

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

AUDIT COMMITTEE MEETING

12:35 p.m.
Tuesday,
July 29, 2003

Waller Creek Office Building
Room 437
507 Sabine
Austin, Texas

COMMITTEE MEMBERS:

VIDAL GONZALEZ, Chairman
ELIZABETH ANDERSON
KENT CONINE

STAFF PRESENT:

EDWINA CARRINGTON, Executive Director
BILL DALLY, Chief of Agency Administration
DAVID GAINES, Director, Audit of Internal Audit
RUTH CEDILLO
BROOKE BOSTON, Director, Multi-Family
Production
SUZANNE PHILLIPS, Director, Portfolio
Management and Compliance
Division
SANDY MAURO
RACHAEL COHEN
EDDIE FARISS, Director, Community Affairs
Division

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1
2 MR. GONZALEZ: We'll call the Audit Committee
3 meeting to order and we'll have our -- prior to our roll
4 call, we do have a letter from Kent Conine.

5 MR. CONINE: Not from me.

6 MR. GONZALEZ: Excuse me, from Mike Jones,
7 recognizing Kent Conine as being appointed as an alternate
8 member of the Audit Committee of the Texas Department of
9 Housing, effective of this date, July 28, 2003.

10 We'll go through the roll call. Vidal
11 Gonzalez, chair, is present. Beth Anderson?

12 MS. ANDERSON: Here.

13 MR. GONZALEZ: Shad Bogany, absent. Kent
14 Conine?

15 MR. CONINE: Here.

16 MR. GONZALEZ: Okay. We have three members
17 present and one absent.

18 Okay. At this point, we'll solicit public
19 comment.

20 (No response.)

21 MR. GONZALEZ: Okay. If there's not any public
22 comment, then we'll go on to action item number 1. That's
23 the presentation, discussion, and possible approval of
24 minutes of the audit committee.

25 MS. ANDERSON: Mr. Chairman, I move approval of

1 the minutes.

2 MR. GONZALEZ: We have a motion. Do we have a
3 second?

4 (No response.)

5 MR. GONZALEZ: All those in favor, aye?

6 (A chorus of ayes.)

7 MR. GONZALEZ: Opposed?

8 MR. CONINE: I'll abstain.

9 MR. GONZALEZ: Motion carries, with Kent
10 abstaining.

11 Now, we'll go to report item number 2 and this
12 is a presentation and discussion of the HOME program. At
13 this point, I'd like to call on Mr. David Gaines.

14 MR. GAINES: Thank you, Chairman. David
15 Gaines, Director of Internal Audit, for the record. Good
16 morning, committee members, Ms. Carrington.

17 MR. CONINE: Good afternoon.

18 MR. GAINES: Good afternoon. Glad you could
19 join us today, Mr. Conine.

20 MR. CONINE: I'm excited to be here, Mr.
21 Gaines.

22 MR. GAINES: If you will, please, behind tab A
23 is the first report item that we have, and this is the
24 status of the HUD prior audit issues relating to the HOME
25 program, including issues relating to the Texas State

1 Affordable Housing Corporation. David Long, the vice
2 president of the organization is here in the audience
3 today, should we have any questions for him, and we
4 appreciate David being here today. Thank you, David.

5 The prior information being provided to you
6 today consists of the last two formal communications
7 between HUD and the department. Since these letters, the
8 department's also visited with HUD in person in Fort Worth
9 and, I believe, over the phone, as of yesterday. Suzanne
10 Phillips, the Director of the Portfolio Management and
11 Compliance Division, is in the audience today -- she's
12 right here next to me today -- and to the extent there's
13 any updates to the written documentation I have, pursuant
14 to a meeting last week and a phone call yesterday, Suzanne
15 will provide that information.

16 So if you will, first, I just want to point out
17 the HUD letters. The first letter in your materials is
18 dated June 20, 2003. This is a response to a department
19 letter dated April 2003. While there's been a series of
20 communications that have transpired since the original
21 audit, November 1, and the date of these letters, I
22 believe these two most recent communications provide a
23 good overview of the current status of the HUD-related
24 issues and the status of the required corrective actions
25 taken to date.

1 The second letter in your book, of course
2 immediately following the HUD letter -- the second letter
3 in the materials is the department's response, dated July
4 15, to the HUD letter you were just referred to. And this
5 includes a summary of the HUD findings, a summary of the
6 required and corrective actions, and the department's
7 updated response to HUD, and I believe the second letter
8 provides the most comprehensive overview of where we're
9 currently at. So that will be the letter I'll be focusing
10 on for the basis of my discussion.

11 There were originally eight issues in the
12 letter. Four of these issues have been reported by HUD as
13 being cleared, based on information provided by the
14 department and assurances also provided by the department,
15 and as I walk through the letter, I'm going to focus my
16 discussions on those findings that are still open.

17 The first finding is a two-part finding and for
18 the sake of simplicity, I'm going to break this out. This
19 is on page 3 of 10 of your letter. Part a of the finding,
20 based on HUD's review in November 2001, concluded that the
21 departments are providing adequate monitoring and
22 oversight of the processing and instruction activities of
23 its recipients -- subrecipients, CHDOs, contractors,
24 developers -- to ensure that they're performing as
25 required by the HOME program rules. The required

1 corrective action requires that the department submit to
2 HUD, for its approval, it's processes and procedures used
3 to monitor and oversee recipients and subrecipients,
4 including subrecipient contracts with lower tiered
5 organizations -- our subrecipients of subrecipients, if
6 you will, subcontractors of the subrecipient.

7 That specified that the process must include a
8 commitment to provide sufficient construction monitoring
9 of housing sites by qualified persons to ensure that the
10 beneficiaries are receiving the program benefits. The
11 results of the monitoring visits are provided to -- as you
12 see me flip through these pages of italics, those are
13 planned comments that I'm dropping for brevity.

14 MS. CARRINGTON: Thank you, David.

15 MR. GAINES: Yes, ma'am. The department's
16 provided HUD the monitoring procedures, processes,
17 referred them to the implementation manual that's provided
18 to the HOME administrators, has referred them to our
19 website that has a library of documents used in our
20 monitoring functions, and this information has been
21 considered by HUD. We further state that the results of
22 the monitoring visits are provided to the recipients and
23 subrecipients, with corrective actions, if applicable.

24 Follow-up visits are conducted to review and
25 assess the efforts of the recipients and whether they've

1 made corrections to the previously noted deficiencies. If
2 the recipient is unable to resolve the outstanding issues,
3 a determination is made related to the action needed to
4 resolve the issue, and there's a discussion regarding the
5 consequences for failure to resolve non-compliance
6 findings and our concerns. The management's response,
7 again, points HUD to the information that's been provided
8 to provide assurance that the department is providing
9 adequate oversight in the monitoring of the subrecipients.

10 Suzanne, is there anything you'd like to add to
11 part a of finding 1?

12 MS. PHILLIPS: Thank you very much. Yes, there
13 is. And before I specifically respond to 1-a, I'd like to
14 provide you with a statement that Katie Worsham provided
15 Ruth and Sandy and myself yesterday, and that based on the
16 response that they've received. And that will be coming
17 to the department in a letter hopefully dated July 31,
18 that HUD believes that TDHCA has made substantial real
19 progress and that we'll really close to closure on all of
20 the findings, and that HUD believes that the department
21 definitely has the capacity to administer the HOME program
22 very well, which is a huge advancement from prior
23 communications where they have stated that they were
24 concerned and would let us know by the 31st whether or not
25 we were going to continue the program.

1 So they are exceptionally pleased with the
2 progress that we've made. As to the finding 1-a, Ms.
3 Worsham has asked that the department provide them some
4 assurances that we are going to comply and follow the
5 procedures that we've laid out for them, and are going to
6 send us five bullet points for some specific assurances
7 that they're looking for. Ms. Worsham has said that she
8 feels safe to say that our assurances that we'll follow
9 these procedures will be adequate to clear up 1-a. Yahoo!

10 MR. GAINES: Part b of the finding, HUD
11 concludes that the department's home buyers assistance,
12 owner-occupied housing assistance, and contract for deed
13 conversion programs are not in compliance with the HOME
14 regulations, since there was insufficient or no
15 documentation in the files of the properties assisted with
16 these program activities are in compliance with the
17 state's housing rehabilitation property standards and code
18 and the local code, when applicable.

19 HUD's corrective action for the department is
20 to submit, to HUD, for approval, the department's
21 processes and procedures for carrying out inspections of
22 construction activities, including at a minimum that
23 certain actions be performed by fully documented project
24 files, by qualified persons. Management referred to the
25 measures described in finding 1-a, those polices and

1 procedures previously conveyed for the processes that the
2 department has in place to ensure that the inspection
3 activities are accomplished by qualified persons, and that
4 assisting housing units meet the required standards.

5 Management elaborated to that response, in
6 regard to initial, interim, and final inspections, in
7 compliance with procurement procedures, which were
8 reviewed by the department in connection with this
9 monitoring function. Management also spoke of a new
10 monitoring process that includes random selection of
11 recipients for the sample recipients. The department
12 requests that inspector qualification certifications, a
13 request for bid packages and procurement procedure
14 documentation, be submitted to the department for review
15 as a method of quality assurance.

16 Pursuant to a HUD letter dated February 2003,
17 that's not in your materials, the department also provided
18 a list of returned surveys regarding a simplified housing
19 checklist that was sent to 1,112 households as directed by
20 HUD, to determine if the house met required standards at
21 the time the activity was completed, when the HOME funds
22 were spent. For each household that was submitting that
23 claim, that there house was not in compliance, the
24 department is to conduct an onsite inspection, by
25 qualified person, to review the claim, using any available

1 documentation that appears reasonable.

2 MS. PHILLIPS: On item 1-B, HUD has gotten
3 assurances that the processes that we've laid out, and
4 procedures that we have laid out, are adequate. The
5 question that they put to us is -- when would we be able
6 to complete the inspections. After discussion for quite a
7 few -- 15 minutes, 20 minute conversation -- the -- HUD
8 has agreed to provide the department and TSAHC, a six
9 month window to ascertain the level of compliance with the
10 individual houses that responded to the survey, and will
11 leave it to the department to determine whether repairs
12 should be done, or whether TSAHC should refund the dollars
13 associated with the individual subsidies.

14 So the six month window that they gave us was
15 very generous. They understood the obstacles that we had
16 encountered in completing the inspections and the level of
17 cooperation that we've gotten from the people whose homes
18 we were dealing with. So we feel real comfortable that
19 1-b's very well down the line and that we'll be able to
20 clear this adequately within that time frame.

21 MR. GAINES: To conclude the status of 1-B, of
22 the 1,100 plus surveys sent, the department's received 212
23 responses. In review of those, it appears that in excess
24 of 60 percent of the recipients didn't have any
25 deficiencies that they identified. Of the remaining, it

1 appears that quite a few of the deficiencies seems to be
2 minor infractions.

3 MS. PHILLIPS: For instance, a minor would be
4 that a ground fault, a GFI, needed to be installed in a
5 bathroom, or something like that. So they're relatively
6 minor and TSAHC believes they can fix most of these pretty
7 quickly.

8 MS. ANDERSON: May I ask a question to clarify?

9 MR. GONZALEZ: Yes.

10 MS. ANDERSON: So of the 212, if 60 percent of
11 them had not deficiencies, then 40 percent would be about
12 80, somewhere between 80 and 85 --

13 MS. PHILLIPS: Yes, ma'am.

14 MS. ANDERSON: -- that need follow-up action.
15 Is that about the right --

16 MS. PHILLIPS: And the follow-up action may be
17 as simple as to contact them to make sure that the
18 warranty work that was done --

19 MS. ANDERSON: Right.

20 MS. PHILLIPS: -- was done well and that if
21 there's repairs that need to be completed, that TSAHC
22 completes those repairs. In most of the instances, the
23 people responded and were very happy with the results, or
24 if they had problems, that they were quickly resolved at
25 closing or prior to closing. So we think there's probably

1 a percentage of that 80 that TSAHC will need to address.

2 MS. ANDERSON: Okay.

3 MS. PHILLIPS: A small percentage of the 80.

4 MR. GONZALEZ: Excuse me. David, we've got
5 real good documentation on some of this. So in the
6 essence of time, maybe if we can just touch on the major
7 points and the major findings --

8 MR. GAINES: Okay.

9 MR. GONZALEZ: -- just so that we may be here
10 all night.

11 MR. GAINES: Sure. I've got -- the next
12 finding, finding number 2 -- it's on page 6 of 10 --
13 relates to a third party lender, HOME, Incorporated, that
14 contracted with the Texas State Affordable Housing
15 Corporation. The issue relates to an instance where the
16 contractor received payment for uncompleted work. There
17 was an additional 27 households that received services
18 from HOME, Inc. HUD is wanting the department to gain
19 satisfaction that these recipients were adequately
20 satisfied.

21 MS. PHILLIPS: On that particular one, we've
22 narrowed the group down considerably and, basically, we've
23 gotten an agreement with HUD and have transmitted that to
24 TSAHC, that the funds will either be repaid on the
25 individual houses that don't meet the appropriate

1 standards or the repairs will be done.

2 MS. ANDERSON: And how many active units are we
3 talking about, if it's some subset of 27?

4 MR. GAINES: Of the information we have to
5 date, the department's reported that eight of 27 units
6 have been inspected to date, that two of the home buyers
7 indicated they didn't have any problems with their homes;
8 and of the remaining 17 beneficiaries, there's been
9 numerous attempts to contact those beneficiaries.

10 MS. PHILLIPS: And of those 17, we've completed
11 four or five more.

12 MS. MAURO: There's only 13.

13 MS. CARRINGTON: Thirteen left?

14 MS. MAURO: Uh-huh.

15 MS. CARRINGTON: Thank you, Sandy.

16 MR. GAINES: So that's progress since July 15.

17 MS. ANDERSON: Okay. So we started with 27 and
18 we've got 13 we're still -- and of the 14, what action --
19 I mean, can you tell me what happened on the 14?

20 MS. PHILLIPS: In some of the instances, the
21 condition of the homes went from poor to deplorable; and
22 my expectation is that we'll disallow the cost associated
23 with those homes and ask for repayment. As a separate
24 matter, the department will consider how best to assist
25 those families.

1 MS. ANDERSON: All right.

2 MS. PHILLIPS: We've discussed with HUD that
3 maybe the best type of assistance to those families won't
4 be HOME funds. It might be boot-strap. It might be
5 another program that will individually assess and pass to
6 production, or to any of our subrecipients in those areas
7 that can assist these families that really need some help
8 with those few houses that are left.

9 MS. ANDERSON: I've gotten some very troubling,
10 sad letters.

11 MS. PHILLIPS: Oh, and I totally agree.

12 MS. ANDERSON: I'm sure you read them every
13 day --

14 MS. PHILLIPS: Yes.

15 MS. ANDERSON: -- but it's very troubling.

16 MS. PHILLIPS: Yes, ma'am.

17 MR. CONINE: Can you explain the relationship,
18 if there is one, between TSAHC and HOME, Inc.?

19 MR. GAINES: There was a contracted
20 relationship between --

21 MS. PHILLIPS: HOME, Inc., was a Title I
22 provider and they were going to do renovations of the
23 homes. TSAHC was doing an interest buy-down, down payment
24 assistance type of loan with these contractors. HOME,
25 Inc., went bankrupt in the middle of some of the

1 construction and the homes were not finished. Some were
2 finished in a very, very poor manner. Some were not
3 addressed. There were some bounced checks and it was a
4 pretty bad situation.

5 MR. CONINE: Okay.

6 MR. GAINES: Finding 3's been resolved, so if
7 you'll turn to finding 4, page 8 of 10. It lists 14
8 contract for deed conversions, identified by HUD, of which
9 three were vacant lots. The department has reimbursed HUD
10 for these three vacant lots. Of the remaining eleven
11 properties, HUD wants the department to assess whether
12 those property owners, home owners, have been satisfied,
13 again, and is requiring that the department conduct an
14 inspection of the eleven remaining houses identified.

15 To date, we've -- well, as of July 15, we've
16 completed one inspection and four of the beneficiaries
17 were contacted that did not identify any problems with
18 their homes, so a total of five contacted, four were
19 satisfied. The one inspection that we did do did not pass
20 inspection. Accordingly, the department's concluded that
21 this is an example where the cost would be questioned and
22 refund will be requested from TSAHC.

23 MS. PHILLIPS: This was a \$2 million contract
24 that was terminated after about \$150,000 were expended on
25 the contract. There was a basic structural problem with

1 the program in that there was down payment assistance and
2 no renovation of the homes, and the HOME program requires
3 that anytime funds are invested in the project, or in a
4 house, that the house be brought up to a certain standard.

5 I think there's six left out of that group that we'll
6 disallow, or question the costs to a repayment of money
7 back from TSAHC, or an opportunity to take those houses
8 back up to a good standard.

9 MR. CONINE: Were there more than 14
10 properties -- in that particular grant, the \$2 million
11 grant and \$150,000 expended, were there more than 14
12 properties that TSAHC had gone out to do contract for deed
13 or just only 14?

14 MS. PHILLIPS: Only 14.

15 MR. CONINE: Okay.

16 MS. PHILLIPS: And of the -- there were three
17 vacant lots that they paid the money back on; a couple of
18 them, we've inspected, or the people have said that they
19 were okay, and the remaining ones are the ones that will
20 either have to be brought up or repaid.

21 And again, the decision would have to be made
22 as a separate matter, and we've had to work really hard
23 with HUD to get to this point, that we would clear the
24 finding; and then after that finding was cleared,
25 associated with the amount of subsidy, either repaid or

1 the house brought up to a level, that then the department
2 or TSAHC would determine how to assist those families that
3 were left with substandard homes, whether we would use
4 state funds or fed funds, but --

5 MS. ANDERSON: So we clear the HUD finding
6 first?

7 MS. PHILLIPS: Yes, ma'am. And by either
8 paying the money back or TSAHC bringing the houses up to
9 standard, and then, as a separate matter, dealing with the
10 individuals that were served. So, again, we might not
11 necessarily -- TSAHC might not necessarily -- use HUD
12 funds to do that. So it would be up to us to determine
13 how to assist those families after the findings cleared.

14 MR. CONINE: What's TSAHC saying about all this
15 nice stuff?

16 MS. PHILLIPS: They're being very cooperative.

17 MR. CONINE: Okay. I would imagine so. All
18 right. So the process is here to get the HUD thing done
19 first, get HUD taken care of, then, between us and TSAHC,
20 get the families taken care of, and then, ultimately, us
21 and TSAHC will square up?

22 MS. PHILLIPS: Yes, sir, because, for instance,
23 there might be \$1,500 invested in one of the houses and
24 that down payment money would be paid back to HUD. They
25 would be finished, and then we can deal with the

1 beneficiaries.

2 MS. ANDERSON: I understand that's the way it's
3 envisioned to go. What I don't understand -- maybe David
4 can help me understand a little better -- why that's the
5 sequence? Why, when, you know, we have a case for our
6 subrecipient, you know, either through one of their
7 subcontractors or whatever, failed to act, didn't follow
8 program rules, I don't understand why we're settling with
9 HUD before we're settling with TSAHC, David?

10 MS. PHILLIPS: Well, actually, the way that we
11 would be settling with HUD is by settling with TSAHC.

12 MS. ANDERSON: David?

13 MR. GAINES: And the department would work with
14 TSAHC, or maybe vice versa, to try to satisfy, where they
15 could, on a particular property. In instances where they
16 weren't able to bring that up to standard, for whatever
17 reason, we would question the costs; we'd be reimbursed to
18 the department; HUD would be satisfied, and then, as a
19 separate matter, determine how to best satisfy that home
20 owner so they aren't living in unacceptable conditions.

21 MS. ANDERSON: Right.

22 MR. GAINES: And I believe, talking with
23 management, that strategy came about because we felt that
24 was the easiest way to satisfy HUD's current claims. In
25 essence, it's going to be easier to question those costs,

1 recover them, and then determine how to best satisfy that
2 home owner.

3 MS. ANDERSON: Okay.

4 MR. CONINE: Did we forgive all eleven
5 properties home owners' debt to the state? Is that what
6 I'm reading here in this letter?

7 MS. PHILLIPS: Yes, that's the ultimate --

8 MR. CONINE: So any of the 150 grand, we just
9 say, forget it?

10 MS. PHILLIPS: To TSAHC?

11 MR. CONINE: Yes.

12 MS. PHILLIPS: No, sir, absolutely not. That
13 is any debt that the home owner may have to the state.

14 MR. CONINE: Right.

15 MS. PHILLIPS: So they would not owe us back
16 for work that was not sufficient, or for down payment
17 assistance that was provided to a house that was not of a
18 good quality, but, no, that does not mean that we would
19 forgive that money to TSAHC.

20 MR. CONINE: It sounds like we were kind of for
21 14, but -- okay.

22 MR. GAINES: Findings five, six, and seven have
23 been cleared by HUD based on various assurances provided
24 by the department and/or information that the department's
25 provided. Finding number eight is on page 9 of 10 and

1 this is a two-part finding also.

2 The first part relates to the lack of
3 documentation that newly constructed single family and
4 multi-family units are in compliance with the current
5 edition of the model energy code. Of the 269 units in
6 question, the department has notified HUD that 154 have
7 been certified as in compliance, leaving a remaining
8 balance of 111.

9 Although the department's tried to encourage
10 HUD to accept that, along with standards for construction
11 that are imposed on the developers, that should be
12 sufficient to satisfy that claim. HUD continues to insist
13 that the remaining 115 units be certified as in
14 compliance. I believe this is an area that continues to
15 be a huge challenge for the department and I'm not sure we
16 have a strategy in place on how to deal with it.

17 MS. PHILLIPS: There's 115 houses that the
18 files do not contain a statutorily required document that
19 states that the houses were constructed using energy
20 efficient appliances, windows, doors, that the R factors
21 involved in the building weren't documented. Because this
22 is a statutorily required document, HUD is stating that
23 that document has to be in the file. In other words, when
24 a house was constructed, a new constructed house, there
25 has to be a piece of paper that certifies that it is

1 energy efficient, period. So I know TSAHC has spent the
2 last six months to a year documenting the 100 and --

3 MR. GAINES: 54.

4 MS. PHILLIPS: -- 50 some odd houses, but the
5 remaining 111 they've been unable to do. HUD has given
6 the department a six month window to complete gathering
7 those certifications, and to the extent that TSAHC is
8 unable to document and pull those certifications in, the
9 cost would be disallowed, associated with those units.

10 MS. ANDERSON: Ms. Phillips, do you have a
11 sense of what the magnitude of that potential liability
12 would be?

13 MS. PHILLIPS: Up to somewhere between \$300,000
14 and \$500,000, we believe. We're going to have to go to
15 the individual houses that haven't been documented and see
16 what federal subsidy went into the individual houses, and
17 just run a total. I tried to do a mental calculation
18 yesterday and came up with 300. Someone else did the
19 calculation and came up to 500. So, you know, we'd just
20 have to do that math on it.

21 MS. ANDERSON: Okay.

22 MR. CONINE: You're saying these are individual
23 single family homes and not an apartment complex in
24 Weslaco?

25 MS. PHILLIPS: Yes. That's 8-b.

1 MR. CONINE: That's b? Okay.

2 MS. PHILLIPS: 8-a --

3 MR. CONINE: So these are scattered sites, all
4 over the state?

5 MS. PHILLIPS: Yes, sir.

6 MR. CONINE: And if we're lucky, they might
7 know who the builder was?

8 MS. PHILLIPS: Most of them are located in the
9 Colonia region in the Valley. I think we may have some
10 that are in the Waco area, outside of that area. So it is
11 pretty much a statewide. They're individually
12 constructed, multiple builders, multiple inspectors. I
13 know, in one case, there was an inspector who did a large
14 number who's passed away and his wife's disposed of all of
15 his records. So the records of his inspection and of the
16 plans and specs for those houses are not available.

17 MR. CONINE: How many years back are we going
18 here?

19 MS. PHILLIPS: 1998.

20 MS. ANDERSON: So is one way to get
21 certification done to reinspect?

22 MS. PHILLIPS: Well, no, because you'd have to
23 go in and tear out dry wall to see what kind of --

24 MS. ANDERSON: What's in there?

25 MS. PHILLIPS: Yes. So it's --

1 MS. ANDERSON: Okay.

2 MS. PHILLIPS: It's very difficult.

3 MR. CONINE: You could, but it would be
4 laborious.

5 MS. ANDERSON: It'd make a big mess.

6 MR. CONINE: Right, it'd make a mess.

7 MS. PHILLIPS: And in many instances, the home
8 owners have not exhibited an enthusiasm for participating
9 in inspections and surveys and things like that.

10 MR. CONINE: Can't imagine that.

11 MS. PHILLIPS: So when these are newly
12 constructed homes, some of them -- and reportedly from the
13 HUD November inspections, the homes look good. The people
14 were satisfied. It's that piece of paper that's
15 statutorily required that certifies that it meets the
16 energy efficiency requirement.

17 MR. CONINE: Are most of them in municipalities
18 or are they in counties?

19 MR. PHILLIPS: It's across the board.

20 MR. CONINE: All over the map? Because a
21 municipality will have some sort of record on the
22 inspection process?

23 MS. PHILLIPS: And I know our staff has been on
24 the phone and called everybody that they could consider to
25 call, been on websites, individual builders. As a

1 department, we've exhausted our remedy and any of these
2 findings, any additional work that has to be done related
3 to the findings will be conducted by TSAHC, not the
4 department.

5 MR. CONINE: And what did they say about that?

6 MS. PHILLIPS: They're very cooperative.

7 MR. CONINE: Okay.

8 MS. ANDERSON: And HUD has given us, verbally
9 or whatever, a six month window to try to sort out the
10 rest of these 115 --

11 MS. PHILLIPS: Yes, ma'am.

12 MS. ANDERSON: -- or 111, whatever? So that
13 between now and six months from now, we will get a final
14 accounting of what additional certifications were able to
15 be done, and then the others would be subject to repayment
16 to the department?

17 MS. PHILLIPS: Yes, ma'am. And we'll have that
18 official notice on July 31.

19 MS. ANDERSON: Okay.

20 MS. PHILLIPS: It's been a long, hard --

21 MR. CONINE: So we're paying twice for
22 something?

23 MS. PHILLIPS: It's been a difficult journey,
24 and I have to commend the staff that's been working on
25 this. Lucy Trevino, Ralph Hendrickson -- would you all

1 stand up so I don't forget anybody's names, the PMC team?

2 (No response.)

3 MS. PHILLIPS: Lucy, Ralph, Betty, Ann,
4 Sandy --

5 MS. CARRINGTON: Thank you.

6 MS. PHILLIPS: -- have really -- is that
7 everybody? And Pam -- in the past six months, we've
8 probably put in -- not probably, put in hundreds and
9 hundreds of hours clearing this and getting as far as -- I
10 know I was kind of bummed out when they didn't clear all
11 of the findings, but I feel confident that we'll have them
12 cleared very soon, and that the number of resources and
13 the time that we will spend in this next six month period
14 is going to be limited.

15 Most of this will be coming out of TSAHC's shop
16 and that we'll be looking for assurances from TSAHC on all
17 of this. To the extent that they elect to do repairs
18 instead of repay, we'll have people in the field there,
19 finding that the work's going to be done and that it's
20 done correctly. TSAHC will probably want to look at some
21 of the surveys and basically make the decision,
22 economically, whether it would be in their interest to
23 repay or to do the work.

24 Bottom line, for those folks that the work is
25 not brought up to standard, then the department is going

1 to have to do some real serious thinking about how best to
2 do it. Internally, we've been talking about making the
3 list and making them available to subrecipients who have
4 our funds in those areas, suggest that they be available
5 and put on waiting lists, or that TSAHC work with them on
6 their houses.

7 Once we get the HUD findings cleared, we will
8 focus all of our attention on making sure that the housing
9 of these recipients is safe, sanitary.

10 MR. GAINES: The second portion of the finding
11 relates to the multi-family property Mr. Conine spoke of.

12 It relates to not being in compliance with Section 504,
13 handicap accessibility requirements. For the sake of
14 brevity, I believe, I heard that this issue was cleared by
15 HUD yesterday?

16 MS. PHILLIPS: Yes, and part of the issue that
17 was cleared was also -- was several months ago -- was that
18 we're going to independently inspect the new construction
19 HOME projects that have been completed in the state since
20 1998. There's an RFP in the marketplace on this very day,
21 and we'll be awarding that within the next month, month
22 and a half. So we'll be out in the communities,
23 inspecting all of the HUD funded multi-family, to assure
24 that they were accessible under the 504, and to the extent
25 that they're not, we'll have corrective actions that will

1 bring those units into compliance.

2 MS. ANDERSON: Mr. Chairman, since we're kind
3 of through the findings on this -- and I want to credit
4 Suzanne and her team members that worked very hard to
5 clear these -- and also, I was wondering if Mr. Long --
6 who I appreciate him being here today -- wonder if Mr.
7 Long had any comments that he wanted to make on behalf of
8 TSAHC.

9 MR. LONG: I'd be more than happy to come up
10 and give you some comments, if you would like.

11 For the record, I guess, I ought to come up and
12 announce who I am. My name's David Long and I'm vice
13 president with Texas State Affordable Housing Corporation.

14 First, let me just state, I thank David and
15 Suzanne and all her staff, because they have been
16 exceptional. I kind of walked into this thing at TSAHC
17 and said, you have some knowledge of HOME, kind of run
18 with it. And so I've been doing what I can to get it
19 done.

20 We have been working as a team. They've been
21 exceptional in the efforts and Suzanne does not
22 underestimate her hours and staff time that they've put
23 in. TSAHC has been doing the same thing, trying to get
24 that done.

25 Our intentions would obviously be to continue

1 working with TDHCA staff, as well as our resources
2 internally, to the best of our ability, to get this stuff
3 resolved. We understand that HUD has a pretty big hammer
4 and we realize that that hammer doesn't -- we don't want
5 it to come down on us or on you all, but we do believe
6 there is a reasonableness test that we need to kind of
7 assess here, and we're trying to get through all that,
8 too.

9 As Suzanne said, some of this stuff is minor.
10 The inspections that were done, you know, GFI plug --
11 obviously, we think we can manage to get that resolved.
12 As Suzanne said before, when we go out and look at a
13 reasonableness test. And the reasonableness test says,
14 the property's going to cost us x number of dollars to
15 repair, it might be beneficial just to repay the state,
16 and let the state then work with us to do whatever we need
17 to do to get the home up to speed.

18 Again, I appreciate you all's patience. We
19 will continue to work as hard as we can to get you all in
20 a position that is obviously satisfactory not only to
21 TDHCA, who we're supposed to respond to, but also so that
22 you all can respond to HUD in a timely manner, as well as
23 sufficient manner, so that they're comfortable in clearing
24 you all's findings.

25 I'll be more than happy to answer any

1 questions. As they know, I'm available all the time. If
2 you have any questions, feel free to call me, and I'll be
3 more than happy to continue working with you all along the
4 way to kind of make sure we all get down the road at the
5 same time.

6 I don't know if that answers your question, Ms.
7 Anderson.

8 MS. ANDERSON: Yes,

9 MR. LONG: Okay.

10 MS. ANDERSON: I appreciate your comments --

11 MR. LONG: You bet.

12 MS. ANDERSON: -- and I've heard from people on
13 the staff very nice things about you personally --

14 MR. LONG: Oh, well, thank you.

15 MS. ANDERSON: -- and I appreciate you
16 working --

17 MR. CONINE: Don't believe everything you hear.

18 MS. ANDERSON: -- with them to continue to --

19 MR. LONG: I was supposed to see you somewhere
20 else today so --

21 MS. ANDERSON: That's why he's grumpy.

22 MR. LONG: I know. He told me. He already
23 forewarned me not to get on his bad side.

24 MS. ANDERSON: Thank you.

25 MR. LONG: Thank you very much.

1 MR. GONZALEZ: Thank you, Mr. Long.

2 MR. CONINE: Whoa, hold on. Don't leave yet,
3 David.

4 MR. LONG: You weren't kidding.

5 MR. CONINE: I know it's not personally your
6 fault here, but obviously there's some management
7 organizational problems that have occurred, or weaknesses
8 that have occurred, within TSAHC here that have caused HUD
9 to write us this letter and go through the whole process.
10 Is there corrective action being taken in TSAHC now for
11 the future?

12 MR. LONG: The answer to that question is yes.
13 There have been staff changes. We, obviously, are not
14 allowed to apply for any new HOME funds and have not. We
15 have been making whatever efforts internally to ensure
16 that we are following through. Again, with no new HOME
17 funds coming in, whatever additional steps we take right
18 now are just to remedy the problems that we have based on
19 these existing contracts.

20 The internal mechanism that created these
21 problems, if you will, that actually was done through a
22 mortgage subdivision of the corporation called Texas Star
23 Mortgage, and that entity, really, is no longer
24 functioning at all. So, to answer your question, I guess,
25 the best way to say what was done is to say, yes, it was

1 eliminated.

2 MR. CONINE: When was the last batch of HOME
3 funds you received, two years ago?

4 MR. LONG: Two or three years ago. I don't
5 know the exact date of receipt, but the last one we
6 actually received, we actually received the award and then
7 it was declined, and I have a letter of correspondence
8 from TDHCA, in files, showing that one was never even
9 funded.

10 And then, we've had the one on the contract for
11 deed that was funded initially for \$2 million. No program
12 income, from the standpoint of admin funds, were drawn on
13 it, only the contract funds that staff alluded to, and
14 then it was decided, I think by both parties, that that
15 was probably not the best project to be working on, and it
16 has since been terminated.

17 The other ones were drawn down, as far as I
18 know, to the extent that they could be, and the last award
19 we've received is probably 2000 -- would be the best of my
20 guess. I think there was a 2000 contract.

21 MR. CONINE: And did HUD go through all the
22 HOME fund awards that you guys did, or Texas Star did, or
23 did they just do a sample?

24 MR. LONG: They did a sampling and they did a
25 field sampling. To the best of my knowledge, they've

1 never actually been to our office to look at our files,
2 which is a concern of mine, but I don't think that really
3 resolves the findings. The findings still stand.

4 MR. CONINE: Is TSAHC kind of looking at the
5 other stuff that HUD didn't look at to see if there may be
6 some similar problems?

7 MR. LONG: Yes, we've gone through. In fact,
8 like when we did the model energy code stuff, we went
9 through and looked at all the files, to make sure whether
10 or not all the files had the information that was
11 required, all the 200 and some odd files that were there.

12 And we came up with a list of 115 that we didn't have
13 some form of documentation on. That's where we're at now.

14 The ones that we didn't come up, that we had
15 information on, we went ahead and provided that to the
16 department, and then we've gone out and we've done what
17 they call certification affidavits, to ensure that we --
18 for those inspectors we were able to contract, we asked
19 them to go back and recertify their information.

20 And what was supposed to have been done -- and
21 there's, like, a three page inspection form they were
22 supposed to have filled out. And one of the sections on
23 that is two boxes, and one of the boxes said it met model
24 energy code or it didn't meet model energy code, and what
25 we're talking about is one of the boxes not being checked,

1 either box. It's not that they checked it not compliant,
2 that they just didn't check a box.

3 MR. CONINE: Right.

4 MR. LONG: And so we've gone back and asked
5 them to certify that through an affidavit, and we've
6 received x number of affidavits back to get us to the 215
7 that we're at. So, again, Mr. Conine, my comment would be
8 that we're doing everything we can internally to make
9 ensure it doesn't happen further and to ensure that we'll
10 be able to remedy whatever else we have outstanding.

11 MR. CONINE: Okay. Thanks.

12 MR. LONG: Uh-huh.

13 MR. GONZALEZ: Thank you, Mr. Long.

14 MR. LONG: Thank you.

15 MR. GONZALEZ: David?

16 MR. GAINES: Item 2-b.

17 (Pause.)

18 MR. GAINES: The agenda actually has a typo on
19 it. It says 2002 annual review. This is the 2003 annual
20 review, if you want to pencil in that correction.

21 If you'll turn to item 2-b, this is an annual
22 review of the department's performance of duties, defined
23 by memorandum of understanding between the Resolution
24 Trust Corporation and TDHCA, for the department to act as
25 RTC's monitoring and compliance agent, ensuring that

1 owners of the affordable housing disposition program
2 properties satisfy the commitments as defined in the land
3 use restriction agreements.

4 The review considered staffing, their knowledge
5 regarding the RTC and FDIC affordable housing monitoring
6 compliance requirements, policy implementation and quality
7 control, enforcement, record management, and training for
8 owners and property managers. There's one relatively
9 insignificant recommendation that resulted from this
10 review that I'm not going to even bring up, unless you'd
11 are for me to.

12 If you will, turn to the third page of the
13 report. I'd just like to read into the record the overall
14 conclusions, which might be refreshing after the last
15 agenda item.

16 "TDHCA continues to produce exceptional work
17 product. They carry out their obligations under the MOU,
18 ensuring that the owners of the HDP properties meet their
19 commitments as defined in the LURAs. Management's
20 philosophy of maintaining affordable housing for lower
21 income families across the state of Texas is evidenced in
22 the manner that they carry out their monitoring efforts.
23 TDHCA continues to be the benchmark that all other
24 monitoring agencies are compared."

25 The credit for this positive report goes to the

1 staffing of the portfolio management and compliance
2 division.

3 MR. GONZALEZ: All right.

4 MR. GAINES: Item 2-c -- this relates to an
5 onsite monitoring report review of the department's
6 administration of the State Energy Conservation Office, or
7 SECO contract. The monitoring visit was conducted by
8 SECO, which is an office of the Comptroller of Public
9 Accounts. The date of the monitoring review was May 13
10 and considered the initial contract period beginning May
11 15, '98 and extensions to that contract through August 31,
12 2003.

13 The purpose of the visit was to determine the
14 department's effectiveness in accomplishing the prescribed
15 objectives, as stated in the contract loan agreement for
16 programs funded by SECO, and focused on project
17 administration, financial administration, and equal
18 employment opportunity.

19 SECO was originally administered through the
20 Housing Trust Fund section of the department. The program
21 provides incremental funding to selected projects through
22 competitive grants to create energy efficiency in low
23 income housing units, by using SECO funding for energy
24 efficient measures, and the SECO dollars require a dollar
25 for dollar match.

1 Based on the results of the monitoring review,
2 the Comptroller's office issued a letter to the
3 department, dated June 2003, June 25, and concluded that
4 the department's administrative attention to the
5 contractual obligations has been less than satisfactory.
6 The monitoring report and the Comptroller-SECO letter
7 report stated that status reports have not been provided
8 to SECO in a timely fashion, that the reports that have
9 been received did not include the information required by
10 the contract, and the program manager has changed without
11 the Comptroller and SECO approval, as stated in the
12 contract. It also concluded, because of changes in the
13 program managers and administrators, and the lack of
14 familiarity and attention to the program, that
15 communication has been inadequate.

16 The department was informed that unless these
17 deficiencies are immediately addressed, the Comptroller's
18 office and SECO would continue to withhold future payments
19 for invoices and reimbursements for the department and any
20 future funding under the program. The department
21 responded to the Comptroller's letter, by a letter dated
22 July 2, 2003, that the department has recently undergone
23 reorganization which was effective March 2003, and that
24 the Housing Trust Fund was affected by the reorganization.

25 Later, it elaborated and said that the SECO

1 funds are now administered by specialized functional areas
2 within the department to provide better assurance that the
3 department is delivering its programs in a most efficient
4 and effective manner. The letter went on and addressed
5 each of the issues brought up by the monitoring report in
6 the Comptroller letter, and management believes that their
7 response to the letter should satisfy the concerns of the
8 Comptroller's office. I'll be glad to discuss each of
9 those, if you'd care for me to.

10 The letter further discussed the departure of
11 the manager of the Housing Trust Fund, which was a cause
12 of concern for the SECO staff, and just assured the
13 department that the reorganization and the functional
14 areas of the department are committed to provide an
15 appropriate administration of the SECO contract.

16 Yes, ma'am?

17 MR. GONZALEZ: Yes, ma'am?

18 MS. ANDERSON: A couple questions. In that
19 correspondence -- I think you said it's dated July 1?

20 MR. GAINES: Yes, ma'am.

21 MS. ANDERSON: Okay. And the SECO site visit
22 was May 14?

23 MR. GAINES: 13, yes, ma'am.

24 MS. ANDERSON: Okay. So we had -- am I missing
25 something? Or have we just failed to notify SECO, a

1 funding source, that we have reorganized and that their
2 contact person had changed? Or did we notify them --

3 MR. GAINES: I believe we actually -- that was
4 one of the issues specifically addressed, and the
5 department informed the Comptroller's office on May 2, and
6 explained -- well, the director left on May 2. Excuse me.

7 MS. ANDERSON: Okay.

8 MR. GAINES: And the contractor explained that
9 on May 16, two weeks later, a letter was sent notifying
10 SECO management of the change in project directors. The
11 letter --

12 MS. ANDERSON: And in between those times, it
13 just so happened that we had a monitoring visit?

14 MR. GAINES: I'm sorry?

15 MS. ANDERSON: In between the time that the
16 director left and the time we made notification, the
17 monitoring visit just happened to be between there?

18 MR. GAINES: (No response.)

19 MS. ANDERSON: Okay. In this letter of July
20 1 -- and I would like a copy of the letter.

21 MR. GAINES: I have a copy of that.

22 MS. ANDERSON: Great. Who do we indicate in
23 the letter is the accountable person from this agency for
24 the relationship in fiduciary responsibility and
25 everything with SECO?

1 MR. GAINES: The contact person is the Director
2 of Multi-family Production, Brooke Boston.

3 MS. ANDERSON: Okay.

4 MR. CONINE: Could we, like, maybe hear from
5 Brooke on how that dialogue is now going with the SECO
6 staff and where we are, just independently?

7 MS. BOSTON: Sure. Since the letter was --
8 since we sent our response letter, we have been contacted
9 by them and are having a meeting next Monday with the
10 Comptroller's office, the Governor's office, and then some
11 TDHCA staff. We're not quite sure exactly what they need
12 to discuss or what needs to be addressed.

13 We feel like we've satisfied all of their
14 criteria from their letter. A couple items that weren't
15 in their letter, but were part of a conference call that
16 we had with them, also covered the handling of the 2003
17 SECO application. There, apparently, had been a
18 miscommunication between our staff and theirs.

19 We believed that they did not need to review
20 the applications until after awards had been made, and
21 then they could review the plans and specs, which we don't
22 even require at this stage. And they, subsequently told
23 us, in this conference call, no, they did want to see all
24 the 2003 applications. So we, immediately, sent them all
25 over, and because of some staff holdups that they have,

1 they aren't even going to be able to review them until the
2 end of August.

3 So that actually will come up tomorrow, but the
4 SECO awards for HTF are not going to be recommended until
5 September, probably, at the earliest. An additional
6 reason for that is that at this point, we do not have a
7 contract with them for funds for us to commit any money
8 on. The two reasons together keep us from moving forward
9 with an allocation.

10 The individual on my staff who's been working
11 on this, Emily Weilbaeher, has been very accommodating
12 with them, answers all their questions. You know, I think
13 their comment saying that they haven't received responsive
14 calls from us were pre-reorg. So, you know, I think we're
15 doing everything we can to try and work with them on both
16 the existing contract, as well as trying to get an
17 amendment to it so that we can move forward with the funds
18 for allocations.

19 MR. CONINE: So in the last six weeks, your gut
20 feel is things are heading in the right direction?

21 MS. BOSTON: Yes.

22 MR. CONINE: Okay.

23 MS. ANDERSON: Brooke, I just lost my train of
24 thought here. Give me, like, five seconds.

25 (Pause.)

1 MS. ANDERSON: Oh, I know what it was. So the
2 2003 -- now, they've asked to see the applications and
3 we've given it? Is that sort of a clean policy change
4 from how they treated these applications in prior years?

5 MS. BOSTON: I don't know. Unfortunately, the
6 operation of the SECO funds up until the reorg didn't have
7 any kind of an SOP or manual and the SECO staff also seems
8 to be a little unclear about a guide or a process that we
9 needed to follow. So as soon as the reorg took place,
10 Emily, on my staff, immediately got in touch with their
11 staff member in charge of reviews and, you know, said,
12 what do you need to do, whatever you want is what we'll
13 do.

14 MS. ANDERSON: What did our prior year contract
15 say about them getting to review the applications?

16 MS. BOSTON: The contracts are pretty silent on
17 it.

18 MS. ANDERSON: Okay. Do we have a draft
19 contract for 2003 yet?

20 MS. BOSTON: No. It would just be an amendment
21 to the contract.

22 MS. ANDERSON: Okay. So --

23 MS. BOSTON: And they're real brief and we
24 don't have one right now.

25 MS. ANDERSON: -- would it be in our interest,

1 in negotiating that contract, to try to not have it be so
2 murky? What I think I hear you telling me is -- we have
3 some SECO grants that tax credit deals are tied to, that
4 we're supposed to vote on tomorrow, and I don't know if
5 any of those deals are so dependent on that SECO funding
6 that they're not financially feasible without the funding,
7 and we, theoretically, ought to be going to the next deal
8 on the list.

9 MS. BOSTON: There are -- I want to say there's
10 two tax credit deals -- and Tom can probably speak to that
11 a little bit more accurately than I could -- but I want to
12 say that there are two that are conditioned on receipt of
13 SECO funds. So definitely explain, we could change --

14 MS. ANDERSON: So having it nailed down in a
15 contract a little better about when those -- and if they
16 want to review them, we get them over there and they get
17 them back to us timely, we have -- perhaps if we --
18 although I'm not usually, you know, codifying every last
19 thing, but it sounds like to make sure we're on track in
20 reestablishing the kind of relationship we want with them,
21 we might want to think about some of those terms in the
22 renewal amendment.

23 MS. BOSTON: And to clarify, we're just trying
24 to get them to do an amendment with us for the
25 applications that we've already gotten in --

1 MS. ANDERSON: Right.

2 MS. BOSTON: -- and that they're reviewing.

3 MS. ANDERSON: Right.

4 MS. BOSTON: Into the future, we are not going
5 to continue to get SECO funds through the Housing Trust
6 Program. This is the last year. So this amendment, we
7 just --

8 MS. ANDERSON: Because?

9 MS. BOSTON: You know, I know --

10 MS. ANDERSON: I mean, did that source of
11 funding dry up?

12 MS. BOSTON: No, I know, Bill Dally was -- I
13 know there was a decision made not to request that we have
14 that appropriated. Is that right?

15 MR. DALLY: Yes, Beth. Bill Dally, Chief of
16 Agency Administration. We made a decision not to request
17 that as part of the Housing Trust Fund in the '04-'05,
18 because, in all honesty, there's been an expenditure
19 problem with getting those funds actually out, because
20 what they will pay for is the incremental amount of energy
21 savings beyond a standard package for multi-family. So
22 it's a small amount for each project and it was taking a
23 long time. And so it didn't seem to be as good a fit,
24 that kind of thing, as, perhaps, in our energy assistance
25 group.

1 MS. ANDERSON: Okay.

2 MR. DALLY: So it was some funds that were
3 actually added to the Housing Trust Fund a couple of
4 bienniums ago, when they wanted to kind of move the
5 Housing Trust Fund number up but not use general revenue.

6 MS. ANDERSON: Okay.

7 MS. CARRINGTON: It was one of those programs
8 that, I think, when the money was available, we grabbed at
9 it and not looked at all of the difficulties of actually
10 utilizing the funding for the purposes, and the
11 requirements that it had to be utilized for.

12 MS. ANDERSON: It just didn't fit our program
13 as well as it might have otherwise?

14 MS. CARRINGTON: Correct.

15 MS. ANDERSON: Well, great. I thank all of you
16 and, you know, I'm concerned about some of the tone of
17 this report. And one of the things that concerns me as
18 much as anything is the inspector, or the monitor -- and
19 maybe I'm just over-interpreting this, but -- implying
20 that, you know, that they don't like the way we've
21 reorganized our agency. And I sort of don't think that
22 they have a dog in that hunt, and I think we're very
23 pleased with the way we've reorganized our agency.

24 You know, now, if we didn't give proper notice,
25 or we didn't help them understand why we were going to be

1 just as responsive in the new structure as the old
2 structure, then maybe some of this tone is because the
3 monitor was surprised, but I was surprised to see the
4 monitor take that tone that, you know, they didn't think
5 we should reorganize. It's not their issue, I don't
6 think.

7 (Pause.)

8 MR. GAINES: We'll look at item 2-d. This
9 relates to what's called a rental integrity monitoring
10 review that's currently in progress. If you will turn to
11 the letter, there behind 2-d. The purpose of the review
12 is to reduce income and rent errors, and improper payments
13 in the administration of the Section 8 program, and to try
14 to maximize HUD's limited housing resources by assuring
15 maximum participation in HUD's housing programs by as many
16 low income families as feasible.

17 An entrance conference was conducted yesterday
18 by HUD Section 8 staff with appropriate department staff,
19 and just a couple of interesting points I wanted to share
20 with the committee that emphasizes the need for this
21 project.

22 The General Accounting Office conducted a
23 review and found overpayments of \$2.3 billion a year in
24 Section 8 program and underpayments of \$634 million a
25 year.

1 MS. CARRINGTON: David, make clear that that's
2 not in our program.

3 MR. CONINE: National.

4 MS. CARRINGTON: That's national.

5 MR. CONINE: That's nationally.

6 MR. GAINES: That's correct. And so is their
7 finding that over 60 percent of the tenant files they
8 reviewed had errors, and most of the errors related to
9 lack of third party verification of income information.
10 And as a result of this audit -- the President, basically,
11 mandated this initiative, and HUD has established a goal
12 of reducing errors by 15 percent this year and 30 percent
13 next year.

14 Monitoring teams can review 35 files for the
15 recalculation of tenant income and rent. All exceptions
16 will be discussed with staff and technical assistance
17 provided as necessary. A report will be issued within 30
18 days after the completion of the review, which is expected
19 to be this Thursday, and the report will be compiled with
20 other reports, for a consolidated report to be provided to
21 Congress.

22 Item to 2-e --

23 MS. CARRINGTON: Mr. Chairman, if I might?

24 MR. GONZALEZ: Yes?

25 MS. CARRINGTON: This is where I'm going to

1 make some remarks as we begin the remainder of our agenda.

2 The remainder of the items on our agenda, which are items
3 2-e through 2-1, relate to a State Auditor's report that
4 was tied on selected assistance programs at the Texas
5 Department of Housing and Community Affairs.

6 The material that you have in your book with
7 you this afternoon is not meant to overwhelm you with the
8 amount of material that we have provided you, but to show
9 to this board, and to the public and others, how seriously
10 the Texas Department of Housing and Community Affairs
11 takes audit reports from any agency, be it the State
12 Auditor's Office, be it one of our funding sources, or be
13 it the Internal Audit department of our division.

14 Our staff has worked with the State Auditor's
15 Office since summer of last year in reviewing the three
16 subrecipients that are mentioned in this report, and we
17 have been working on the responses since probably about
18 April or so, April or May. Many of the items you will
19 see, as Mr. Gaines goes through this information for you
20 this afternoon, when these recommendations and suggestions
21 came up from the State Auditor's Office, many of them the
22 department went ahead and implemented because we felt,
23 from a procedures standpoint, or a process standpoint,
24 that they were really good ideas and good suggestions for
25 the department.

1 So as we have worked over the last couple of
2 months to make these responses to the State Auditor's
3 Office and to the public, what we are finding is that
4 this -- as I think most audits are supposed to do -- is
5 help us identify the weaknesses in the department, look at
6 our processes, look at our procedures, and see how and
7 where we need to make those kinds of improvements, and one
8 of the things that I heard Mr. Gaines say, that he
9 basically has his work plan put together for a good amount
10 of the work for this next fiscal year, in what we have
11 been able to put together in responses to this particular
12 audit.

13 We look at this as an opportunity to improve
14 our operations, not only in the Community Affairs area,
15 but throughout the department. We feel that many of these
16 weaknesses that have been identified are areas that we may
17 also need to look at in other parts of our agency. And it
18 is requiring us, making us, to continue to look in depth
19 at our processes, our procedures, how we shore up our
20 monitoring, how we shore up our compliance.

21 With that, I don't want anybody to think that
22 we have just put all of this together, and it was just
23 sort of to overwhelm you with the volume of information
24 that we have provided. We have provided what we think is
25 a good body of information that we will be using

1 throughout the next month and throughout the year in this
2 department.

3 MR. GONZALEZ: Thank you, Ms. Carrington.

4 MR. GAINES: Thank you, Ms. Carrington. Tab
5 f -- excuse me, tab e is the results of the audit
6 conducted by the State Auditor's Office, and the project
7 manager on a lot on the audit is with us today, Rachael
8 Cohen, who's going to discuss the results of the audit
9 with you momentarily.

10 Rachael's team included seven auditors, but
11 generally, I believe, only four or five were onsite at any
12 one time. Rachael was supported by her audit director,
13 manager, and quality control reviewer, who did not work
14 onsite and was also supported by a certified information
15 systems auditor who was in and out throughout the course
16 of the audit.

17 The inception of the audit began approximately
18 the same time as the entrance conference, which was early
19 July 2002. Field work continued through December 2002.
20 Periodic status updates were provided throughout the
21 course of the audit. Discussions on the final result of
22 the audit began in early February 2003. Our report draft
23 conference was held May 2003, May 20 -- excuse me, May
24 30 -- and the department provided its response on June 25,
25 2003, and was informed of the release of the report

1 several days later, July 2.

2 In connection with the audit, the SAO visited
3 three of the departments of subrecipients that administer
4 community services block grants, weatherization
5 assistance, and comprehensive energy assistance programs.

6 These subrecipients include Tom Green County Community
7 Action Council in San Angelo, Greater East Texas Community
8 Action Program in Nacogdoches, and the City of Fort Worth.

9 An additional two subrecipients were picked up
10 to provide coverage over the emergency shelter and grant
11 program. These subrecipients were the Women's Shelter of
12 East Texas in Nacogdoches and the Highlands Lake Family
13 Crisis Center in Marble Falls.

14 With that overview, I would like to introduce
15 Rachael Cohen, who is welcome to correct me on any of
16 those facts, and to discuss the results of the audit.

17 MS. COHEN: Thanks.

18 MR. GAINES: Thank you for being here today,
19 Rachael.

20 MS. COHEN: No problem. Hi, my name is Rachael
21 Cohen. As David said, I managed this project. I have a
22 couple of hard copies of the report if anybody needs them,
23 but I think you've all seen this.

24 MS. CARRINGTON: It is in their book, also,
25 Rachael.

1 MS. COHEN: Okay. All right. I've been asked
2 to speak to you today to tell you what we found and also
3 to answer whatever questions you might have. As David
4 said, we covered five programs. It was weatherization,
5 CEAP, the Comprehensive Energy Assistance Program, the
6 shelter grant program, and CSBG, and also Section 8.

7 Our objectives were to determine whether or not
8 the subgrantees were using the funds to provide eligible
9 services to eligible people. Was the money doing what it
10 was supposed to be doing once it got to the communities,
11 whether the initial disbursement was appropriate and
12 consistent with the program objectives, whether the funds
13 were spent in such a way that it ensured that service
14 would be maximized? That is, for example, if you were
15 supposed to be hitting a specific population, was that
16 population being targeted?

17 Also, for Section 8, we looked at their status
18 in implementing prior audit findings, and for all five
19 programs, we looked at information technology and program
20 monitoring.

21 Again, as you know, we found the greatest
22 number of problems was weatherization, and we found that
23 there were weaknesses associated with not having processes
24 in place that would ensure that multi-family units, like
25 apartment complexes, were eligible, and that may have

1 meant that ineligible people may have gotten services.
2 Also, the policies that were in place weren't always
3 followed and that also may have contributed to eligibility
4 issues.

5 I can walk through the report with you or I can
6 just stop here and answer questions. I'm not sure what
7 your preference is.

8 MR. CONINE: I've looked through the report,
9 and pretty well know what you found and would be
10 interested on comments on how we're working to correct it
11 and so forth.

12 MR. GAINES: A large portion of the remainder
13 of the agenda items is the department's response to the
14 report and how it intends to move forward.

15 MR. CONINE: Maybe if Ms. Cohen would just make
16 herself available as we walk through it.

17 MS. COHEN: Sure.

18 MR. CONINE: If we have any questions, that
19 might be the most expeditious way of doing it.

20 MS. COHEN: I took a look at some of this
21 material -- and there's a lot of it here -- and it looks
22 like people are really moving. I mean, I'm kind of
23 pleased to see how seriously it's being taken.

24 MS. ANDERSON: I just have one minor question.
25 How were the subrecipients selected for all the different

1 places you went around the state?

2 MS. COHEN: Okay. The first thing we did was
3 since we had the five programs and we knew we needed to --
4 the first thing we did was we got a list of everybody that
5 had CSBG, CEAP, and weatherization money. So, you know,
6 if someplace had -- if one Community Action center did
7 CSBG and the city did, you know, we dumped that from our
8 list.

9 MS. ANDERSON: Right.

10 MS. COHEN: Then we arranged them --

11 MS. ANDERSON: So you were looking for grantees
12 that were doing more than one program?

13 MS. COHEN: Right.

14 MS. ANDERSON: Okay.

15 MS. COHEN: Because we wanted the team to spend
16 its time efficiently.

17 MS. ANDERSON: I'm with you. Okay.

18 MS. COHEN: And we also wanted there to be a
19 shelter grant recipient nearby. We knew we couldn't get
20 them in the same place.

21 MS. ANDERSON: Okay.

22 MS. COHEN: Then we arranged it by dollars.
23 That gave us GETCAP and Fort Worth and Dallas, that we
24 eliminated because they were no longer going to be
25 administering CSBG. So that gave us those two. Then, in

1 December, the U.S. Attorney's office, who was looking at
2 Head Start at Tom Green County, asked if we could help.
3 You know, by that time, we had finally gotten to know the
4 CFR requirements --

5 MS. ANDERSON: Right.

6 MS. COHEN: -- and a number of the other
7 programmatic -- you know, what should be in a file. They
8 asked if we could send somebody to do our normal audit
9 procedures, but do them there, and explain to the
10 investigators that they were doing what we knew -- where
11 in the CFR they should look for things, such like that.

12 MS. ANDERSON: Okay.

13 MS. COHEN: We looked at the Women's Shelter of
14 East Texas for ESGP because that was right there in
15 Nacogdoches where GETCAP was. We didn't look at the ones
16 nearby Fort Worth because they were done by the state;
17 they had been monitored by the same person who we thought
18 did a great job at East Texas. So we looked around for a
19 local grant recipient who had been monitored by somebody
20 other than that person. That was how we got the five.

21 MS. ANDERSON: Okay. Very good. Thanks.

22 MS. COHEN: Probably more than you wanted to
23 know about that.

24 MS. ANDERSON: No, it's interesting.

25 MS. COHEN: Then, I'll just stay nearby.

1 MR. GAINES: Thank you, Rachael.

2 Management's response to the report is on page
3 29, or Appendix 4, of the SAO report, and management's in
4 general agreement with the report. It's indicated that it
5 intends to implement the related recommendations. While
6 management is in general agreement with the report and the
7 recommendations, that's not to say that the department
8 doesn't have many processes in place to provide assurance
9 against many of the conditions that the SAO report noted,
10 and that is the purpose of the following agenda item, item
11 2-b.

12 So if you'll turn to that, 2-b basically
13 augments the department's formal response to the SAO. The
14 table you see provides information on the different
15 processes that management believes it had in place at the
16 time of the audit to ensure compliance with, or protect
17 against, the conditions noted by the SAO. The table also
18 helps the department identify where deficiencies in the
19 control systems may exist, and identifies actions or
20 results taken as a result of the SAO audit.

21 If you'll just take a look at the first page of
22 the report, and I'd like to just briefly describe the
23 information being provided to you. The first column is a
24 summary of audit conditions noted by the SAO. The chapter
25 titles and binding headings are clearly identified so you

1 can tie the summary back to the SAO report. It focuses on
2 the conditions noted in the SAO report.

3 The second column is a summary of different
4 processes the management believed it had in place at the
5 time of the audit to protect against the conditions noted
6 by the SAO. If controls were not in place, this would be
7 obvious by the information provided in this column. As we
8 continue to work on this column -- I'd consider this a
9 work in progress -- but as we continue to work on this
10 column, it will be more obvious what controls are and are
11 not in place.

12 The third column of the table discusses the
13 supervision, or quality control processes, the management
14 reports it had in place at the time of the audit, and this
15 highlights the different activities, by management, to
16 ensure the quality of work performed by staff.

17 And then the final column of the table provides
18 information relating to other comments and the actions
19 taken or planned as a result of the audit.

20 As you go through the table, you'll see that
21 many procedures are being reported as being in place to
22 protect against the conditions noted in the SAO report,
23 protect against some of the conditions noted. And
24 although different processes are described as being in
25 place, the SAO still found exceptions, which implies these

1 controls were either not operating effectively or not
2 sufficiently in place.

3 I believe for the most part, in reviewing
4 through this, when the SAO noted exceptions to their test,
5 and when management believed they had systems in place to
6 protect against those conditions, what seems to be an
7 apparent contradiction was occurring for several reason.
8 And I believe, just from a cursory review and being
9 involved in putting this together, that procedures, while
10 they may be substantially ingrained and passed onto staff
11 primarily through on-the-job training, are not necessarily
12 formalized in standard operating procedures.

13 Documentation of the information actually
14 considered during the course of the monitoring visit, not
15 sufficiently identifying that information in the
16 monitoring files, precludes management from holding the
17 monitor accountable for the results of their review. For
18 example, a monitor may have successfully tested
19 eligibility and concluded there was no exceptions to the
20 test. However, the monitor would not necessarily identify
21 which households he or she was testing for eligibility,
22 and so accordingly, the department did not have sufficient
23 documentation in the files to support its conclusions.
24 Management responded that it's improving its documentation
25 standards as we identify this.

1 Additionally, and as a consequence of not
2 having the documentation in the monitoring files to
3 support efforts performed, results obtained, and
4 conclusions reached, there wasn't sufficient information
5 in the files for a management, or supervisory, review or
6 quality control review of the monitoring work performed by
7 the monitoring staff. Without such a review, there's
8 inadequate assurance that the staff is performing as
9 intended by management or that conclusions being reached
10 as a result of the monitoring review are appropriate and
11 adequately supported.

12 With the additional information that is being
13 required, management will have a basis for conducting
14 these quality assurance reviews of work performed by
15 staff. This information will also help identify areas
16 where staff training may be necessary.

17 You also note instances in the table that
18 highlight circumstances where the department has
19 recognized it did not have controls in place. For
20 example, the first row on the table -- and having a pretty
21 good idea of the way SAO operates, I believe, generally,
22 the more important issues are going to be towards the
23 front of the report -- but in this particular
24 circumstance, the department didn't have controls in place
25 to address the compliance requirement that 66 percent of

1 the multi-family dwellings that are to be weatherized
2 within a property be income eligible.

3 While management believed they had controls in
4 place to provide assurance that this requirement was met,
5 upon drilling down and looking for the specific
6 controls -- the information provided in the second column
7 of the table -- it was determined that, in fact, there
8 were not sufficient controls in place to provide
9 reasonable assurance. With this information, management
10 can now take appropriate corrective action.

11 And that's the purpose of this table. As we
12 continue to drill down and develop the detailed
13 understanding -- and that's why there's so much of this;
14 you really have to get into the nuts and bolts -- but as
15 we drill down, we'll see where the department is
16 vulnerable to non-compliance for not having the adequate
17 systems in place. And so, as we work through this, that
18 will come to the surface.

19 In summary, this table continues to be worked
20 on. It's being used by management and internal audit to
21 assist in status of the issues identified by the SAO, and
22 to help ensure management that appropriate controls and
23 corrective actions are in place, or appropriate corrective
24 actions are being taken and the controls are in place.

25 I think Edwina had alluded to it earlier, that

1 this information and similar information on the monitoring
2 functions of the different programs of the department are
3 being accumulated throughout the building. Not all
4 program areas have started them because I haven't gotten
5 with them yet, but the intention is to have each of the
6 program areas complete a monitoring tool similar to
7 this -- and we'll talk about what I'm referring to
8 momentarily, in another agenda item, but it's real similar
9 to this table. This table, with those tables, will
10 provide a good overview of how we're addressing SAO audit
11 conditions and a good overview of monitoring function of
12 the department.

13 I was going to propose to the board, at a
14 future meeting -- whereby we need to post it to the
15 agenda -- that this be included in the audit plan as
16 something that needs to be independently verified and
17 followed up on.

18 With that, I'll be glad to take any questions
19 relating to the information in this table. Eddie Fariss,
20 the Director of the Community Affairs division, and his
21 program managers are also available and will be glad to
22 answer any questions that you might have for them.

23 MR. CONINE: From what you know now, in putting
24 together this table that identifies the problems that the
25 State Auditor's Office came up with, do you anticipate an

1 overall time frame that you're going to respond, or
2 update, the State Auditor's Office?

3 MR. GAINES: Generally --

4 MR. CONINE: What have you done? What kind of
5 response time frame do you see here? And it may be a
6 question for Ms. Carrington.

7 MR. GAINES: Generally, the auditors -- I
8 believe they're doing it on a semi-annual basis -- have
9 agencies update the status of prior issues that they've
10 identified that they believe are significant. So in the
11 past, certainly, they've been doing that every six
12 months -- and maybe the auditors can correct me if I'm
13 wrong.

14 For the most part, that's going to be
15 management's representations, unless it's subject to
16 independent audit, and the State Auditor's Office does not
17 necessarily come back to follow up and independently
18 verify that this has been implemented. They may, if they
19 assess the risk that that's where they need to spend their
20 time, but not necessarily.

21 MR. CONINE: So we would have maybe another
22 column or two added to this table that would give us
23 target dates to complete whatever the -- I think it was
24 monitoring or whatever the case may be?

25 MR. GAINES: Yes.

1 MR. CONINE: Do you anticipate doing that and
2 keeping the board informed, or the Audit Committee
3 informed, as time goes along?

4 MR. GAINES: It may be preferable to add it to
5 this table. I'd imagined all along that this would roll
6 over to our prior audit issue tracking system.

7 MR. CONINE: Right.

8 MR. GAINES: That does have that information.

9 MR. CONINE: Okay. Ms. Carrington, any
10 comments on time frame from you?

11 MS. CARRINGTON: I see Rachael shaking her
12 head, that every six months is what the State Auditor's
13 Office is going to look at, as an update from us.

14 I might also say that as we have worked through
15 these responses in this process, that one of the things
16 that David and I have talked about is our Internal Audit
17 division doing samplings, internally, of when management
18 reports that a finding has been satisfied or implemented,
19 that part of what we are going to be doing is more
20 aggressive sampling to ensure, indeed, that we are
21 comfortable with that response.

22 MR. CONINE: Could we take a five minute break,
23 Mr. Chairman, before we get too far into this?

24 MR. FARISS: Mr. Conine, excuse me, Eddie
25 Fariss. Good afternoon. I'd like to say one thing about

1 your question as well, and that is in regards to a
2 deadline for completing implementing these changes. In
3 all the responses to the SAO recommendations, we
4 established a deadline for ourselves to do that, and I
5 believe the latest one would be completed in December.

6 MR. CONINE: Of this year?

7 MR. FARISS: Yes.

8 MR. CONINE: Okay.

9 MS. ANDERSON: It's not in your response to
10 State Auditor?

11 MR. FARISS: It's in the back of their report.

12 MS. ANDERSON: You know, I think it was
13 actually January, maybe.

14 MR. CONINE: Well, it was close enough, okay,
15 for government work.

16 MS. ANDERSON: Well, let me just say something
17 about that before the break.

18 MR. FARISS: You're right. There is one in
19 January.

20 MS. ANDERSON: Well, there's more than one in
21 January. I have an overall comment, that I would like to
22 understand how these deadlines are arrived at and whether
23 we are being aggressive enough in setting our deadlines to
24 clear these findings, particularly in the case of repeat
25 findings in, you know, some of the programs because my

1 first reaction, on reading the response to the State
2 Auditor, was that some of the deadlines that were set
3 didn't feel as serious as these audit findings are, you
4 know, didn't feel like they had the kind of urgency
5 associated with resolving the findings that -- and, maybe,
6 there are things that need to be done that I -- maybe,
7 it's just that I don't understand the details around the
8 program.

9 MR. FARISS: A couple of the later deadlines
10 have to do with coinciding with the start of a new program
11 year, or have to do with the length of time to do training
12 on the revisions to our easy audit, which are wrapping up
13 now. We intend to go live by January. Some of the
14 deadlines actually have been reported as completed and the
15 rest are, you know, in between September and January.

16 MS. ANDERSON: Right. Chapter 1-a is about the
17 easy audit.

18 MR. FARISS: Uh-huh.

19 MS. ANDERSON: Chapter 1-B, which also carries
20 a January 1, 2004 date is about the weaknesses in the
21 process, where, you know, to use Ms. Cohen's words, we're
22 not adequately assuring that eligible services are being
23 provided to eligible people.

24 MR. FARISS: And I believe that one had to do
25 with changing our method of annualizing income from 30

1 days to 90 days, which we can do at any minute, but we
2 felt at the time we made these responses that it would be
3 most appropriate to do that at the beginning of the
4 program year that affected those programs, so that they
5 don't change their method of determining eligibility in
6 the middle of the program year.

7 MS. ANDERSON: Do all these grants roll at the
8 same time?

9 MR. FARISS: The weatherization and CSBG do and
10 the CEAP -- I'm sorry, CSBG and CEAP do, January 1.
11 Weatherization starts April. We would start them all at
12 the same time, in January.

13 MS. ANDERSON: Okay.

14 MR. CONINE: Who was involved in setting the
15 dates, Eddie? Was it primarily you?

16 MR. FARISS: It was a joint --

17 MR. CONINE: Or was it a joint effort as you
18 went along?

19 MR. FARISS: -- effort as we prepared the
20 responses to it.

21 MR. CONINE: And what would be your reaction to
22 can we get more aggressive and cycle them up -- some of
23 those dates? -- just to follow Ms. Anderson's lead.

24 MR. FARISS: Some of them, we could, like that
25 one. I mean, some of them will require the time that

1 we've had to put in there, like finishing the rollout --

2 MR. CONINE: Well, maybe we'll find some of
3 that out as we go through individual items, but suffice it
4 to say, if we can be more aggressive, we can be more
5 aggressive.

6 MR. FARISS: And we will. I mean, I think our
7 intent was to be as aggressive as possible, but not to set
8 ourselves up for failure if we didn't meet that date.

9 MR. GONZALEZ: If there's not any further
10 questions, we'll take a five minute break.

11 (Whereupon, a short recess was taken.)

12 MR. GONZALEZ: We'll resume the meeting. We
13 recognize Eric Opiela of the House Committee on Urban
14 Affairs and Beau Rothchild will be taking over his
15 position starting August 15, and they're in the back
16 there.

17 (Applause.)

18 MS. ANDERSON: We're not applauding because
19 you're leaving, Eric. We're just welcoming Beau and
20 congratulating you.

21 MS. CARRINGTON: Congratulations. Eric got
22 married two or three weeks ago, and he and his bride are
23 going to move to Washington, D.C., and you're going to be
24 clerking for a federal judge?

25 MR. OPIELA: Yes.

1 MS. CARRINGTON: All right.

2 MR. GONZALEZ: Okay. David?

3 MR. GAINES: Okay. If you'll turn to agenda
4 item 2-g. Based on the results of the SAO audit,
5 management wanted to visit the historical performance of
6 the subrecipients that the SAO reviewed during the course
7 of their audit, and where they noted significant audit
8 exceptions at those subrecipients. So for each of the
9 subrecipients reviewed, really the three that we first
10 mentioned, the non-emergency shelter subs -- which is Tom
11 Green County, Greater East Texas, and City of Fort
12 Worth -- for each of those, a summary of subrecipient's
13 prior three years for programmatic performance was
14 compiled.

15 The results of the department's prior three
16 year monitoring visits of those subs were compiled, and
17 the results of the prior three years' single audit reports
18 for each of those subrecipients were compiled. Based on
19 this information, management conducted an analysis of the
20 information and prepared an evaluation of the
21 subrecipients' performance.

22 If it is the pleasure of the committee, I'll be
23 glad to take one of the three and just walk through and
24 highlight the different kinds of information, if you'd
25 care for me to?

1 MR. CONINE: I'd love for you to.

2 MS. ANDERSON: Yes, let's do GETCAP.

3 MR. GAINES: I'll walk you through rather
4 hurriedly, and then, we can come back and revisit it if
5 that will serve the pleasure of the committee.

6 The first couple pages behind the tab g, you'll
7 see that's divided by subrecipient. The first section
8 relates to GETCAP, or Greater East Texas Community Action
9 Program, and the first couple of pages behind that divider
10 page is an evaluation of the sub's performance. The
11 following page touches upon their program performance
12 figures, such as the number of units weatherized, total
13 funds awarded to that sub, percent expended, to whom the
14 services were provided, and the income levels, if you
15 will, of who was served by the subrecipient. This will be
16 provided for with each of the subrecipients.

17 And then following that program performance
18 summary page is the results of recent -- I say recent, it
19 would be like the last three years -- monitoring visits of
20 that sub that were conducting by the department. On
21 GETCAP, the very first one goes into a little bit greater
22 detail than some of the prior monitoring visits, in that
23 it was conducted in January, in large part, as a result of
24 different conditions that SAO was noting during the course
25 of their audit. And so there is a little bit more detail

1 as to what the monitoring team looked at, the results that
2 they found. And then in the prior year, monitoring
3 visits, for the most part, identifies the period and any
4 findings and recommendations that resulted from those
5 reviews.

6 After the monitoring visits is a table -- if
7 you'll flip a couple more pages back for Greater East
8 Texas -- summarizing the single audit reviews over the
9 last three years. I'm assuming you each have this table
10 in front of you.

11 The first column basically identifies the year,
12 the type of audit opinions that are being provided.
13 There's a financial report opinion. In this case, we're
14 looking at Greater East Texas for the 2001 year. It's an
15 unqualified opinion for compliance for major programs,
16 another unqualified opinion -- and, of course, unqualified
17 is what we're looking for. Basically, that says that in
18 the case of the financial audit, that the financial data
19 is fairly presented and in accordance with Generally
20 Accepted Accounting Principles. The compliance opinion
21 speaks to the significant class requirements of the major
22 federal programs that were reviewed.

23 Listed in that first column, also, are which
24 major programs were subject to review, whether the auditor
25 classified the agency as a low-risk, or not, for the

1 purposes of the A-133 audit. I included this type A, type
2 B threshold because it's pretty significant. In this
3 case, it's 300,000. In the single audits we reviewed, it
4 went up to over \$800,000. That kind of gives you some
5 idea of the likelihood that you're going to get any
6 coverage at all. A single audit may not necessarily
7 address our programs. If they're not a major program,
8 they won't be addressed to any substantial degree at all.

9 If this threshold -- if it's \$800,000,
10 basically that means type A programs are programs over
11 that \$800,000. In this case, the one I'm walking through
12 is 300,000. So in this case, if it's over \$300,000 in
13 expenditures, it's a type A program, and it should be
14 audited as a major program unless the auditor concludes
15 it's a low-risk program. If it's a low-risk program, then
16 it's replaced by a type B program that's under 300,000, a
17 type B program that is classified as a high-risk program.

18 So that's a long way of saying, you may or may not get
19 coverage on your particular programs during the course of
20 a single audit.

21 The second column, basically, is to identify
22 any reportable conditions or material weaknesses relating
23 to the TDHCA programs -- and the definitions of each of
24 those are provided, on your table there, by footnote --
25 the department's resolution, or disposition, of those

1 issues.

2 And then the final column is other comments
3 that may relate. For example, here we've got some
4 comments that were in the notes of the financial
5 statements that related to our program. There may be
6 other comments throughout financial statements or the
7 single audit that may relate to the department, but they
8 aren't necessarily findings or reportable conditions
9 relating to the department's programs. And then, also, we
10 identified any of the material weaknesses relating to
11 other programs that are not funded by the department, in
12 this column.

13 That's the information provided by the summary
14 of the single audits. In instances, as you flip through
15 these materials, it will highlight if a single audit has
16 been late, if it's late being received by the department,
17 if it's still pending. In this case, Greater East Texas
18 has a single audit due to the department by August 31,
19 2003.

20 These materials are provided on each of the
21 three subs and we'll be glad to address any questions you
22 might have.

23 MR. CONINE: Walk me through this outside
24 column right quick, because, you know, the first two
25 columns, nothing's wrong, and then you get to the third

1 column and the world falls apart.

2 MR. GAINES: Okay. I must be looking at a
3 different third column.

4 MR. CONINE: I hope not.

5 MS. ANDERSON: Fourth column.

6 MR. GAINES: Fourth column?

7 MR. CONINE: Okay. Fourth column, I'm sorry,
8 yes.

9 MR. GAINES: And we're speaking to Greater East
10 Texas?

11 MR. CONINE: Yes, 2001, 11/30/2001 year end --

12 MR. GAINES: Right.

13 MR. CONINE: -- nothing's wrong until you get
14 out to the other comments section --

15 MR. GAINES: That's --

16 MR. CONINE: -- and then you find out that the
17 air conditioner, heating inventory is not reported on the
18 financial statements. Explain all that to me.

19 MR. GAINES: Well, that's a note to the
20 financial statements, basically, by the auditors to
21 provide full disclosure of the financial statements that
22 would be relevant to an interested party. I think the
23 criteria is something along the lines of it's going to be
24 considered significant. And, generally, it's spoken of,
25 in the context of -- for investment purposes would be

1 significant to an -- you know, that a private sector.

2 Excuse me, public sector -- that's not real relevant.

3 In this case, it's anything that the auditors
4 believe is necessary to fully convey the financial
5 position of the entity. In this case, the inventory was
6 not reported on the financial statements. The auditor
7 believed --

8 MR. CONINE: So their auditors, the Greater
9 East Texas Community Action Program --

10 MR. GAINES: Yes, sir.

11 MR. CONINE: -- on their 2001 financial
12 statements noted that the air conditioning and heating
13 inventory was not reported on their financial statement?

14 MR. GAINES: That's correct.

15 MR. CONINE: And the State Auditor's Office,
16 while reviewing those audited financial statements, put it
17 on this little chart right here?

18 MR. GAINES: Well, the state auditor does not
19 necessarily do the single audits. The subrecipient
20 contracts with a CPA firm to conduct the single audits.

21 MR. CONINE: Okay.

22 MR. GAINES: And so whoever they contracted
23 with -- in this case, I believe it was KPMG and I'm
24 surprised we didn't include that.

25 MS. ANDERSON: The charts aren't from the state

1 auditor. Right?

2 MR. GAINES: I'm sorry?

3 MS. ANDERSON: The charts aren't from the state
4 auditor?

5 MR. CONINE: No.

6 MS. ANDERSON: They're from you?

7 MR. CONINE: These are his charts.

8 MR. GAINES: They've been compiled internally.

9 MS. ANDERSON: Right. Got you.

10 MR. CONINE: They're David Gaines' famous
11 charts.

12 MS. ANDERSON: Right.

13 MR. GAINES: Based on the results of the single
14 audits, which are --

15 MS. ANDERSON: There you go.

16 MR. GAINES: -- you know, I've got one here by,
17 oh, well, different CPAs --

18 MR. CONINE: Okay. So go on down -- tell me
19 about all this overfunding and underfunding going on.
20 Explain it to me.

21 MR. GAINES: Well, in summary, the auditor
22 believed those inventory statements for them and financial
23 statements for them to be fully disclosed, to be
24 adequately disclosed. The over/underfunding was
25 essentially another note to the financial statements. And

1 it just had a table, overs and unders, of all their
2 funding sources and essentially what that means is there
3 were operating out of one bank account. And, for example,
4 CSBG overfunded by 147 at the balance sheet date, which
5 was 11/30/2001.

6 At that date, CSBG had \$147,000 in that
7 account, while if you look down CEAP, or LIHEAP -- a
8 significant number -- was underfunded by 133. So it
9 really means LIHEAP was borrowing money from these other
10 programs to finance their operations. Some of that money
11 may have been the Community Services overfunded portion or
12 it may be other funding sources that were within that same
13 account.

14 MS. ANDERSON: Does this grantee operate with
15 advances or reimbursements?

16 MR. FARISS: The programs identified here are
17 advances.

18 MS. ANDERSON: Okay. So if it's an advance,
19 there's even less reason -- I mean, if it's a
20 reimbursement, you could make the case they were just
21 borrowing money until they got reimbursed by us, but if
22 we're making it -- what you're saying, we're making
23 advances to these grantees --

24 MR. FARISS: Right.

25 MS. ANDERSON: -- in advance of their

1 expenditures?

2 MR. FARISS: Partly, it is in advance of their
3 expenditures, plus they request, on a 30 day basis, a 30
4 day cash need plus requests for funds to reimburse prior
5 expenditures.

6 MS. ANDERSON: To net out the prior --

7 MR. FARISS: Exactly.

8 MS. ANDERSON: -- where the advance doesn't
9 match the prior -- the prior advance doesn't match the
10 prior expenditures?

11 MR. FARISS: Exactly.

12 MS. ANDERSON: It would seem to me that if
13 we're advancing funds to a grantee, there is less reason,
14 a lot less reason, for them to be, you know, sort of
15 borrowing from one internal bucket of money to pay
16 another.

17 MR. FARISS: Right. And, certainly, that's
18 not -- certainly, this practice is discouraged. However,
19 most of the private, non-profit, community-based
20 organizations with whom we contract do use one bank
21 account because it's more efficient and have subledgers to
22 track the different grant funds. And, you know, perhaps,
23 these issues were apparent at the time the audit was done
24 and resolved.

25 MS. ANDERSON: Well, they're both repeat

1 findings. Both issues are repeat findings because they're
2 in the November 2001 audit and they're in the November
3 2000 audit.

4 MR. GAINES: And the auditors aren't really
5 necessarily saying that this over/underfunded circumstance
6 is a finding.

7 MS. ANDERSON: Right.

8 MR. GAINES: And, essentially, it's overfunded
9 agencies are providing loans to underfunded programs, not
10 agencies. So that overfunded programs are providing loans
11 to underfunded programs. Presumably, that washes out.
12 However, it does put the overfunded programs at risk of
13 losing their funds to the extent those underfunded
14 programs improperly use those funds.

15 MR. CONINE: What size staff does Greater East
16 Texas Community Action Program have?

17 MR. FARISS: I am not sure. I can ask.

18 Karen, what is your staff size?

19 MS. SWENSON: Well, including Head Start staff,
20 we have, last payroll, about 132.

21 MR. CONINE: Good size group.

22 MS. SWENSON: With Head Start.

23 MR. CONINE: Okay.

24 MS. ANDERSON: David, before you went through
25 this chart, you took us through the A threshold, B

1 threshold, you know, business, and you noted that -- and I
2 can't remember now if it was A or B -- but in certain
3 kinds of thresholds, were our funding sources not
4 significant relative to their other funding sources, that
5 we would get little, you know, not just with GETCAP, with
6 any grantee, we would get less attention in an audit.
7 Right?

8 MR. GAINES: Theoretically, no attention.

9 MS. ANDERSON: Theoretically, no attention. So
10 is GETCAP, are they -- if we take them as a specific
11 example, are we a smaller or a larger relative piece of
12 their funding? So should we have expected -- so, in fact,
13 we shouldn't have expected the single audit to tell us
14 much about our programs?

15 MR. GAINES: If you'll look at the programmatic
16 summary, for example, in 2000, they received \$184,000. If
17 the threshold was 300 --

18 MS. ANDERSON: Right.

19 MR. GAINES: -- that program would have
20 received no coverage --

21 MS. ANDERSON: Okay.

22 MR. GAINES: -- unless the auditors identified
23 it as a high risk program and one of the major programs as
24 a low risk program.

25 MS. ANDERSON: Okay. So in that situation,

1 where we're not getting a lot of attention in the single
2 audit, and we recognize -- we can forecast ahead of time
3 which grantees were likely to get more, because we know
4 what our funding percentage is relative to their total
5 budget and so forth. In those single audits where we know
6 we're not getting much, or any coverage, then it seems to
7 me that we have to put a lot more reliance on our
8 monitoring reports, because if a subject is single audit
9 act, they don't have to go -- we can't ask them to go do a
10 separate audit of our part. So we're more relying on our
11 monitoring. Is that a fair conclusion to draw?

12 MR. GAINES: I would say so, yes.

13 MR. CONINE: Do they draw these funds down once
14 a year, once a quarter?

15 MR. FARISS: Every 30 days.

16 MR. CONINE: Thirty days?

17 MR. GAINES: Yes. They submit a report every
18 30 days, requesting 30 days cash advance and funding to
19 net out previous requests, as Ms. Anderson mentioned
20 earlier.

21 MS. ANDERSON: Well, it seems to me that in
22 this particular case, you know -- and these are very
23 good -- I want to compliment all of you all on putting
24 together these packages on each of these three
25 subrecipients with this various pieces of documentation,

1 because they at least -- for my purposes, it helps me feel
2 like I have a feel of what's going on with the
3 subrecipient.

4 I mean, there are significant -- put the audit
5 aside for a minute. There are significant, repeat
6 monitoring findings with respect to this subrecipient, and
7 several of them cited in all three years, for the previous
8 three years, in the last three monitoring reports. So I
9 would ask you, Mr. Fariss, to just talk about how your
10 staff handles any kind of monitoring report finding, but
11 specifically repeat findings.

12 MR. FARISS: In this -- excuse me.

13 MS. ANDERSON: Go ahead.

14 MR. FARISS: In this particular instance, we
15 sent a letter on July 24 --

16 MR. CONINE: Like last week?

17 MS. ANDERSON: Last week?

18 MR. FARISS: That's right.

19 MS. ANDERSON: For monitoring this? It
20 completed when?

21 MR. FARISS: The last one was done, what's it,
22 in May?

23 MR. CONINE: It depends on which activity
24 you're talking about.

25 MR. FARISS: Oh, January.

1 MS. CARRINGTON: January 13 through 17, 2003.

2 MR. FARISS: January 13, we provided a
3 monitoring report. We gave them a period of time in which
4 to -- our procedures are: the monitoring report is
5 written within 30 days of the monitoring visit. The
6 subrecipient is given 30 days to respond. If they don't
7 respond, we give them an additional 15 days. In this
8 case, the follow-up was delinquent. Then we sent a
9 summary.

10 MS. ANDERSON: Back up with me just a minute.

11 MR. FARISS: Yes?

12 MS. ANDERSON: The visit itself was January 13?

13 MR. FARISS: That's right.

14 MS. CARRINGTON: 13 through 17.

15 MS. ANDERSON: Okay. And then, our report
16 documenting that monitoring visit went to them on what
17 date?

18 MR. FARISS: I don't have that in front of me,
19 but if we followed the procedure, it would have been 30
20 days from that date.

21 MS. ANDERSON: That's why I'm asking for an
22 actual date. When did our monitoring report, based on
23 that January visit, go to this grantee?

24 MR. FARISS: I don't have that in my notebook.

25 MS. CARRINGTON: But we can get that.

1 MS. ANDERSON: We can have that report at the
2 board meeting tomorrow when we cover the audit items?

3 MS. CARRINGTON: Yes, we can.

4 MS. ANDERSON: Okay. And then, they get 30 to
5 respond. Do we know what the date of the letter of their
6 response to us was?

7 MR. FARISS: They didn't respond.

8 MS. ANDERSON: To this -- I see in here that --
9 on page 2, this says we sent them a summary report on May
10 23.

11 MR. FARISS: Yes, ma'am. That was subsequent
12 to their second non-response to the letter.

13 MS. ANDERSON: Okay. And then their response
14 to that was due to us on June 23?

15 MR. FARISS: And on July 24, we sent them a
16 letter citing the fact that these repeat findings that
17 they hadn't responded; we gave them to August 1 to respond
18 or we would begin termination procedures.

19 MS. ANDERSON: Thank you.

20 MR. FARISS: That's what the letter says.

21 MS. ANDERSON: Thank you.

22 MR. FARISS: Yes, ma'am.

23 (Pause.)

24 MS. ANDERSON: But these are very good
25 documents. I'm sure it took a lot of different people

1 working on them. They're very helpful to understanding.

2 Thank you.

3 (Pause.)

4 MR. GAINES: That particular tab, tab g, again,
5 was just the analysis of the performance of those three
6 subrecipients. Any further comments relating to that?

7 (No response.)

8 MR. GAINES: Okay. Agenda item 2-h, this is
9 really just for your information. It lets you be aware,
10 lets you know, that the results of a recently completed
11 investigation by the FBI, that the SAO special
12 investigative unit participated in. While the
13 investigation was one of the department's subrecipient
14 that the SAO visited during the course of their audit, Tom
15 Green County Community Action Council, the program that's
16 the subject of the investigation was not one of the
17 department's programs.

18 You can scan through the report. There was a
19 series of indictments to significant staff there at the
20 department and some of their relatives. Since it was one
21 of our subrecipients, and since we were cc'd on this
22 letter, we thought this would be something that the board
23 should be aware of.

24 MR. CONINE: Now, is this just coincidental
25 that they just happened to pick one that was a doozey

1 [phonetic]? Or did they know? I guess, maybe Ms. Cohen
2 could respond to that.

3 MS. COHEN: Actually, I can't respond to that.

4 MR. CONINE: Come on up, so we can get you on
5 the microphone.

6 MS. COHEN: Okay. If the question --

7 MR. CONINE: Tom Green County, was that --
8 again, your selection process of at least three we're
9 looking at, how did you pick Tom Green County? And were
10 you aware of the FBI investigation before you picked Tom
11 Green County?

12 MS. COHEN: Our work at Tom Green County was
13 instigated, was started because we got a request from the
14 U.S. Attorney's Office to help them with --

15 MR. CONINE: Okay.

16 MS. COHEN: -- understanding the
17 weatherization.

18 MR. CONINE: So you knew there was some
19 snooping around going on and you decided to look into it?

20 MS. COHEN: Yes. Now, how the special
21 investigations unit in our office got involved with Tom
22 Green County, I can't speak to.

23 MR. CONINE: No, that's okay.

24 MS. COHEN: Yes.

25 MR. CONINE: I'm just curious how we just

1 happened to hit on a doozey like this one.

2 MS. COHEN: Well, that happens.

3 MR. CONINE: Okay. Thank you.

4 MS. ANDERSON: Mr. Chairman, I have a question
5 for Mr. Gaines.

6 MR. GONZALEZ: Yes?

7 MS. ANDERSON: Back to the prior tab, in the
8 write-up on Tom Green County, it noted that the current
9 audit was due June 30, and, you know, with all these
10 things going on, I could imagine that an audit might be
11 delayed by all those activities. I guess what I'm
12 wondering is if this recipient had, you know, notified us
13 by letter, you know, requesting an extension on time to
14 submit the audit, or communicated with us. If we haven't
15 received the audit, have they communicated with us that
16 it's delayed, it's coming?

17 MR. FARISS: Can I tell you the bottom line of
18 where we are with Tom Green, which may answer your
19 question?

20 MR. CONINE: That's right. There's nobody left
21 to write a letter, I would imagine.

22 MS. CARRINGTON: And there was no board left.

23 MR. FARISS: You just about have it.

24 MR. CONINE: Somebody knocked and nobody was at
25 home.

1 MR. FARISS: Yes. The bottom line is that we
2 met with eight of the eleven county judges in the eleven
3 county service area of Tom Green County Community Action
4 Council --

5 MS. ANDERSON: They are effectively the board.

6 MR. FARISS: -- last Friday to seek their
7 cooperation to designate an interim board to take control
8 of the corporation.

9 MR. CONINE: There's a good guy out there named
10 Robert Brewer, that they need to find, a former board
11 member.

12 MR. FARISS: I'm not sure if we met with Mr.
13 Brewer, but we did meet with eight county judges who also
14 seemed to be nice gentlemen, and very cooperative, and
15 ready to assume some responsibility to rehabilitate this
16 community based organization. We are working on a letter
17 right now, designating them as the interim board. They've
18 already posted a meeting for Thursday, July 31, at which
19 they will take appropriate action, including addressing
20 the delinquent audit. And prior to that, we imposed
21 several different sanctions, including cost reimbursement,
22 and the most recent sanction was a suspension of funds.

23 MS. ANDERSON: Okay. How long have the funds
24 been suspended, approximately?

25 MR. FARISS: Since July 23.

1 MS. ANDERSON: Okay. Thank you.

2 MR. FARISS: But they were put on cost
3 reimbursement in April.

4 MS. ANDERSON: Okay. Thanks.

5 MR. FARISS: And we also did two team
6 monitorings there, once in March and once in May,
7 surrounding all of this activity.

8 MS. ANDERSON: And are the results of those
9 monitorings reflected in this material we have, behind tab
10 G?

11 MR. FARISS: The -- I don't -- the
12 weatherization one in March is. The Community Services
13 Block Grant monitoring, along with compliance, is not
14 included in there, the one that was done in May.

15 MS. ANDERSON: Okay.

16 MR. FARISS: And that one, the financial
17 portion is still being reviewed. The programmatic portion
18 has gone out, identifying the lack of board and requiring
19 them to take action, and once we realized that there
20 wasn't a board to take action --

21 MS. ANDERSON: Right.

22 MR. FARISS: -- that's why we contacted the
23 county judges and have designated an interim board.

24 MS. ANDERSON: The March monitoring visit talks
25 about a reimbursement for an air conditioner that

1 apparently was an ineligible air conditioner. Do we have
2 a financial report on the March audit? I guess that would
3 have been requesting reimbursement, not noting receipt of
4 the reimbursement.

5 (No response.)

6 MS. ANDERSON: I guess what I'm trying to do is
7 figure out what is our --

8 MS. PHILLIPS: If I may?

9 MS. ANDERSON: Yes, ma'am, please do.

10 MS. PHILLIPS: Suzanne Phillips, if I may. My
11 team participated with the onsite in the most recent
12 review, in May. The financial portion of that part that
13 we worked on has not been released, but we have identified
14 that there are some additional department funds --

15 MS. ANDERSON: Okay.

16 MS. PHILLIPS: -- at Tom Green. There were
17 HOME funds. And my memory is -- and forgive me if it's
18 not exactly correct -- is that 1999 and 2000, the funds
19 that were drawn from the department, we were not able to
20 reconcile those funds to their general ledger, i.e. we
21 couldn't track our HOME funds to that contract there, and
22 that, at this point, we have drafted a referral to the
23 State Auditor's Office to complement their research that
24 they're doing so that they're aware that we have
25 additional funds there.

1 MS. ANDERSON: Okay.

2 MS. PHILLIPS: Our CPA from our staff met with
3 the auditors from the State Auditor's Office about this
4 matter --

5 MS. ANDERSON: Okay.

6 MS. PHILLIPS: -- and we are working with them
7 on it.

8 MS. ANDERSON: Can I ask you one more question?

9 MS. PHILLIPS: Yes, ma'am.

10 MS. ANDERSON: Maybe it's right in front of me
11 and I should just look here. I guess my question is prior
12 to the May compliance monitoring visit that you made on
13 Tom Green County, when was the prior monitoring visit?

14 MS. PHILLIPS: We have not conducted one in
15 quite some time that I can recall, that we were not
16 onsite.

17 MS. ANDERSON: Okay.

18 MR. CONINE: For which program?

19 MS. CARRINGTON: The weatherization program was
20 March.

21 MR. FARISS: Weatherization was annually.

22 MS. ANDERSON: And that's done by the Community
23 Affairs staff. Right?

24 MS. CARRINGTON: With a financial component of
25 it. Right.

1 MR. FARISS: With a financial review.

2 MS. ANDERSON: But from a compliance monitoring
3 perspective?

4 MS. PHILLIPS: We do the single audit work.

5 MS. ANDERSON: Right.

6 MS. PHILLIPS: So we were doing that --

7

8 MS. ANDERSON: Right.

9 MS. PHILLIPS: -- but I don't believe we've
10 been onsite at Tom Green for quite a few years.

11 MS. ANDERSON: Okay. And is this a part of the
12 risk-based sort of adjustment of how you decide when
13 you're going to different grantees? Or does that not
14 apply? Does that use of methodology not apply to this
15 kind of a visit?

16 MS. PHILLIPS: I would have to say it doesn't
17 apply to the CS. We're just now working through our team
18 monitoring issues with the CS and --

19 MR. FARISS: But when there are issues like
20 issues at Tom Green, that's when we ask compliance to go
21 with us on the team monitoring, as we did in May, to
22 participate in a more in-depth financial review, as the
23 Community Affairs staff reviews programmatic issues.

24 (Pause.)

25 MR. GAINES: All right.

1 MS. CARRINGTON: David, do you want to comment?
2 Is there any follow-up to any conversations that you've
3 had with the special investigation unit of the State
4 Auditor's Office that would be worth sharing with the
5 Audit Committee?

6 MR. GAINES: There was a little bit of
7 confusion. Well, let me say this. The State Auditor's
8 Office is, as a result of their recent work with the FBI,
9 is continuing an investigation of state-funded programs
10 being received by Tom Green, which of course would include
11 some of our funding sources.

12 MS. CARRINGTON: But to this date have not
13 indicated that there are any difficulties with any of our
14 funding. Is that correct?

15 MR. GAINES: The outcome of such an
16 investigation, if it was to lead to an indictment, would
17 result in a report, and if it doesn't, no report will be
18 issued. I've obtained concurrence from the investigators
19 in charge that we would like to know the results of that
20 review regardless.

21 MS. CARRINGTON: Okay. Thank you.

22 MS. ANDERSON: For the monitoring visits, for
23 weatherization, that the Community Affairs sections do,
24 how often are those monitors rotated? In other words, if
25 they're annual visits, how often do you change the

1 individual that's going to a given grantee?

2 MR. FARISS: I believe, every three years.

3 MS. ANDERSON: Is that in written policy?

4 MR. FARISS: No, ma'am.

5 (Pause.)

6 MR. CONINE: Sick and tired.

7 MS. ANDERSON: We're just running out of gas
8 here.

9 MS. CARRINGTON: We're trying to be respectful
10 here.

11 MS. ANDERSON: I know. You know, this is a
12 good -- I think it's a good discussion. You know, other
13 than having Eddie make presentations to us about the sort
14 of terms and conditions of these programs -- and he always
15 ends up last on the agenda, and he always has to go
16 through 17 Powerpoint slides in about seven seconds -- you
17 know, we don't spend much time talking about these
18 programs. And they're very important to the people that
19 they serve, and we have a, I believe, just as significant
20 a public responsibility to our public, to our
21 constituencies, to spend time as a board on these, too.
22 So I appreciate everything everybody's done to get ready
23 for this meeting.

24 (Applause.)

25 MR. GAINES: Let's move to the next agenda

1 item, then, if there's no further questions there. Item i
2 and j -- one is for the Energy Assistance Programs and one
3 is for the Section 8 program, and basically what we've
4 provided here is a summary of the prior audit issues
5 relating to those programs, over the last -- in this case,
6 Energy Assistance, since fiscal year, actually that's
7 1997, 8/31/97.

8 We also provided a -- if you'll note, since
9 1997, there's been three findings on the LIHEAP program,
10 in connection with the single audit. Each of these has
11 been resolved by the auditors in their subsequent year
12 review. They all related to some sort of -- excuse me,
13 two of the three related to embezzlement problems, pointed
14 out by department staff to the auditors, which, in turn,
15 wrote them up, and then, the third related to a deficient
16 audit that was submitted to the department that was a
17 considerable amount of money that the department
18 questioned. And I believe they reported the CPA to the
19 state board for poor performance.

20 The next item on the agenda is the results of
21 recent monitoring reviews, and I'm talking about the
22 Energy Assistance section at this point. Excuse me.
23 Immediately following the prior audit issues is result of
24 funding source monitoring reviews of the Energy Assistance
25 Program since 1997. There's been two reviews since that

1 time; the most recent was August 1999, with the report
2 being released in September. The overall conclusion was
3 the program appeared to be well-managed.

4 The monitors concluded that the state processes
5 and procedures were in place for providing guidance on
6 financial and programmatic management of the program,
7 appear to be working, working well, and the situation with
8 disallowed costs were involved with subgrantee, the
9 oversight system in place protected the problem and acted
10 appropriately in issuing the corrective action
11 requirements to the subgrantee.

12 There were several recommendations, including
13 corrective action process for dealing with the findings
14 resulting from the monitoring of subgrantees be documented
15 in a policy or guidance format, that program monitoring be
16 supplemented with financial monitoring, and that the
17 parameters used in energy audits for effective life span
18 be revisited for any measure that is prone to reduce
19 effectiveness due to exposure to normal wear and tear over
20 item.

21 The second monitoring visit was May '98.
22 Monitors again concluded overall the program appears to be
23 well-managed. The one recommendation that resulted
24 related to the department guidance to subgrantees working
25 with local agencies to increase the number of rental units

1 that are receiving weatherization services.

2 Yes, ma'am?

3 MS. ANDERSON: I think maybe this question's
4 for Mr. Fariss. On the '99 DOE audit, for the first bullet
5 about having documented policy guideline about how you
6 follow-up with findings resulting from monitoring of
7 subgrantees, do we have those follow-up procedures for our
8 department? Are those documented in writing?

9 MR. FARISS: Yes, ma'am.

10 MS. ANDERSON: Okay. And who is ultimately
11 accountable? Is it the program manager for each of the
12 individual programs for assuring that the appropriate
13 follow-up happens and we know that all the findings are
14 dealt with? Who's the accountable person in the agency on
15 weatherization? Is it department manager?

16 MR. FARISS: I guess as division director, I'm
17 ultimately responsible. Each of my section managers are
18 responsible immediately to ensure that --

19 MS. ANDERSON: For the findings? For the
20 grantees that are administering the funds --

21 MR. FARISS: Yes, ma'am.

22 MS. ANDERSON: -- in those programs? And is it
23 your view that the program managers consider themselves to
24 be accountable? Am I using the right job title, program
25 manager?

1 MR. FARISS: Yes, ma'am.

2 MS. ANDERSON: That program managers consider
3 themselves accountable?

4 MR. FARISS: I believe that's an accurate
5 statement.

6 MS. ANDERSON: Okay. Thank you.

7 MR. FARISS: I would also like to augment
8 David's discussion about DOE monitoring, because we did
9 receive a visit from DOE monitors recently -- in fact,
10 last week, who came to review our monitoring processes of
11 our DOE-funded weatherization subrecipients' procedures
12 in-house, as well as our procedures when we do an onsite
13 monitoring visit. And while this is not a final report,
14 it is a summary of their review, and I would like to just
15 say that the major bullets in that letter include
16 statements that no major compliance issues were found.

17 DOE supports TDHCA's purchase of an energy
18 audit from an independent provider, even though DOE
19 provides states with the option of using the national
20 energy audit tool at no expense. Their preliminary review
21 of data indicates that populations deemed as priority by
22 Weatherization Assistance Program regulations are being
23 met and that TDHCA's monitoring procedures and responses
24 to monitoring findings appear to have been weak in some
25 areas, but it is apparent that TDHCA has recognized these

1 shortcomings and is implementing corrective action aimed
2 at strengthening the entire process.

3 MS. ANDERSON: Thank you. While we're on the
4 subject of the easy audit, and the custom software tool,
5 and all those findings, and that all, I'm really confused
6 about that. I remember being a new board member and
7 taking a board action to ask some state agency for a
8 waiver, and DOE paying for that custom development, and so
9 forth. Were those kinds of things discussed with the
10 state auditor during --

11 MR. FARISS: Yes, ma'am.

12 MS. ANDERSON: Okay. Then, maybe, I would like
13 to ask the State Auditor's Office to explain to me. I'm
14 just confused about it. We got a waiver, which we were
15 supposed to do -- and you're right, it does cost money --
16 but they're not -- it's not general revenue; it's money
17 that DOE specifically -- I remember asking lots of
18 questions about this at the time. They specifically gave
19 us -- because we documented some special set of needs. So
20 I'm --

21 MR. FARISS: Right.

22 MS. ANDERSON: Ms. Cohen, if I could have your
23 point of view on --

24 MS. COHEN: We had asked for -- we didn't go
25 back to the 1995 initial procurement. We were looking

1 more at the more recent updated contract. We were
2 interested in how the decision was made to go -- you know,
3 what were the costs --

4 MS. ANDERSON: With custom --

5 MS. COHEN: -- that were considered? What were
6 the benefits that were considered? And we found no
7 documentation. You know, the program staff was clear that
8 they had thought about it, but we couldn't find anything
9 to support what went into that thinking, and when the
10 decision to make --

11 MS. ANDERSON: Upgrade it.

12 MS. COHEN: -- to upgrade it, happened, at that
13 point, there should have been some other assessment of is
14 it still --

15 MS. ANDERSON: Sort of a business case, a cost
16 benefit?

17 MS. COHEN: Right.

18 MS. ANDERSON: Right. I hear you.

19 MS. COHEN: And that was where we were.

20 MS. ANDERSON: And that is sound business
21 practice, absolutely. Okay. Thank you.

22 MR. GAINES: If you'll turn now past the
23 monitoring results from the funding sources, there's a
24 document called Program Monitoring-DOE and LIHEAP
25 Weatherization, 14 pages. If you'll turn to page 1 of 14

1 and take a look to see if you have two of those.

2 VOICE: I didn't.

3 MR. GAINES: If you do, just remove the first
4 page.

5 VOICE: I know it's late.

6 MR. CONINE: It's late. Nothing like as
7 auditor catching that. You know it?

8 MR. GAINES: Breakdown in the quality control
9 process, I'm afraid.

10 MR. CONINE: Call Xerox.

11 MR. GAINES: I'll blame it on Support Services.
12 No.

13 MS. ANDERSON: Better be careful.

14 MS. CARRINGTON: Don't you dare, David.

15 MR. GAINES: No, we appreciate their work.

16 What you see in front of you here is a listing,
17 if you will, of the monitoring responsibilities of, in
18 this case, the weatherization program. The weatherization
19 program -- excuse me, the Energy Assistance Program
20 provided an overview, a program monitoring overview, and
21 then listed, if you will, the program monitoring
22 responsibilities. That goes on -- and this is kind of
23 program specific or the form was designed to be program
24 specific. As you look at it, a lot of it would be of a
25 pretty general nature, but it goes down to page 4 of 14.

1 The first column is the responsibilities. The
2 second column is procedures to ensure compliance with
3 that. Beginning on page 4 of 14, we go into the O&D
4 circular A-133 compliance supplement requirements, and
5 this ties into the single audit and audit requirements.
6 And here are a list of general requirements that are
7 applicable to any federal program, to the extent they
8 relate to that program. And so the general requirements
9 are listed, beginning on page 14, and the different
10 activities that, in this case, DOE and LIHEAP
11 weatherization program has in place to ensure compliance
12 with each of the different requirements.

13 You'll notice on page 5 of 14, a couple of
14 not-applicables. These are applicable to the extent they
15 relate. In this case, these requirements don't relate to
16 this particular program.

17 The intent of this is, again, to identify
18 what's required of the department and what procedures do
19 we have in place to ensure compliance. This is the
20 document that I spoke of earlier that, right now, not all
21 the other programs in the department are working on it.
22 In fact, I believe right now HOME program's working on
23 it -- and I've proposed to Executive and Ms. Carrington
24 agrees -- we'd like this completed for each of the
25 programs for purposes of making sure we're fulfilling our

1 responsibilities and for the purposes of identifying
2 opportunities for improvement, weaknesses, any
3 vulnerabilities we might have in this respect.

4 It was this instrument here that we also
5 alluded to earlier that I'd like to present to the board,
6 as they come in, be the basis and foundation of our audit
7 plan for this coming year, to risk rank these different
8 criteria, requirements if you will, for the different
9 programs. And then, as we drill down, and management
10 believes, okay, we do have the processes in place to
11 address this requirement, then independently verify that
12 for the comfort of management and for the board. That's
13 the purpose of this document.

14 If you will, you can kind of flip through it a
15 couple pages further; 9 of 14 talks about just general
16 information. The shaded area is just kind of criteria, or
17 considerations that should be factored in in developing
18 our processes. You can kind of just scan through that.
19 I'll be glad to answer any questions you might have in
20 this respect and, likewise I'm sure, Mr. Fariss here.

21 Real similar information is provided for
22 Section 8, behind tab j. A summary report for our audit
23 issues since August '99. In this case, that's a good
24 date, in that I don't believe Section 8 was identified as
25 a major program in '99, or 2000, and possibly 2001. I

1 believe last year was the first year they were identified
2 as a major program.

3 There was three issues that resulted from that
4 single audit review last year by KPMG. Each of these
5 issues have been cleared by HUD letter dated July 18. The
6 way these single audit issues play out is that the
7 auditors have responsibility to the report to funding
8 agencies the findings. The funding agencies review and
9 take the actions they consider appropriate. We received a
10 letter July 18, 2000 --

11 VOICE: Three.

12 MR. GAINES: That's 2003.

13 VOICE: Three.

14 MR. GAINES: I had not recognized that until
15 right now -- clearing these findings.

16 We didn't go into -- well, there hadn't been --
17 rather than a summary of the monitoring visits over the
18 last several years, basically there's been one significant
19 monitoring review of Section 8 by HUD, in 2000. The state
20 auditors provided a summary of that in their report.

21 Once you get past the prior audit issues, the
22 title is "Status of prior Section 8 non-compliance issues
23 identified in 2000." That's right out of the SAO report
24 and the italics leading into that first table is right out
25 of the state auditor's report, and what we did is have

1 management provide a response and status as of July 18, to
2 that original HUD audit. Within that HUD audit, they
3 requested the department to obtain a program specific
4 audit by an external auditor that came in and specifically
5 looked at the Section 8 program, and many of the same
6 exceptions and issues were noted by the external auditors,
7 because basically they audited the same period as the HUD
8 auditors, so you had to expect them to find similar
9 circumstances.

10 The department provided an updated status as of
11 July 18 and, in summary, the auditors continued to find
12 exceptions where we had reported the issues as
13 implemented. In looking at this, in many instances,
14 management believes that it had more to do with the
15 quality control processes and considers these
16 recommendations implemented, primarily through the use of
17 a checklist that was developed and put into place in
18 January 2003. And they believe, with that checklist to
19 complement other procedures that they've put into place,
20 that these additional errors that are occurring, and that
21 have been identified by the SAO, should be reduced --
22 should identify those type of circumstances.

23 And we can talk about any particular one.
24 There were originally 17 findings in the HUD report. The
25 state auditor has followed up on eight, and I'm

1 guessing -- this is kind of a guess -- that they followed
2 up on those they considered to be more significant. Of
3 those eight, they've cleared one and continue to find
4 exceptions in the remaining seven areas.

5 MS. ANDERSON: I have a question about the
6 quality control checklist, which I think is a good idea.
7 I commend the section for putting that in place. I guess
8 my question is -- you know, and you can check things step
9 right now, checkers checking the checkers checking the
10 checkers -- but if the program managers are ultimately
11 accountable for quality control for their program, what
12 steps are in for the program managers to spot check, to
13 use some other means to make sure that the quality control
14 checklist process is having the desired results?

15 MR. FARISS: I know that the program manager
16 reviews a sample of the files that include that checklist.
17 I'm not sure what the sample size is.

18 MS. ANDERSON: Okay. And we put this into
19 place in January. I don't know how long it takes to cycle
20 through all the files. Would, you know, half the files
21 now have those checklists in them?

22 MR. FARISS: All of them.

23 MS. ANDERSON: They all do? So that when we
24 have this HUD review of the Section 8 files on Thursday,
25 we'll get --

1 MR. FARISS: They're doing that right now, yes.

2 MS. ANDERSON: -- some sense of -- okay.

3 MR. FARISS: That's absolutely correct.

4 MS. ANDERSON: Okay. Great. Thanks.

5 MR. GAINES: Last two tabs in your committee
6 book relate to graduated sanctions. The first tab, k,
7 relates to sanctions applied by the Community Affairs
8 division against poor performance subrecipients over the
9 last several years and then tab l is just graduated
10 sanctions that are available to the Community Affairs
11 division. I'm sure Mr. Fariss will be glad to speak to
12 either or both of those.

13 MS. ANDERSON: Did you bring me the CFR
14 language?

15 MR. GAINES: Excuse me?

16 MS. ANDERSON: Did you bring me the CFR
17 language?

18 MR. GAINES: Yes, ma'am.

19 MS. ANDERSON: I'd like to review that, not
20 during the meeting.

21 MR. FARISS: Tabbed and everything.

22 MS. ANDERSON: Huh?

23 MR. FARISS: Tabbed and everything.

24 MS. ANDERSON: Tabbed and everything, okay. It
25 won't be the first time.

1 MR. FARISS: And, hopefully, you'll find when
2 you review that, that my summary here at the bottom of the
3 graduated sanction page, which is actually tab k,
4 summarizes that regulation fairly well.

5 MS. ANDERSON: Okay.

6 MR. FARISS: But remember, it applies only to
7 eligible entities under the Community Services --

8 MS. ANDERSON: Right.

9 MR. FARISS: -- Block Grant Program.

10 MS. ANDERSON: Right.

11 MR. FARISS: We can make available to you the
12 guidance for the weatherization programs as well.

13 MS. ANDERSON: Okay.

14 MR. FARISS: But you'll not here that there's
15 seven graduated sanctions listed here.

16 MS. ANDERSON: Right.

17 MR. FARISS: In fact, I left one out, which we
18 just used and that's suspension of funds, which we could
19 use against an eligible entity without terminating or
20 reducing their funding, which is precluded by regulation.

21 MS. ANDERSON: Now, when it talks about WAP
22 policy issuance, down in the next paragraph, WAP policy
23 issuance 95-12-8.

24 MR. FARISS: Yes?

25 MS. ANDERSON: Is that our policy?

1 MR. FARISS: Yes, ma'am.

2 MS. ANDERSON: Okay. When was that policy last
3 reviewed or updated? Does the 95 mean anything?

4 MR. FARISS: I've reviewed it several times --

5 MS. ANDERSON: Okay.

6 MR. FARISS: -- in the last couple of years,
7 and it was well written when it was implemented in '95,
8 and still is appropriate and applicable, and we still use
9 it now.

10 MS. ANDERSON: I'd like to see that, too. You
11 can just have Delores send it to me.

12 MR. GAINES: For your reading pleasure.

13 MS. ANDERSON: Okay.

14 MR. FARISS: Certainly.

15 MS. ANDERSON: Thank you.

16 MR. FARISS: And then, 1, of course, as David
17 mentioned, are sanctions that have been imposed on
18 Community Services Programs as well as Energy Assistance
19 Programs, since 1998. I would mention that the state of
20 Texas has also -- you know, the ultimate graduated
21 sanction is termination of contract. And for eligible
22 entities, those organizations receiving Community Services
23 Block Grant funding, the process that I outlined in there
24 is a fairly explicit one.

25 However, we have used that termination sanction

1 one time since '98, and in three other cases,
2 organizations, when faced with that process, chose to
3 voluntarily relinquish. So that is basically four. We
4 have used the ultimate sanction with four agencies since
5 1998, which puts us 400 percent ahead of any other state
6 that I can get information on.

7 MS. ANDERSON: Well, it's not supposed to be
8 easy -- right? -- to terminate a grantee, but it's not
9 impossible either?

10 MR. FARISS: Right --

11 MS. ANDERSON: I did it in a previous life.

12 MR. FARISS: -- but it also shows that you're
13 not reluctant to use that --

14 MS. ANDERSON: That you're serious?

15 MR. FARISS: -- that sanctions.

16 MS. ANDERSON: So these two entities at the
17 bottom of this page, where we say in both cases, the WAP
18 contract was terminated and PY 2000. Were those, in fact,
19 terminations or were they voluntary?

20 MR. FARISS: Yes, ma'am.

21 MS. ANDERSON: They were terminations?

22 MR. FARISS: Yes, ma'am.

23 MS. CARRINGTON: And the others, I think,
24 Eddie, you noted, that there was a voluntary
25 relinquishment of the contract.

1 MR. FARISS: Right. Yes, anywhere there was a
2 voluntary relinquishment, we --

3 MS. CARRINGTON: Yes, you noted that.

4 MR. FARISS: -- indicated that.

5 MR. CONINE: Eddie, this is, obviously, the
6 whole report -- the state auditor's report is a wake-up
7 call for your whole area, and if you say the whole
8 process, you know, picking our subrecipients, giving the
9 money out, monitoring them as they go along, and spending
10 money in the appropriate way, are some of these issues
11 manpower issues relative to your department, as you look
12 backwards? Are some of these issues policy? Maybe we
13 didn't have a written policy on procedures.

14 MR. FARISS: I believe it's the latter.

15 MR. CONINE: It's the policy?

16 MR. FARISS: I believe that in the spirit of
17 the audit, they pointed out some things where we can
18 tighten our procedures, some things that we hadn't
19 realized that we needed to enhance our policies with, and
20 we will do that. We are grateful for the opportunity to
21 recognize those places where we have weaknesses and to
22 address them. That's why we began immediately
23 implementing changes as soon as we began preliminary
24 discussions with the state auditor's group, as they came
25 back from one of the subrecipients that they visited.

1 MR. CONINE: But you feel like you have the
2 manpower to do the job right in the future? In other
3 words, we've focused on some deficiencies and some areas
4 where we can obviously do better, but as far as FTEs go,
5 you've got enough people to get the job done?

6 MR. FARISS: I believe it's a challenge that we
7 can meet.

8 MR. CONINE: Okay. So it's just a matter,
9 then, of reshuffling policy manuals and procedures to make
10 sure we implement and monitor, and all the things that --

11 MR. FARISS: Exactly.

12 MR. CONINE: -- are encompassed in the whole
13 process the way HUD, and the State Auditor's Office, and
14 the others who look over our shoulders need for the job to
15 be done that way.

16 MR. FARISS: I believe so. I believe part of
17 it is to be able to document to those that are concerned
18 about our monitoring procedures that we have indeed
19 carried them out, like one of the findings where we
20 weren't identifying specific files that we reviewed when
21 we were onsite so that a follow-up review could verify
22 that our findings were our findings. We've already begun
23 to change our monitoring instrument to require that kind
24 of documentation. So we'll be able to do those things.

25 MR. CONINE: It seems like a lot of it is

1 reports the subrecipients owe you, so that you can do an
2 appropriate job. One of the questions I asked earlier,
3 about how many staff the Greater East Texas folks have, is
4 do they have the capacity to, once they get the money, to
5 report back to us in a manner that is appropriate? Are we
6 fully instructing, and training, and all that kind of
7 stuff to make sure that they can and do report to us? I'm
8 sure it will in the future because it's now been
9 demonstrated that we need to do a better job, but are most
10 of the --

11 MR. FARISS: Just like with --

12 MR. CONINE: -- subrecipients qualified,
13 staffed, and available to do that? Or is there a
14 deficiency there?

15 MR. FARISS: I believe, just like with any
16 network of private, non-profit organizations -- and in
17 this case, we're talking about somewhere between 80 and 90
18 non-profit organizations --

19 MR. CONINE: Right.

20 MR. FARISS: -- and if we also include the
21 Emergency Shelter Grants program, you're talking about
22 another 70. So I think any network that size, you're
23 going to have organizations with adequate capacity and
24 others that have more difficulty meeting that. You know,
25 that's one of our challenges, is to continue to provide

1 appropriate training and oversight to those that have more
2 of a struggle.

3 You know, the staff sizes of those non-profits
4 vary wildly. You know, we may contract with an Emergency
5 Shelter Grant operation that has, you know, six staff,
6 while some of the larger Community Action agencies that
7 also administer weatherization, CEAP, Head Start, and
8 Early Head Start, will have large staffs, the size of
9 GETCAP, and some other -- there's some organizations with
10 even larger staff. So to be able to say that they all
11 have the capacity, or don't have the capacity, I can't do
12 that, because, you know, they have varying capacities.
13 And that's part of our challenge, to make sure that
14 everybody functions at an appropriate --

15 MR. CONINE: No, but, you know, you have the
16 ability when you hand them the check to look them in the
17 eye and say, Don't get me in trouble, and that's a very
18 simple way of describing some sort of dialogue between us
19 and the subrecipients that needs to go on probably a
20 little deeper than it has in the past because if you've
21 got 150 of them out there, it's hard to do that in every
22 case. But if they're repeat customers that are treating
23 you right, then it becomes easier to do.

24 I think, the first time, once you have a first
25 time customer, you know, to have a serious dialogue with

1 them, maybe in the future, to make sure they give you, and
2 they provide you, and they understand what's required of
3 them. It's a huge laundry list, you know. Mr. Gaines has
4 14 pages or whatever it was, and it's not easy, and it's a
5 lot to worry about over a "small" amount of money.

6 MR. FARISS: Right.

7 MR. CONINE: And, you know, the strings that
8 come attached to these funds are, in some cases,
9 overbearing, but, you know, there's nothing I can do about
10 them. They come from Washington, D.C.

11 MR. FARISS: Well, and I appreciate that
12 statement. We do impart that responsibility to our
13 subrecipients and I believe that they accept that
14 responsibility. While there are weaknesses pointed out
15 here, we have fairly successfully operated the
16 weatherization program, the Community Services Block Grant
17 program, and the LIHEAP-funded CEAP program for 25 years.

18 And every, you know, we are constantly improving the
19 processes, because, like you say, there are more
20 requirements. Every time the acts are re-authorized, we
21 get additional requirements.

22 MR. CONINE: You committed to see that we can
23 get this thing worked out in the future, so that we can
24 get some letters kind of like the RTC letter. Although,
25 sometimes when the RTC and FDIC write a letter, I don't

1 believe a whole lot about it, but it was a nice letter to
2 get. All right. But we need to do the same thing over on
3 your side of the fence, too, and I'd like to see the DOE
4 letter and others, in the future, that say that we as a
5 state are an exemplary program and just wanted to hear
6 from you that you are committed to see that that happens.

7 MR. FARISS: Absolutely.

8 MR. CONINE: Great.

9 MS. ANDERSON: I want to clarify something with
10 you. There's really no churn in these grantees? I mean,
11 there's really no first time grantees for these programs,
12 other than when you have a termination or a voluntary
13 relinquishment. I mean, these are --

14 MR. FARISS: Except for -- I'm sorry.

15 MS. ANDERSON: Go ahead.

16 MR. FARISS: Except for the Emergency Shelter
17 Grants program, which is the only competitively obligated
18 funds that we administer.

19 MS. ANDERSON: Okay. But everything else is
20 kind of annually renewable?

21 MR. FARISS: That's correct.

22 MS. ANDERSON: Right. And so these are
23 grantees of longstanding, who've been, for the most
24 part -- except where we've had a replacement grantee or
25 something -- the same entities in these geographies have

1 been running these programs for several years anyway?

2 MR. FARISS: Right.

3 MS. ANDERSON: They're not new to the scene?

4 MR. FARISS: That is correct.

5 MS. ANDERSON: Okay. I have another question
6 for you. I know that you're getting together with the
7 executive directors, I think, of the grantee agencies in
8 San Antonio --

9 MR. FARISS: That's true.

10 MS. ANDERSON: -- looks like, maybe the end of
11 next week. What are your plans on that agenda -- to meet
12 with either the executive directors of these agencies as a
13 whole, or specifically the subrecipients, you know, that
14 may need special assistance, coaching, and guidance to use
15 this opportunity to, you know, back up the importance of
16 strong program administration and execution of these
17 programs?

18 MR. FARISS: Except for the additional agenda
19 item on Wednesday at 11:30, which you will be
20 participating in, our agenda has been set for some time.
21 However, we do have, you know, we have -- this is
22 primarily a management conference to bring management
23 tools to the attendees, and we have several people
24 invited, including one national consultant who works with
25 HSS. And even before this audit was released, I spoke to

1 her about her presentation which will address contractor
2 compliance, board involvement. A lot of times when you
3 find problems at a non-profit agency, you find that
4 that --

5 MS. ANDERSON: Governance?

6 MR. FARISS: -- has something to do with the
7 involvement of the board. That's something that we have
8 tried to emphasize. We'll be presenting that at the
9 conference as well.

10 MS. ANDERSON: Well, I guess I have to say,
11 unless I misunderstand your answer, it doesn't sound to me
12 like we're doing too much to take advantage of having this
13 group of people with us. Did I misunderstand his answer,
14 Ms. Carrington?

15 MS. CARRINGTON: We did take a look at the
16 agenda and we have carved out 45 minutes from 11:30 until
17 12:15, on the first day of the conference. So it's right
18 after the opening session and the keynote speaker. So
19 we've carved out that time. We've pushed lunch back a
20 little bit for a discussion and presentation from me, and,
21 we were hoping, Ms. Anderson from you, also --

22 MS. ANDERSON: I didn't know anything about it.

23 MS. CARRINGTON: -- I apologize that you have
24 not been notified of that -- to discuss, basically, these
25 issues.

1 MR. FARISS: In addition, we have a session on
2 Thursday afternoon, where we had planned for some time to
3 provide an update from each of the sections in the
4 division, and I suspect that we'll be talking about those
5 issues as well on that Thursday.

6 MS. ANDERSON: Okay.

7 MS. CARRINGTON: Yes, I think what we've done
8 is looked at the agenda and determined where we can fit in
9 these additional discussions.

10 MS. ANDERSON: It's a pretty important set of
11 topics.

12 MS. CARRINGTON: Yes.

13 MS. ANDERSON: So I appreciate making time on
14 the agenda.

15 MR. FARISS: Just for your information as well,
16 we have a session set up after hours on Wednesday with a
17 group of new executive directors. We also have a training
18 session. The U.S. Department of Health and Human Services
19 has funded a training academy that they are delivering
20 across the nation. The next academy will be in San
21 Antonio and we will be paying the tuition for six agencies
22 to attend. Five of those have new executive directors.

23 MS. ANDERSON: Okay. Good.

24 MR. FARISS: So that's another of the many ways
25 that we try to provide technical assistance to the

1 administration of our subrecipients.

2 MR. GONZALEZ: Good report.

3 MR. GAINES: I'd like to thank the committee
4 for your continued support and Ms. Carrington for
5 suggesting I get a table out here today.

6 VOICE: That's great. I wasn't looking forward
7 to standing.

8 MS. CARRINGTON: I would like to also thank
9 David Gaines and Ruth Cedillo, who have worked with staff
10 in the various areas of our department as we have put
11 these materials together, and look forward now to going
12 forward with the implementation and improving the policies
13 and procedures of the department as it relates to these
14 weaknesses that have been identified, and moving forward.

15 So thank you, David. Thank you, Ruth, Suzanne.

16 MR. GONZALEZ: Thank you. Now, we'll go to
17 executive session, pursuant to Section 2306.056, Texas
18 Government Code, Chairman of the Board of Directors, Texas
19 Department of Housing and Community Affairs. Mike Jones
20 has appointed Vidal Gonzalez, Beth Anderson, and Shad
21 Bogany, with an optional board member as a substitute
22 member, who is Kent Conine, and all are current Texas
23 Department of Housing and Community Affairs board members,
24 to serve as the Audit Committee, with Mr. Gonzalez as
25 chairman of the Audit Committee.

1 On this day, July 29, 2003, at a regular Audit
2 Committee meeting of the Texas Department of Housing and
3 Community Affairs, held in Austin, Texas, the Audit
4 Committee adjourned into a closed executive session, as
5 evidenced by the following. The Audit Committee will
6 begin its executive session today, July 29, 2003, at 3:30
7 p.m.

8 The subject matter of this executive session
9 deliberation is as follows: personnel matters, under
10 Section 551.074 Texas Government Code, and, if permitted
11 by law, the discussion of any item that's been on the
12 Audit Committee meeting agenda of even date.

13 (Whereupon, at 3:30 p.m., the meeting went into
14 executive session, to reconvene this same day, Tuesday,
15 July 29, 2003.)

16 MR. GONZALEZ: The Audit Committee has
17 completed its executive session of the Texas Department of
18 Housing and Community Affairs on July 29, 2003, at 3:50
19 p.m. The subject matter of this executive session
20 deliberation is as follows: personnel matters under
21 Section 551.074 Texas Government Code, action taken, none.

22 Discussion of items listed on the Audit Committee meeting
23 agenda of even date -- action taken, none.

24 I hereby certify that this agenda of an
25 executive session of the Audit Committee of the Texas

1 Department of Housing and Community Affairs was properly
2 authorized pursuant to 551.103 of the Texas Government
3 Code, posted at Secretary of State's office seven days
4 prior to the meeting, pursuant to 551.044 of the Texas
5 Government Code, and that all members of the Audit
6 Committee were present, with the exception of Shad Bogany,
7 and that this is a true and correct record of the
8 proceedings pursuant to the Texas Open Meetings Act,
9 Chapter 551 Texas Government Code, as amended, Vidal
10 Gonzalez, Chair.

11 I'd like to go over the Texas Department of
12 Community Affairs project summary, as far as the data
13 gathering and population project, and we'd like to
14 recognize the team members -- Alyssa Carpenter, Analisa
15 Gonzales --

16 MS. ANDERSON: Stand up.

17 MR. CONINE: They're going to have to stand up
18 so we can see who they are.

19 MS. ANDERSON: Stand up.

20 MR. GONZALEZ: -- Annette Cormier, Aurora
21 Carvajal, Becky Peterson, Blanca Hernandez, Christy
22 Roberts, Jorge Reyes, Ty Myrick, Krissy Vavra, Laura
23 Palacios, Linda Aguirre, Linsey Kornya, Liz Barrera, Mike
24 Garrett, Mark Klingeman, Bobby Grier, Michael Jovicivich,
25 Misael Arroyo, Naomi Acuna, Nidia Hiroms, Rachel Metting,

1 Teresa Morales, Brenda Hull, Joanne DePenning, Steve
2 Schotman, Wendy Pollard, Veronica Martinez, and Michelle
3 Atkins. I believe I covered -- oh, I left one person --
4 Delores Groneck.

5 (Applause.)

6 MR. GONZALEZ: I want to thank you all, and
7 Edwina, for all the effort and all the work that you all
8 have done. It's truly appreciated and we appreciate it.

9 MS. CARRINGTON: Thank you all very, very much
10 for the work that you've done. Now, Delores is pointing
11 to the back so I think there's cake back there, and
12 there's punch back there, and we just wanted to -- the
13 board wanted to take this time this afternoon, and
14 tomorrow morning also -- obviously, we couldn't carry the
15 cake over to the Capitol tomorrow. So that's why we're
16 having cake this afternoon. We are looking forward to all
17 of you all being over tomorrow morning, at 8:30, at the
18 beginning of the board meeting, so, again, Mike Jones can
19 acknowledge you all in front of the group that's going to
20 be there.

21 This was a huge effort on the part of this
22 group that volunteered and populated this database. I
23 know there's still work to be done, but you all did it
24 ahead of time and probably under budget, if we look at
25 what we had actually budgeted for it -- in the way of not

1 only time, but money -- to get this done. So we wanted to
2 take this opportunity to say thank you.

3 Ms. Anderson, would you like to say something?

4 MS. ANDERSON: I think this is just a great
5 example of the agency pulling together, individuals in
6 this agency -- you all showed your commitment to the broad
7 mission of the agency, and sometimes the things that we
8 get asked to do in support of a cause we believe in, they
9 seem like little things, and, you know, each keystroke by
10 itself is a little thing. But without all of you all
11 doing this, we'd be a long time getting this done, and we
12 are so much better able to serve the various communities
13 that we interact with because of the data that you put in.
14 So we have good historical data and we can move our
15 programs forward.

16 I join Ms. Carrington -- and I'm sure the other
17 members of the board -- in really expressing my
18 appreciation for you going above and beyond, and I hope
19 you feel as good about your part in that as we do about,
20 you know, how great it is to have it done and what an
21 example you set, really, for state employees all across
22 Texas.

23 MR. GONZALEZ: I'd also like to recognize the
24 project sponsors, Ruth Cedillo and Bill Dally, and also
25 the project managers, James Roper and Russ Walch. So

1 thank you all.

2 VOICE: Thank you.

3 (Applause.)

4 MR. GONZALEZ: And at this point --

5 MR. CONINE: Move for adjournment, Mr.

6 Chairman.

7 MS. ANDERSON: Second.

8 MR. GONZALEZ: Motion and second. All those in
9 favor?

10 (A chorus of ayes.)

11 MR. GONZALEZ: Motion carries. Meeting's
12 adjourned.

13 (Whereupon, at 4:00 p.m., the meeting was
14 adjourned.)

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MEETING OF: Texas Department of Housing and Community
Affairs Audit Committee Meeting

LOCATION: Austin, Texas

DATE: July 29, 2003

I do hereby certify that the foregoing pages,
numbers 1 through 126, 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) 8/05/03
(Date)

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