

TEXAS DEPARTMENT OF HOUSING AND  
COMMUNITY AFFAIRS

AUDIT COMMITTEE MEETING

8:40 a.m.  
Thursday,  
March 13, 2003

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

PRESENT:

AUDIT COMMITTEE:

Vidal Gonzalez, Chairman  
Beth Anderson  
Shadrick Bogany (not present)

STAFF:

Edwina Carrington, Executive Director  
David Gaines  
Delores Groneck  
Bill Dally

*ON THE RECORD REPORTING*  
(512) 450-0342

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P R O C E E D I N G S

1  
2 CHAIRMAN GONZALEZ: We'll call the Audit  
3 Committee meeting to order. We'll start with a roll call.  
4 Beth Anderson.

5 MS. ANDERSON: Here.

6 CHAIRMAN GONZALEZ: Shad Bogany. He's absent.  
7 And Vidal Gonzalez is here. Two present, one absent.

8 We'll go to Item 1, which is the Discussion and  
9 Possible Approval of Minutes of Audit Committee Meeting of  
10 February 13.

11 MS. ANDERSON: I move adoption of the approval  
12 of the minutes.

13 CHAIRMAN GONZALEZ: We have a motion and I  
14 second it. All those in favor say aye.

15 MS. ANDERSON: Aye.

16 CHAIRMAN GONZALEZ: All opposed? The motion  
17 carries. Then we'll go to the David Gaines Show here, the  
18 Presentation, Discussion and Possible Approval of Fiscal  
19 Year 2003 Annual Internal Audit Plan.

20 MR. GAINES: Chair, Good morning.

21 CHAIRMAN GONZALEZ: Good morning.

22 MR. GAINES: Members of the Committee, Ms.  
23 Carrington. The second agenda item is the Discussion and  
24 Possible Approval of the Fiscal Year 2003 Annual Internal  
25 Audit Plan. You'll find the plan on the back page of the

1 minutes you just reviewed, kind of hiding there.

2           The Texas Internal Auditing Act requires that  
3 an annual plan be developed based on risk assessment  
4 procedures. And the Internal Auditing Division uses nine  
5 different risk factors that it applies to each of the  
6 auditable units within the department.

7           And in the past, we've defined these auditable  
8 units as the LBB strategies that are measured to determine  
9 the department's progress in achieving its goals and  
10 objectives. For the current period, we've replaced some  
11 of those measures with the divisions responsible for  
12 satisfying those measures, such as the Multifamily  
13 Finance, Single Family Finance Production, and the  
14 Portfolio Management and Compliance Divisions, to align  
15 more closely with the recent reorganization.

16           We've also added significant functions, such as  
17 support services, data services, human resources,  
18 facilities and support, payroll, disbursements and  
19 purchasing, grant accounting, and the cash receiving  
20 processes as auditable units to which we apply these risk  
21 factors.

22           And based on the risk assessment that we've  
23 done, it's -- and other considerations as well, not  
24 exclusively restricted to the risk assessment, we've  
25 developed the proposed audit plan you see in front of you.

1 I'd like to just briefly walk through each of  
2 these projects. The first -- before I discuss the  
3 document itself, there is one other project that should be  
4 included on this plan that's not. And that's the tax  
5 credit inspection fee project that we've been working on.

6 Following what's been presented to you on that  
7 project later this morning, I'd like to include that on  
8 the plan to formalize the board's approval for that  
9 project. Based on results of that review, the tax credit  
10 fee review project I just referred to, a request by one of  
11 the board members -- based on a request of one of the  
12 board members and the inherent risk associated with cash  
13 and cash receipts, we've added the reviews of other fees  
14 collected by the department, including the Manufactured  
15 Housing Division.

16 And these are the first two reviews listed on  
17 your plan. The objectives will be to assist the  
18 effectiveness and controls of the fee collection processes  
19 to ensure that authorized fees are collected and properly  
20 accounted for.

21 Additionally, although it's not specifically  
22 mentioned here in your plan, an objective of this project,  
23 and really all of our projects in the foreseeable future  
24 will be to be more cognizant of opportunities for process  
25 improvements. And by doing so, we'll be able to

1 contribute to management's efforts, and doing so, the  
2 efficiencies associated with reorganization.

3 It's also important, especially in these times  
4 of budget constraints, to be in a continual process  
5 improvement mode. And so we're going to be paying more  
6 attention in those respects as we -- regardless of all  
7 this audit area we're working on.

8 The next proposed project is review of the  
9 department's draw processes. And the objectives of this  
10 review will be to determined the draw is properly  
11 accounted for, adequate supported, and in compliance with  
12 department standards. That would include any applicable  
13 federal laws, state laws regarding those draws.

14 And this project is being proposed because some  
15 of the risk factors we use in our risk assessment  
16 identified many areas of the department that's -- have  
17 been directly affected by the reorganization as high risk.

18 Those are factors such as recent changes in organization,  
19 recent changes in management, complexity of systems,  
20 changes in the control process.

21 So there was so much that was ranked as high  
22 risk for the board to focus on, we backed out and said,  
23 Wait a minute. What are the inherent risks? The risk  
24 that something could go wrong, that there was no controls  
25 in place.

1           And of course, I guess the most inherently  
2 risky item would be cash out on the table. If there's no  
3 controls, it's not going to be used for proper purposes.  
4 So we thought what passes -- it does have some controls  
5 over it. It's in this Federal Treasury, and the State  
6 Treasury. It's in the local accounts.

7           So the next tier down, if you will, will be the  
8 processes getting to those cash balances, manned cash  
9 receipts and cash disbursements. Cash receipt projects  
10 were the first tier I referred to, and this would be the  
11 other side of the coin, cash disbursements.

12           In this particular project, we will also focus  
13 our consideration to those draw processes most affected by  
14 the reorganization.

15           The next project is our contribution to the  
16 Peer Review Process coordinated by the state agency's  
17 Internal Audit Forum. And that's -- you're aware of the  
18 department's internal audit function recently underwent a  
19 quality assurance review as required by professional  
20 standards and the Texas Internal Auditing Act.

21           They were required to do that at least once  
22 every three years. And we chose to have members of the  
23 State Auditor's Internal Audit Forum to conduct this  
24 review, with the cost of this is our reciprocation. We  
25 have to contribute hours to that function to be made

1 available to conduct peer reviews of other state agencies'  
2 internal audit shops. And so we budgeted time for that  
3 this year.

4           The remainder of the projects being proposed  
5 are ongoing activities of the division, including  
6 following up on prior audit issues, developing our annual  
7 audit plan for fiscal year 2004, preparing our annual  
8 audit report, which basically describes the internal audit  
9 function's contributions and results for the year, and  
10 coordinating and assisting external auditors.

11           I've also listed as a project my role in a  
12 central database steering committee, due to the time  
13 involved in providing that assistance. Are there any  
14 questions on the annual audit plan?

15           Okay. There is one point I would like to bring  
16 up before you vote on that plan. You might remember last  
17 year's plan was amended to include an ongoing project  
18 whereby the Internal Auditing Division was going to  
19 facilitate a controlled self-assessment project, and  
20 controlled self-assessment program.

21           And this program was to be owned by management,  
22 and be a proactive review to ensure processes, systems,  
23 and activities are controlled and executed in a manner  
24 that supports the business objectives of the department.

25           The board approved the plan, but requested that

1 we delay inception of the control and self-assessment  
2 project until after the reorganization has been  
3 implemented.

4 I've excluded it for current consideration. I  
5 believe management's plate is very full without placing  
6 another initiative on their shoulders. I wanted you to be  
7 aware of that. And that concludes my proposal for the  
8 current year's plan.

9 MS. ANDERSON: Mr. Chairman, I move approval of  
10 the Fiscal 2003 Internal Audit Plan.

11 CHAIRMAN GONZALEZ: Okay. And I second.

12 MR. GAINES: And if I may, with the addition of  
13 the Tax Credit Inspection Fee Project added there.

14 MS. ANDERSON: As amended. Yes.

15 CHAIRMAN GONZALEZ: All those in favor.

16 (Chorus of ayes.)

17 CHAIRMAN GONZALEZ: All opposed? The motion  
18 carries.

19 MR. GAINES: The next agenda item is a series  
20 of report items. Items 3(a) through 3(e) relate to the  
21 results of all the work performed by Deloitte and Touche,  
22 the department's external auditors.

23 George Scott, the managing partner, is here  
24 today to present those results.

25 George?

1 MR. SCOTT: Thank you, Dave. Good morning, I'm  
2 George Scott. I'm a partner with Deloitte and Touche, and  
3 I'm responsible for the -- conducting the audit this year.

4 As we're running audit and financial statement  
5 presentation, a lot of trees have been killed for the --  
6 all these documents that we'll go over today.

7 I'd like -- actually, the financial  
8 statements -- there's actually three financial statements.

9 There is the Comprehensive Annual Financial Report, which  
10 is in a grey cover. A subset of that is the report on the  
11 Bond Program -- Revenue Bond Program, which is a separate  
12 document. And the third financial document had to do with  
13 computation of unencumbered fund balances.

14 All those are subsets of the first one,  
15 Comprehensive Annual Financial Report. Our opinion on the  
16 Comprehensive Annual Financial Report is on Roman numeral  
17 II is that it is a clean opinion. In our opinion  
18 financial statements do present their financial position  
19 of the agency as of August 31.

20 Also, as you look in the other two reports,  
21 they're also clean opinions. Again, our opinion of the  
22 financial statements both for the revenue bond program do  
23 present fairly that particular program separately, as well  
24 as the unencumbered fund balance information, which is a  
25 requirement of your bond indentures. It goes through the

1 different fund balances within those particular  
2 indentures.

3           An audit conducted under Generally Accepted  
4 Audit Standards and Government Auditing Standards, since  
5 some of this is -- this is a requirement by the state,  
6 that you have an audit done under Government Auditing  
7 Standards also -- those standards are a little bit more  
8 extensive than Generally Accepted Auditing Standards.

9           Those standards require that we plan and  
10 perform an audit to reasonable assurance that the planning  
11 statements are free from material misstatement. In order  
12 to do that, we have to attach a variety of records and  
13 documents. We interview individuals throughout the  
14 organization, the various representations from the  
15 organization as to the accessibility of information, and  
16 so forth.

17           And during the course of the audit, there were  
18 no restrictions placed on it, access to documents or  
19 records, or individuals. We received, really, outstanding  
20 cooperation throughout the organization. This was a very  
21 difficult year for an audit, because as you will note in  
22 the financial statements, the basis for the presentation  
23 has changed substantially.

24           So it's not something you've seen before. And  
25 all large governments, like the agency here, have gone

1 through this. And it has not been an easy process. I --  
2 your -- this organization had done some advance planning,  
3 and was prepared to go through that process.

4 I will tell you I have many clients that had  
5 not -- did prepare at all. And they were still trying to  
6 get financial statements out from last -- even from last  
7 summer. So it is quite an endeavor to do that.

8 And as you look to the financial statements,  
9 you will see that there are numerous things that are  
10 not -- have not been there before, such as management's  
11 discussion and analysis. And that is similar to what you  
12 see in the SEC environment, but it's not exactly the same.

13 And what's more important, it's part of the  
14 basic financial statements, which is something that is not  
15 done by any industry, to put an MD&A management discussion  
16 analysis in their review as one of the primary  
17 information presented to a leader. This is very -- this  
18 is a very significant change.

19 As well as, if you'll go further back in our  
20 report, you'll see that it's presented, in many cases,  
21 more like a commercial entity, in which for a Government  
22 such as the agency here, that is a dramatic change in how  
23 accounts are classified, how they're presented.

24 Accruals are different, because you're going to  
25 a full accrual basis. So -- and you looking between fixed

1 assets and capital assets differently, doing depreciation  
2 differently than you would normally do -- typically, what  
3 governments typically have done.

4 The interesting thing here is that you're doing  
5 it both ways. If you go through the report, one, the  
6 complexities of this report is you're presenting it much  
7 like you did before. But also now you've added this --  
8 new layers of information on a different basis. And so it  
9 is a very complex presentation.

10 But you have made it through, and it is -- you  
11 know, again, I think it is a compliment to the staff to  
12 accomplish that. We did not -- do not prepare the  
13 financial statements. That is done internally. And so I  
14 wanted to point that out.

15 We continued to -- we were doing the audit, and  
16 continue to remain independent of management and the  
17 board. This is a requirement that we disclosed to you as  
18 an audit committee, that we do need to continue to meet  
19 the independence requirements of the ALCPA as well as the  
20 General Accounting Office. And that continues to -- and  
21 continues to be the case.

22 As a part of our report, we issue a letter to  
23 you that doesn't even have a title on it. It's just a  
24 three-page letter. It's called a SAS 61 letter, which is  
25 communication with an Audit Committee, and basically

1 summarizes what I have just talked about.

2 We have no material adjustments to the  
3 financial statements, which during the course of this  
4 conversion, that is not true for most organizations. So  
5 again, I think you had financial management that was  
6 really on top of this situation.

7 We had -- also, there were no significant past  
8 adjustments. One of the things that we are required to  
9 present to an audit committee now is occasionally during  
10 the course of the audit we may find adjustments that are  
11 not material enough to make -- discuss with management.  
12 Management may decide they don't want to make adjustments.

13 We're required to disclose those significant  
14 ones to you, and the reasons -- management's reasons for  
15 not booking those. We had none in this -- in the current  
16 audit.

17 Also during the course of the audit we  
18 performed procedures around compliance with state and  
19 federal law, as well as reviewed internal control  
20 environment. We identified no situation that we believe  
21 is a material weakness in the internal control environment  
22 identifying those compliance exceptions with state law  
23 that would need to be required in these reports.

24 However, we do issue a report to management,  
25 which is again, another document, which goes through items

1 that we believe that the audit committee and the board  
2 should pay attention to, plus we review the prior year's  
3 comments that we had and what the status of those were.

4 And as you read through those, we identify  
5 that -- we encourage the board to look at their directors'  
6 and officers' insurance which lapsed during the year, and  
7 perhaps work with SORM, who is trying to pull together, I  
8 think, a state program to deal with that.

9 But with the uniqueness of this organization,  
10 we being in the bond market and so forth, the liability of  
11 the board is heightened because of that. It's not a  
12 typical state agency. And so you may want to look at that  
13 pretty seriously.

14 The other area is on the regular loans, to  
15 review the loan loss reserve, which the agency has already  
16 done, as you see in the response. As we looked at that,  
17 it had not been reviewed for -- it looked like for several  
18 years.

19 There was no real documentation on what basis  
20 that loan loss reserve was accumulated. And actually, it  
21 looked too high to us based on what we could see as  
22 historical evidence. And I know they've looked at it, and  
23 I think they're adjusting it on a go forward basis.

24 As far as some of the prior comments, the --  
25 one of the concerns we had last year was the accounting

1 for the Texas Housing Trust Fund. And basically, that  
2 activity was split between several locations, and so it  
3 was hard to figure out, or look at it from one  
4 perspective. When you asked the agency to look at that,  
5 and they have done that, and basically moved that into the  
6 general fund so you can see it in one location.

7           The Down Payment Assistance Program -- we had a  
8 concern last year that the down payments were not being  
9 reconciled on a timely basis for supporting documents. So  
10 you had a disconnect between what was recorded and what  
11 may have actually been received. And that procedure has  
12 been put in place. We notice in this year's audit we  
13 identified no problems with that this year.

14           There was also -- last year's situation we were  
15 concerned about accounts payable being cut off after 30  
16 days. And obviously there were a lot of liabilities that  
17 are not paid within 30 days. So to look at that -- and  
18 they've done that, and implemented procedures around that.

19           And the other area was the integrated financial  
20 information. We identified that there were several  
21 systems that still didn't speak together. You had the  
22 PeopleSoft systems that had not been implemented, and you  
23 are in the process of doing several of those now. So  
24 again, that seems to be an ongoing -- that obviously is  
25 not something that we addressed immediately. So it's an

1 ongoing issue.

2           So that concludes our report. Again, I'd like  
3 to thank everyone's cooperation from the board down.  
4 Again, the course of the audit -- it's not an easy process  
5 to go through. And it's really quite painful. And we  
6 certainly appreciate everyone's help. If you have any  
7 questions I'd be happy to answer them.

8           CHAIRMAN GONZALEZ: I do have one. How often  
9 do you recommend reviewing the loan loss reserve?

10           MR. SCOTT: I think the loan loss reserve  
11 should be reviewed at least every two years.

12           CHAIRMAN GONZALEZ: Thank you.

13           MR. SCOTT: Thank you.

14           MS. ANDERSON: I do have a comment. I want to  
15 thank our -- all of our staff, and Deloitte and Touche. I  
16 appreciate your teamwork, you know, working together on  
17 this audit. And I'm very proud of this agency.

18           Anytime you have a complex agency like this,  
19 you have a set of clinging opinions, you know, and I mean,  
20 I just think that's something that we really ought to  
21 celebrate in this agency that we have, this evidence that  
22 our financial house is in good order.

23           In reading the letter to management that  
24 Deloitte and Touche prepared, I was, frankly, very  
25 disturbed to see that we had allowed the D&O insurance to

1 lapse last year. And maybe I missed something, but I  
2 don't remember that decision coming to the board. So, you  
3 know, maybe I just missed it in a board meeting.

4 But I think that the decision to wrap something  
5 like that should have come to the board, and I think we  
6 were -- you know, I think it was -- the timing was such it  
7 was before Ms. Carrington was -- before she accepted our  
8 offer that we're so thrilled to have her as our executive  
9 director.

10 But I would ask that staff -- that in the audit  
11 committee meeting next month, that we have a proposal from  
12 staff to reinstate this D&O insurance. This is not  
13 something that I want sitting out, you know, as a pending  
14 action item for an extended basis. So I would like to  
15 have the commitment that we -- staff's commitment that we  
16 have an action -- whatever action we need to take to get  
17 it reinstated, that we get that on next month's agenda.

18 CHAIRMAN GONZALEZ: Okay. David, I'd like to  
19 at least have a -- some comments, or have somebody from --

20 MS. ANDERSON: Mr. Bill Dally.

21 MR. DALLY: Mr. Chairman, we did not bring that  
22 to the board, you're correct. But that decision to let  
23 that lapse did not come back to the board. And for that I  
24 apologize.

25 That premium that we had was \$125,000. And our

1 experience had been that we had not had any claims against  
2 that. We only had about \$100,000 deductible. Things --  
3 and in that environment, we were on our own so far as  
4 negotiating.

5 But what I want to bring to you today is we  
6 have actually gotten a proposal through SORM for a very  
7 reasonable premium. Our \$100,000 deductible -- that  
8 premium would be \$11,136. And then yes, I would recommend  
9 that we -- that would be money well spent to put that  
10 policy in place.

11 So what we'll do is we can circulate this  
12 proposal to the board members and stuff, and if you want,  
13 make that an action item for next month.

14 MS. ANDERSON: Well, I mean, I'm not even sure  
15 that that has -- an \$11,000 expenditure we don't have to  
16 approve. But let's just -- you know, we can consult with  
17 the rest of the board, if we want. But I think the  
18 sentiment, I'm certain, I feel -- certainly.

19 MR. DALLY: But evidently, we got some -- a lot  
20 better negotiating power when the State Office of Risk  
21 Management put this out -- this proposal out for us. But  
22 we got this -- it's dated March 11. We'll be sure someone  
23 got this proposal. But --

24 MS. CARRINGTON: And what we can do, Bill, is  
25 just notify the board next month that the D&O coverage is

1 in place.

2 CHAIRMAN GONZALEZ: The previous one was with  
3 CNA. Is that correct? Or what --

4 MR. DALLY: Marsh was the broker, but I think  
5 it was Fire Union, or some other underwriter.

6 CHAIRMAN GONZALEZ: Okay. That was 125 --

7 MR. DALLY: \$125,000. About a \$100,000  
8 deductible.

9 MS. ANDERSON: Thank you.

10 MR. DALLY: Thank you.

11 MR. GAINES: Thank you, George. The next  
12 agenda item, at 3(f), which is behind Tab 6(f), is the  
13 Internal Audit Report on the Low Income Housing Tax Credit  
14 Inspection Fee Project that we've recently completed.

15 The first couple of paragraphs are standard  
16 language that have been tailored to the project. This was  
17 considered an agreed-upon procedures engagement. And this  
18 type of engagement provides assurances of something less  
19 than an attestation engagement, which provides assurances  
20 or provides an opinion regarding the fairness of the data  
21 being presented.

22 And basically, what this means is that we  
23 applied procedures that had been agreed upon with  
24 management, and our understanding of the board's  
25 intentions, solely for the purpose of assisting you with

1 respect to evaluating the amounts due from tax credit  
2 project owners that have resulted from construction  
3 inspections conducted on the projects.

4           And while the standards -- the sufficiency of  
5 the procedures applied is formally, if you will,  
6 sufficiently the responsibility of the users of the  
7 report, meaning management and the board, often -- and I'm  
8 on the record, but aside from the standards, I believe the  
9 procedures have been applied provide you quality  
10 information with respect to evaluating these amounts.

11           And if you will, I intend to focus our  
12 discussion on the executive summary. A subsidiary ledger  
13 that identifies payments to the inspectors and  
14 reimbursements from the project owners by a specific  
15 project at the project level has been prepared and  
16 reconciled to the accounting records.

17           As of September 30, 2002, the net inspection  
18 fees due from project owners for the construction  
19 inspections conducted prior to September 1 totalled  
20 \$100,126.

21           This is the same information that was reported  
22 to you for several months now in status meetings. This  
23 net balance consists of \$203,238 due from project owners,  
24 and \$103,113 due to project owners, netting to the  
25 100,000.

1           As of February 20, management has billed an  
2 additional \$152,402 of the 203,000. Management intends to  
3 bill the balance of that as it assesses and is satisfied  
4 with the documentation supporting those balances.

5           Effective September 1, 2000, Financial Services  
6 Division assumed responsibility for maintaining the  
7 detailed subsidiary records supporting the balances due  
8 from the project owners. And based on the work we've  
9 performed with the Tax Credit Division and the Financial  
10 Services Division, and based on our review of the records  
11 and documentation and the processes that they're using, we  
12 believe the Financial Services Division has the capacity  
13 necessary to fully account for these activities and  
14 balances going forward.

15           And I'll be glad to discuss any of the details  
16 that you'd like to get into.

17           MS. ANDERSON: I have a question, Mr. Gaines.  
18 If memory serves, when we met last month, you indicated  
19 that there was another -- and I think the number was about  
20 40,000 that was about -- you know, potentially about to be  
21 billed.

22           MR. GAINES: Yes, ma'am.

23           MS. ANDERSON: Do you remember that  
24 conversation? Can you give me a status?

25           MR. GAINES: And that would -- at this point is

1 the balance, playing the 203 that we're reporting due  
2 from --

3 MS. ANDERSON: Right.

4 MR. GAINES: -- and the amount recently billed  
5 of 152. That remaining balance still is out there that,  
6 as of my last check-in with Financial Service Division,  
7 they're continuing to look at it. They intend to bill it  
8 as they assess the quality of that documentation  
9 supporting that.

10 We're comfortable in walking away from the  
11 project, because based on our sampling of the detailed  
12 documentation, and fairly good-sized samples, we found the  
13 quality of the data to be there. And of course, Financial  
14 Services Division doesn't want to necessarily rely on our  
15 work. They want to look at it independently before they  
16 bill that.

17 MS. ANDERSON: I would just ask, and I'm not  
18 from an audit perspective, but from just a fiscal,  
19 financial perspective, that we continue to get some  
20 updates on this. It doesn't have to be in the Audit  
21 Committee. It can be a report to the full board, or  
22 something like that, how we're working down those  
23 remaining balances, both the due-to's and the due-from's,  
24 you know, working that sort of, toward a finalish  
25 resolution.

1 MR. GAINES: Yes. I think we'll have a  
2 periodic briefing on that, and include it on the agenda,  
3 and maybe let someone with financial services discuss it.

4 MS. ANDERSON: Thank you.

5 MR. GAINES: Okay. The final agenda item is  
6 behind Tab 6(g), and this is the Status of  
7 Internal/External Audits.

8 For the internal audits, you'll notice the  
9 recent completion of the inspection fee receivable report  
10 that we just discussed. The next couple of audits are in  
11 the planning stage and relate to the collection of other  
12 fees collected by the department that we just approved in  
13 the audit plan. We began our planning on those projects  
14 anticipating approval.

15 The last project is a review over the controls  
16 over tax credit deliverables. And I've classified this as  
17 in the fieldwork reporting phase. This project is a  
18 holdover project from last year, and it was delayed due to  
19 turnover in staff.

20 It's since been kicked back up and gone through  
21 by the newest member of our staff that I'm so pleased to  
22 have with us. And it's sitting on my desk at this point  
23 pending my review.

24 And to the extent I'm satisfied with the  
25 report, we -- I just need to finalize it. I do need to

1 assess if there is any more fieldwork necessary to release  
2 that report. I hope to be able to get that off our desk  
3 by May -- release that in May.

4 The next series of audits relate to projects  
5 conducted by external auditors. The first one is a  
6 quality control review of the internal audit function that  
7 was completed last month and presented to you, or was  
8 presented to you last month.

9 The KPMG audit refers to the federal portion of  
10 the statewide financial single audit which has been  
11 completed. This report was released in February. I  
12 didn't actually receive a copy of the report until since  
13 we posted the board items, so I wasn't prepared to discuss  
14 the results of that report with you today. But we'll do  
15 that, and I'll deliver the text of the report to you  
16 between now and the next meeting.

17 The next audit underway -- or the next audit  
18 listed by the State Auditor's office is one that is  
19 underway. It's a review of the department's Community  
20 Services Block Grant Programs, or program, and the Energy  
21 Assistance Programs, and the Section-8 Program.

22 The department is expecting a final draft  
23 report on this project just any day now. And we expect  
24 that soon. The second State Auditor's Project listed  
25 relates to the legislative summary documents. And these

1 were presented to you at the last board meeting.

2 Finally listed are the Deloitte and Touche  
3 Projects that Mr. Scott just discussed with you. And of  
4 course, those are all completed. Any questions relating  
5 to the status of audits?

6 MS. ANDERSON: I have one question. On the  
7 Manufactured Housing Fee Project that you're getting ready  
8 to undertake, does that sort of fall under our interagency  
9 agreement with the Manufactured Housing board and stuff,  
10 such that David and the division's time and expenses in  
11 that somehow gets charged back over the --

12 Thank you.

13 CHAIRMAN GONZALEZ: Did I see a nod over there?

14 MS. ANDERSON: Penny, the answer -- Bill Dally  
15 shook his head yes, Penny.

16 MR. DALLY: For the record, yes. The --  
17 they -- in our interagency agreement, it covers the --  
18 actually, the governmental and communications area of our  
19 agency. It covers our financial area and payroll, and the  
20 purchasing, those areas.

21 It also covers the internal audit, because  
22 every group is to have an internal auditor. Every agency  
23 is to have an internal auditor. And a lot of the smaller  
24 ones are going to contract out with third parties to do  
25 it.

1           In our particular instance, David had always  
2 been sort of funded, or his group had been funded out of  
3 that group. And so when we did the agreement, there was a  
4 portion of it. Yes.

5           MS. ANDERSON: Okay.

6           MR. GAINES: And so even last year, some of --  
7 he was -- in other words, it's not on an audit basis. He  
8 was charging in part the agreement last year --

9           MS. ANDERSON: Just part of the regular  
10 overhead allocation or something.

11          MR. GAINES: And so he looked at controls and  
12 risks for the above groups, and now he's got one that's  
13 cash receipts. Well, it's there and it's here. So he's  
14 going to do both groups. So yes, it is covered by that  
15 agreement.

16          I mean, in effect, the Housing Division has  
17 been made aware of the project. I have not discussed that  
18 with their board, yet, which I will.

19          CHAIRMAN GONZALEZ: Any other comments? Okay.  
20 We will entertain a motion for adjournment.

21          MS. ANDERSON: I move adjournment.

22          CHAIRMAN GONZALEZ: Second. All those in  
23 favor.

24          MS. ANDERSON: Aye.

25          CHAIRMAN GONZALEZ: The motion carries. Thank

1 you, David.

2 MS. ANDERSON: Thank you, David.

3 (Whereupon, at 9:10 a.m., the audit committee  
4 meeting was concluded.)

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IN RE: Texas Department of Housing and Community  
Affairs Audit Committee Meeting

LOCATION: Austin, Texas

DATE: March 13, 2003

I do hereby certify that the foregoing pages,  
numbers 1 through 29, 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) (Date)

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