  
12 issues, three of these relate to the all-program areas on  
13 the first page or two of the report that we've spoken of  
14 previously that are being addressed in connection with  
15 reorganization. The remaining seven issues: two of them  
16 relate to accounting that we intend to have resolved in  
17 connection with the current reporting process, the current  
18 reporting cycle that's going to be finalized in December;  
19 another two relate to the payroll activities or certain  
20 payroll activities that have recently been identified by  
21 the Internal Auditing Division in its payroll report, and  
22 it looks like management is making steady progress in  
23 resolving those issues -- the original target date is yet  
24 to elapse.

25 That leaves us a balance of three issues, one

1 of them relates to the Section 8 Family Self-Sufficiency  
2 Program -- this is page 1 of 11, issue 187. On this the  
3 program is conducting an analysis of the local capacity  
4 available to deliver this program and hopes to have the  
5 results of that analysis to HUD by the end of the calendar  
6 year.

7 Then the remaining two issues relate to  
8 controls over Single Family loans that were brought up in  
9 the Internal Auditing report earlier in the year. The  
10 first issue is issue reference 264 on page 9 of 11. The  
11 challenge that management faces in dealing with this issue  
12 is identifying the disbursements under the HOME Homebuyer  
13 Assistance Program that were loans, and then for those  
14 loans accumulating the necessary documentation to support  
15 the department's financial interests.

16 The final outstanding audit issue is 266 from  
17 the same project, and this issue relates to the need of  
18 the department to establish formal policy procedures for  
19 advanced collection efforts on delinquent loans and  
20 criteria for writing off loan balances. And the target  
21 date for addressing this issue is November 1.

22 MS. ANDERSON: And Mr. Gaines, this report  
23 indicates that July 31 was the sort of last update that  
24 you had from management. Right?

25 MR. GAINES: Yes, ma'am. And I realize one of

1 your requests at the last meeting was anything from July  
2 forward, you'd like a status update.

3 MS. ANDERSON: And you've done a sterling job  
4 of getting all these, pretty much everything here, an  
5 updated status, which I'm sure the rest of the committee,  
6 along with myself, appreciate.

7 MR. GAINES: I suspect that's the reason you  
8 brought up that date.

9 MS. ANDERSON: Well, I did have it circled.

10 MR. GAINES: Yes. And I'm also suspecting in  
11 this particular case, since the target date hadn't elapsed  
12 at that point, management does need to update that shortly  
13 with that November 1 date.

14 Are there any questions relating to the prior  
15 audit issues report?

16 (None.)

17 MR. GAINES: Okay, great.

18 MS. CARRINGTON: If I might make a comment to  
19 the committee on the data?

20 MR. GAINES: Yes, ma'am.

21 MS. CARRINGTON: Our goal is to get the number  
22 of pages on the audit issues resolved -- which now is  
23 seven and the audit issues not resolved, eleven -- the  
24 goal is to have more resolved audit issues than non-audit  
25 issues, but I do think we are making really tremendous

1 progress on this.

2 MR. GONZALEZ: Are you going to use smaller  
3 print?

4 MS. CARRINGTON: No, I'm not going to do any  
5 tricks like that, Mr. Chairman.

6 (General laughter.)

7 MR. GAINES: And then the next agenda item is  
8 the last page under Tab 2. This relates to the  
9 Construction/Inspection Fees project that we're involved  
10 with. What you have in front of you is a schedule of  
11 receipts and disbursements and this is from fiscal year  
12 1999 through August 31 for disbursements and through  
13 September 30 for receipts. Now, ideally you'd like those  
14 the same day but due to using different systems for  
15 different information, we've got those at two different  
16 points in time right now. This is unaudited as presented  
17 to you. As we come to the final balances, of course, it  
18 will all be in sync on the same date.

19 These numbers being unaudited, management and  
20 staff continue to work on them and so I suspect there may  
21 be additional changes going forward. But just working  
22 from the top of the report down, you'll see that currently  
23 \$810,700 has been paid out in the inspection fees since  
24 1999. This includes -- well, let me continue going down  
25 the list -- \$597,000 has been reimbursed to date, leaving

1 a balance of \$213,000. Of that, there's approximately  
2 \$60,000 in that \$810,000 that relates to the first year of  
3 our consideration, 1999, and management at this point does  
4 not believe they're going to be pursuing collection on  
5 that or even if they have the authority pursuant to the  
6 QAP what was in effect at that time. So you can kind of  
7 reduce these numbers by that approximate \$60,000 at this  
8 point. I've left them in there because until -- it's not  
9 over until it's over, and I wanted to fully account for  
10 the monies that we are finding out there.

11 Down below you have the inspection fees billed.

12 Of that \$810- we've actually billed \$626- at this point,  
13 and reimbursements have been right at \$597,000, and this  
14 appears to include some overpayments in there that will  
15 have to be refunded of about \$35,000, and that would leave  
16 a remaining net balance of \$28,000.

17 MR. GONZALEZ: So the net balance would  
18 increase due to the reimbursement. Is that correct?

19 MR. GAINES: The amount, the \$597- will be  
20 decreased by about \$35,000, which will increase that  
21 bottom number by the same amount, comparable amount. This  
22 is kind of history, or what management is doing in  
23 resolving that going back. Going forward, management has  
24 taken some corrective actions that should keep things in  
25 order going forward in that Financial Services began

1 processing the invoices for inspections paid in September  
2 of 2002, and in connection with that, assuming that role,  
3 a separate account has been established at the Texas State  
4 Treasury to account for all reimbursement receipts, and  
5 since the account has been created, effective September 1,  
6 over \$326,000 have been deposited to that account.

7 I think the next most relevant bullet is  
8 probably the third one: an accounts receivable sub-ledger  
9 has been established in the accounting system, and this  
10 would be able to, of course, you would be able to invoice  
11 off of it, see your remaining balances, age outstanding  
12 balances. And then finally, they've documented this and  
13 processed flow charts, and are working on policies and  
14 procedures to finalize it.

15 And I'll be glad to address any questions in  
16 this respect.

17 MR. GONZALEZ: Just for clarification purposes,  
18 the inspection fees due would be approximately \$63,600 or  
19 so. Is that correct?

20 MR. GAINES: The remaining balance.

21 MR. GONZALEZ: Once we return the overpayments,  
22 that's going to increase that amount and so what we're  
23 actually due is not \$28,579 but approximately \$28,579 plus  
24 \$35,096.85. You might want to just footnote that at some  
25 point.

1 MR. GAINES: Based on the current billings.  
2 Now, there's other inspection fees that have been paid  
3 that need to be analyzed and looked at, assessed to  
4 determine which of those we need to bill.

5 MR. GONZALEZ: Okay.

6 MS. ANDERSON: And do we have any idea of the  
7 aggregate dollar amount of that set of agency payments?

8 MR. GAINES: Well, the aggregate amount would  
9 be the \$810- less the approximate \$60- we currently are  
10 not planning on billing.

11 MS. ANDERSON: Right.

12 MR. GAINES: Which would be \$750-, less the  
13 \$626- that has been billed.

14 MS. ANDERSON: And paid.

15 MR. GAINES: So another \$125-, \$124-.

16 MS. ANDERSON: Right, that's the same number  
17 I'm kind of coming up with. So the agency has not made a  
18 final determination yet whether to just sort of -- I guess  
19 there's nothing really to write off because it wasn't  
20 accounted for -- I guess it wasn't set up properly to  
21 begin with, but let's use the word "write-off" to  
22 describe -- or the \$125,000 that is sort of what we've got  
23 left that was paid by the agency but not yet billed to  
24 developers, so that's what we're going to determine  
25 whether any of that additional \$124- needs to be billed to

1 developers or not, and in the or not case that it has the  
2 practical effect of being like a write-off -- or just paid  
3 for by the agency and not reimbursed by a developer -- let  
4 me put it that way. Is that what we're analyzing?

5 MR. GAINES: I suspect within that amount there  
6 are some billings that will be written off for whatever  
7 purpose, but absent those unique circumstances, that \$125-  
8 remains to be billed.

9 MS. ANDERSON: Okay.

10 MR. GAINES: Based on rough numbers and saying,  
11 well, the first year we aren't going to bill, so we're  
12 speaking in real broad terms right now, and we'll be  
13 working this down to the project level for better, more  
14 concise information.

15 MS. ANDERSON: And then I have just one other  
16 question about this account that was set up in the Texas  
17 State Treasury and we've got the \$326- deposited to it,  
18 I'm guessing the other \$217,000 that if you add those two  
19 numbers together you get the \$597- in reimbursements, were  
20 those just prior to September 1 and so they went into some  
21 other account?

22 MR. GAINES: Yes, ma'am.

23 MS. ANDERSON: Okay. There's great progress on  
24 this.

25 MR. GAINES: For the amounts being billed, the

1 response has been very, very good, I'd say. Any other  
2 comments, questions?

3 MR. GONZALEZ: Okay, Shad, give him the list of  
4 questions you had.

5 MR. BOGANY: I'm fine, I understand.

6 MR. GAINES: Thank you very much.

7 MR. GONZALEZ: Thank you. That concludes all  
8 the business we have here. I'll entertain a motion to  
9 adjourn.

10 MR. BOGANY: So moved.

11 MS. ANDERSON: Second.

12 MR. GONZALEZ: Motion and second. All those in  
13 favor?

14 (A chorus of ayes.)

15 MR. GONZALEZ: All opposed?

16 (None.)

17 MR. GONZALEZ: Motion carries. This meeting is  
18 adjourned.

19 (Whereupon, at 9:00 a.m., the meeting was  
20 concluded.)

C E R T I F I C A T E

1  
2  
3  
4  
5  
6  
7  
8  
9  
10

MEETING OF: TDHCA Audit Committee  
LOCATION: Corpus Christi, Texas  
DATE: October 10, 2002

I do hereby certify that the foregoing pages,  
numbers 1 through 20, 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.

10/22/02  
(Transcriber) (Date)

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