

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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