

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
AUDIT COMMITTEE

8:00 a.m.
Thursday,
December 11, 2003

Waller Creek Office Building
Room 437
507 Sabine
Austin, Texas

COMMITTEE MEMBERS:

VIDAL GONZALEZ, Chairman
SHADRICK BOGANY
BETH ANDERSON
SHADRICK BOGANY

STAFF PRESENT:

Edwina Carrington, Executive Director
David Gaines
Eddie Fariss

A G E N D A

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MR. GONZALEZ: Call the meeting to order.
We'll start off with the roll call. Beth Anderson?

MS. ANDERSON: Here.

MR. GONZALEZ: Shad Bogany?

MR. BOGANY: Here.

MR. GONZALEZ: And Vidal Gonzalez. All three members are present. And then we will solicit public comment at the beginning of the meeting, and we'll provide for public comment on each agenda item made after the presentation by Department staff, and motions by the Committee. Any public comment?

(No response.)

MR. GONZALEZ: Okay. If not, then we'll go to Item number 1, which is the presentation, discussion and approval of minutes of the Audit Committee meeting of October 9, 2003.

MS. ANDERSON: I move approval of the minutes.

MR. BOGANY: Second.

MR. GONZALEZ: We have a motion and a second.
All those in favor say aye.

(A chorus of ayes.)

MR. GONZALEZ: All opposed? Motion carries.
We'll go and call on Mr. David Gaines for report items and

1 Item 2. Let's start off with the HUD Section 8 Rental
2 Integrity Monitoring Review.

3 MR. GAINES: David Gaines, Director of Internal
4 Audit, for the record. Good morning, Chair, members of
5 the Committee, Ms. Carrington.

6 If I may, I think I'll turn us to the last
7 agenda item, Status of the Central Database. We have, I
8 believe, several people in the audience that are here
9 specifically for that, and that way they won't have to sit
10 through the rest of us. That's behind -- well, it's the
11 last tab in the 8 series. It'd be behind Tab 8(c).

12 Now, I hope as an auditor, I'm not too dry this
13 morning. I went over for water and ended up with coffee
14 out of that pitcher, so we'll see how that goes.

15 Note the first report in that section is the
16 Summary Status, and you'll note that Compliance Monitoring
17 and Tracking System is reporting as complete. The last
18 report to the Committee was indicated at 99 percent. This
19 remaining percentage related to completing the industry
20 rollout. And since the last report to the Committee a
21 final deployment letter has been issued to the
22 Department's third party business partners discussing the
23 Department's expectations on the use of the CMTS. And
24 with that letter, the system is considered fully deployed

1 and implemented. Any questions relating to the CMTS
2 sponsor?

3 MS. ANDERSON: It's a great milestone.

4 MR. GAINES: It's a great milestone. We're
5 excited about that, and we're excited about the next one
6 as well. You'll see that the contract system is being
7 reported as 98 percent complete. That was as of the
8 November 20 status report. Since that time, this module
9 has moved into production. That was December 3 it was
10 moved into production.

11 This module basically allows the Home and
12 Housing Trust Fund programs to distribute and track funds
13 from the original funding source to HUD, General Revenue
14 Funds, to the program's region activities, identifying
15 specific set-asides. The tracking of the funds by source
16 also includes expiration dates of those funds, when
17 they're no longer available for use and no longer
18 available for --

19 A history of all transactions against any of
20 the funds will be maintained, and includes the top
21 transaction date amount, the typical -- by whom, comments,
22 any associated comments. The module provides stability
23 for the program areas to set up contracts in the system
24 associating the contracts with organizations and persons

1 involved in the development and execution of those
2 contracts. It tracks the leveraging and use of funds for
3 individual contracts, ability to create activities within
4 the contract, maintain budgets, including balances as
5 funds get strong, deobligated funds, refunded funds,
6 program income.

7 Over all the system is the accounting of the
8 monies. It allows the subrecipients to create their own
9 budgets online and maintain those.

10 And the work completed within this module
11 included the design work relating to the energy assistance
12 and community services programs. That was the design
13 work, the actual development of those modules, that's not
14 anticipated until subsequent releases, at which time, of
15 course, we'll confirm the goals, ensure they are in
16 alignment with the business needs of those programs.

17 Additionally, any functionality offered by the
18 module relating to the tax credit program, the -- program
19 and bond programs, will be fully designed and developed in
20 connection with those modules. The basic architecture and
21 foundation for those are in place.

22 There were considerable challenges associated
23 with the development of this module, relating primarily to
24 changes in turnover and functional staff, partially as a

1 function of just normal turnover, and partially as a
2 function of the reorganization. And this turnover caused
3 some questions of and adjustments to the original
4 strategies and the requirements; however, the module is
5 now in production, and we're all real happy about, and
6 excited about that.

7 Any questions relating to contract system
8 monitor? There are a few in the back here, functional
9 users and technical team that did a lot of work.

10 MR. GONZALEZ: Yes?

11 MS. ANDERSON: Mr. Chairman, as someone who has
12 been both a supporter and an irritant in this process, I
13 want to thank the many people in IS and throughout the
14 divisions of the agency that have made this possible.
15 This is a huge step forward. And I'm also very pleased to
16 see that there's a post-implementation review plan.

17 This is really best practice in the information
18 systems industry to then take a step back, look at what we
19 did well that we want to do in the future, and continue to
20 do, and what we might do better, so that we have the
21 benefit of the lessons learned. So I think that's a sign
22 of a very mature IS and user organization to undertake a
23 post-implementation review like that.

24 So congratulations on going live, and

1 congratulations on implementing best practices in our IS
2 division.

3 MR. GAINES: And I would like to just
4 compliment that. I don't think the involvement by the
5 functional users can be underappreciated. Those that
6 stepped up to the line spent considerable time working on
7 the project with ISD. And those that stepped up created
8 voids, if you will, that other people had to fill -- not
9 directly on the database, but contributing to the overall
10 effort.

11 So it was a great effort. We're all real
12 pleased to do that post-mortem, and since you spoke to
13 that, I'm going to skip that portion of my speaking
14 points.

15 You'll next notice a series of activities
16 relating to contracted services. And these services are
17 from the design work relating to the Department's single
18 audit function, program monitoring, 8609, and construction
19 inspections, and screening report enhancements to the
20 central database.

21 Further deliverables include a multifamily
22 needs analysis, a business process improvement analysis,
23 and design specifications for entering and maintaining the
24 multifamily post-award data. And you'll note that the

1 contract services relating to the program monitoring is 90
2 percent complete, as of the date of this report. And
3 since then, I understand that's fully complete in
4 management's review. These services relate to developing
5 and documenting the specifications relating to single
6 audit program monitoring 8609 in Construction Inspections,
7 building that functionality into the database.

8 The next line on Contracted Services relates to
9 enhanced compliance testing. It's being reported as 30
10 percent complete. These services relate to the design
11 work applicable to performance improvements of automated
12 testing functionality of multifamily properties during the
13 affordability period. And this has come about in part
14 from regulatory changes and in part from enhancements
15 identified since CMTS went into production.

16 These were funds that were appropriated for the
17 buying in, for the CM test modules, pursuant to our buying
18 or operating plan that we tried to forecast a year and a
19 half, two years into the future. And so we're now working
20 through that, have funds available for those purposes.

21 Contract services identified as housing tax
22 credits/CMT process improvements relate to analysis work
23 on the housing tax credit Microsoft access database that's
24 currently in use. That's to determine the best

1 recommended process for transferring the application and
2 award information from that access database to the CMTS,
3 and to provide any associated design specifications as
4 necessary. It's to evaluate options.

5 These services also include analysis of the
6 business processes for the purpose of designing business
7 rules, and for handling and processing the housing tax
8 credit records from production to CMTS, both manual and
9 electronic records.

10 The work is expected to be performed between
11 now and the end of February 2004. The TDHCA business and
12 technical leaders are working together with the staff and
13 contracted services to ensure that the deliverables align
14 with the business goals of the project -- are within scope
15 and receive complete review and approval.

16 The contract services relating to CMTS reports
17 is for the purpose of completing and analyzing design work
18 of in-house management reports and risk assessment reports
19 from the central database. Other reports are for
20 management tracking information purposes, and to implement
21 an expanded risk assessment program pursuant to Senate
22 Bill 322, and will offer comprehensive information from
23 CMTS and the contract systems.

24 Contract will be collecting the reporting

1 requirements from department staff, define the
2 specifications reviews, which will be provided to the
3 information services division for further consideration
4 and development, as considered appropriate.

5 Any questions on contracted services?

6 (No response.)

7 MR. GAINES: Just briefly, the next item is the
8 post-implementation review. We'll thoroughly look at what
9 went well over the life of the contract system, what did
10 not go so well. And I think there's quite a few items in
11 both those categories. We'll assess the risk up front,
12 have mitigating controls in place to ensure that we don't
13 repeat our same mistakes; we learn from them. And we're
14 excited about that.

15 Right now we're in the process of looking at
16 the project charter, refining that with special emphasis
17 on the composition, roles and responsibilities of the key
18 players, including the steering committee, the project
19 sponsor, the project manager and project team leaders and
20 team members on both the technical and the functional
21 teams. Accountability will be established in the project
22 charter, and each of the key players will acknowledge that
23 by agreement.

24 The remainder of the summary plan is just a

1 very high-level overview of the remaining modules to be
2 developed and a lot of those brief descriptions there for
3 the goals of each of these modules. Those goals will need
4 to be confirmed with the business users as we approach the
5 factual development of those modules.

6 At that time, the detailed plans identifying
7 the goals, the purpose, resources, milestones and time
8 lines will be developed and be brought back to you, and
9 you'll be briefed on an ongoing basis going forward as we
10 approach things.

11 The balance of that summary report is just
12 overview descriptions of each of the areas we're working
13 on, and the last two pages in that section relate to
14 status of funds reports. One relates to the status of
15 funds for the central database project, which is one
16 appropriation, and the other is status of funds relating
17 to capital outlay for CMTS.

18 On the central database portion, you'll notice
19 at the top of the page the funds appropriated for the
20 current biennium. No funds have been obligated as of date
21 and will not be, until we've gone through the
22 functionality requirements and design of the multifamily
23 program module.

24 The bottom half of that page is the historical,

1 and it's just merely for informational purposes. At some
2 point we may drop that from teacher reports. It's pretty
3 much water under the bridge at this point.

4 The status of funds for the CMTS reports funds
5 appropriated for the contracted services I just spoke of.

6 You can see by note 2 the amounts that have been
7 obligated to date for those services. And you'll be
8 provided regular updates going forward relating to status
9 of funds.

10 Any further questions on the status of the
11 central database?

12 (No response.)

13 MR. GAINES: Well, great. I'll take that as a
14 good sign.

15 Let's move back to Tab 8(a). This is a copy of
16 the HUD Section 8 Rental Integrity Monitoring Review, and
17 management's responses. This report was actually included
18 in the October 2003 board book, and we briefly discussed
19 the related issues. It's being brought back to you at
20 this time because, at that time, we did not have
21 management responses with the report. And of course now
22 you have both the report and the responses.

23 Management is in general agreement with all the
24 recommendations. They're currently in process of

1 implementing the recommendations. Some of them have been
2 implemented. I would be glad to provide you a summary of
3 each of those, or we can touch on them in connection with
4 the status of prior audit issues. It's the pleasure of
5 the Committee. We will be touching on that prior audit
6 issues, so that would be my suggestion.

7 Which is the next agenda item, behind Tab B.
8 And if it pleases the Committee, I'll just kind of walk
9 through these, try to group them where reasonable, touch
10 on the highlights. Even though I am planning on touching
11 on just about all of them, some of them will be in a
12 grouped fashion.

13 The first issue relates to Issues 187 on the
14 first page. And this is the remaining issue identified by
15 HUD in their September 2000 monitoring report. It relates
16 to the family self-sufficiency plan. A plan has been
17 developed for the Houston area. It was submitted to HUD
18 in November, and the Department is waiting on HUD's
19 response. Accordingly, this issue is classified as action
20 to delay, and that's delayed pending response from HUD.

21 An exception -- a correlated or related issue
22 was a family self-sufficiency plan the area outside of
23 Houston, which the Department has obtained an exemption
24 on.

1 MS. ANDERSON: Mr. Chairman, I have one
2 question about that.

3 MR. GONZALEZ: Yes.

4 MS. ANDERSON: Does the plan -- or, in the
5 plan, are we contracting with one of our existing local
6 community providers that we have a relationship with? Is
7 that sort of the general approach?

8 MR. GAINES: I think I'll let someone from
9 management speak to this. Eddie Fariss is in the
10 audience, Director of Community Affairs.

11 MS. ANDERSON: Curiosity has always got me,
12 Eddie.

13 MR. FARISS: Good morning. Eddie Fariss,
14 Director of Community Affairs division.

15 The plan is to use available services in the
16 area, including our primary local operator. They have a
17 family self-sufficiency program, and we will be
18 coordinating with them, as well as those service providers
19 in the Houston area. There's a lot of available services.

20 Our plan is not that specific. It is a general
21 plan in which we say we will do that kind of coordination.

22 Once they approve that plan, we will work on those kind
23 of specific details.

24 MR. GAINES: Thank you, sir.

1 The next four issues, beginning with 253 on
2 page 2 relate to the HUD monitoring review of the home
3 program.

4 In summary, these issues relate primarily to
5 properties of beneficiaries served under an agreement with
6 Texas State Affordable Housing Corporation that have been
7 identified as substandard. These properties were
8 identified as substandard by HUD on their inspections, or
9 by the Department as a follow-up to their report.

10 And for each of the properties identified as
11 substandard, they were to be brought up to standard or the
12 HUD home funds were to be refunded from non-federal funds.

13 TSAHC, or Texas State Affordable Housing
14 Corporation, or TSAHC, has refunded \$155,474.27 to the
15 Department on December 3, which represents the amount of
16 the home funds that were refunded from no-federal sources
17 for those properties identified as substandard, and for
18 those properties that had not been brought up to standard.

19 This relates to 19 home beneficiaries, and the
20 amount may increase through December 15. And this is to
21 allow additional time for these beneficiaries to notify
22 TSAHC or the Department that their properties are
23 substandard, or that there's ongoing deficiencies that
24 need to be corrected.

1 My understanding is that this amount is to be
2 refunded to HUD by the end of the month. I just in the
3 last few minutes saw a letter from the Department to HUD
4 indicating such. And so by the end of the month, we're
5 hopeful that this refund, with some additional
6 documentation that's been requested by HUD relating to the
7 program monitoring function and the construction and
8 inspection, will fully resolve these issues. We are very
9 hopeful of that.

10 This amount just recently refunded is in
11 addition to over \$1,000,000 that's also been refunded,
12 relating primarily to the program income, and other
13 subsidies provides to beneficiaries that were not fully
14 correct.

15 MS. ANDERSON: Mr. Chairman, if I might a
16 comment.

17 MR. GONZALEZ: Yes, please.

18 MS. ANDERSON: I would like to thank and
19 acknowledge several of our staff that have worked with
20 TSAHC over the last six or seven months. I mean, as David
21 has said, we've collected a little over \$1.1 million over
22 the last six or seven months. And basically, that group
23 has been headed by Ruth Cedillo and Suzanne Phillips and
24 Sandy Mauro, and have worked long and hard with the TSAHC

1 folks to resolve these issues and either get the money, or
2 to get the other issues resolved. So I want to
3 acknowledge staff.

4 MR. GONZALEZ: Great.

5 MR. GAINES: Yes, ma'am.

6 The next issue, 266 -- this is on page 9 --
7 relates to the need for the Department to develop and
8 implement policy and procedures for the periodic review of
9 delinquent program lines and related collection and write-
10 off efforts. And this issue has been reported as
11 implemented.

12 We next have a series of issues beginning on
13 page 10 -- issue 306 -- and these issues relate to the
14 remaining open findings resulting from the State Auditor's
15 review of the Department's Community Affairs program. And
16 I'll briefly touch on those issues, primarily focusing on
17 any of those that have had an extension of their target
18 date for completion.

19 Issue 306 relates to the need for the
20 Department to determine eligibility of weatherization on
21 its multifamily properties. While procedures have been
22 developed to ensure eligibility going forward, the target
23 date has been extended to February -- the end of
24 February -- to allow additional time to assess eligibility

1 for existing properties. And this delay has come about
2 primarily resulting from the Department's waiting on
3 response from information from four of the subrecipients.

4 And at this point I'm not sure if that's come
5 in, but as that comes in, the assessment of the existing
6 properties will be completed.

7 Issue 307 was extended, as you can see, to
8 January '04, the first of January. And that's to align
9 with the implementation date of a new policy issuance that
10 is requiring the subgrantees to determine annual income
11 based on a 90-day period, rather than the formerly
12 acceptable 30-day period that the Department's been using.

13
14 Issue 313 on page 12 is the Family Self-
15 Sufficiency Issue we previously discussed. You might
16 think we have too many auditors when they're reporting
17 each other's issues, but we'll go to the next one.

18 Issue 314 relates to the Department conducting
19 a thorough cost-benefit analysis to determine whether Easy
20 Auditor Alternative Software -- that's also available as
21 the way to go for the weatherization program -- and if the
22 Department was to decide to continue its use of Easy Audit
23 to enhance the software it incorporates some control
24 measures that the State Auditor's Office was recommending.

1 And management -- the energy assistant is
2 satisfied with the cost benefit and the value of using
3 Easy Audit, and is in the process of enhancing that
4 software. The target date was extended to 2/29 due to
5 different bugs that were detected during the testing of
6 the enhancements, and this additional time will allow time
7 to fix the enhancements, test the corrections, and to
8 provide training on the use of the software.

9 Issue 315 on page 14 is a three-part issue
10 relating to missing electronic signatures on the
11 electronic contracts. The need to obtain an alternative
12 site agreement for information processing in the event of
13 a disaster, and the need to ensure the accuracy of the
14 information entered into both Genesis and then again
15 separately into the accounting system.

16 And I wanted to bring your attention to the
17 Department's intentions relating to the SIL [phonetic]
18 recommendations on obtaining written signatures for all
19 our contracts. And the Department intends to obtain those
20 signed contracts for the open contracts, however, believes
21 that the risks associates with closed contracts is
22 minimal. It's very small, and therefore doesn't --

23 (Pause.)

24 MR. GAINES: And so we are not planning on

1 obtaining those for the closed contracts. Otherwise the
2 Department is on track to meet the 1/31 target date last
3 reported to you, with the exception to obtaining an
4 alternative data processing site.

5 So really, that 1/31/04 date should be
6 reflected the end of February, which allows the
7 information systems division additional time to consider
8 its options relating to the alterative site agreement.
9 And they hope to -- plan to have that fully resolved by
10 the end of February. I think they maybe have been busy
11 with some other things lately.

12 Issue 316 on page 15 relates to the
13 Department's need to provide technical assistance on the
14 IT system controls, and to monitor subrecipients to ensure
15 that they have adequate controls in place. So this is the
16 recommendation. What are we doing to ensure that our subs
17 have adequate IT controls in place to ensure the integrity
18 and availability of the data?

19 And the target date has been extended to
20 1/16/03 on this, and this is to allow additional time for
21 the community affairs division to issue a policy issuance,
22 and for the information systems division to provide
23 training to the monitoring staff and to prepare them for
24 the monitoring of IT controls.

1 Issue 317 relates to ensuring priority
2 populations are being adequately served, and this issue is
3 being recorded as implemented.

4 And the next six issues, beginning through 20
5 there on page 16, relate to the RIM, or Rental Integrity
6 Monitoring review I spoke of a little bit earlier. The
7 first of those relates to the need for the Department to
8 obtain third party verification to verify income levels.

9 The Department is taking corrective action and
10 is in the process of updating its administrative plan.
11 And the target date is to allow completion of that
12 administrative plan [indiscernible] corrective actions
13 have been taken.

14 The next two issues relate to data entry
15 problems. And while there were some data entry problems,
16 they did not affect the eligibility of the Section 8
17 beneficiaries. The Department has taken corrective action
18 to ensure accuracy going forward. However, we're
19 classifying that status as action delayed, since the
20 Department is waiting on a response from HUD regarding its
21 request that the existing files be corrected as they come
22 up for their annual re-certification, as opposed to
23 correcting those files immediately. We'll wait to hear
24 what HUD has to say about that proposal.

1 The next three issues on page 18 are being
2 reported as implemented, which is the balance of the
3 Rental Integrity Monitoring review monitoring issuance.
4 So we're making good progress on that.

5 And then the last two issues beginning on page
6 19 related to controls over the construction phase of tax
7 credit projects. And the first issue is being reported as
8 implemented. And this is basically an issue relating to
9 having controls in place for the construction monitoring
10 function during the construction period. And then as
11 projects move into development, those controls will be
12 applied.

13 The second issue relates to that, except the
14 management information systems. And it will be considered
15 in the development of the central database. The 3/1/04
16 target date you see there for that issue is the expected
17 completion date of the requirements gathering phase of the
18 multifamily module.

19 Any questions on the status of priority
20 issuance?

21 MS. ANDERSON: I have a couple of questions.

22 MR. GAINS: Yes, ma'am.

23 MS. ANDERSON: On issue 315, the third part of
24 it, which is about ensuring accurate information, the

1 automated interface between CSAS [phonetic] and Genesis,
2 et cetera -- there's a comment that ISD is going to
3 develop some reports to assist with the reconciliation
4 process. And it sounds like they're clearly dependent on
5 accounting and community affairs to provide those
6 requirements.

7 So I guess my question is, do we have a
8 reasonable level of confidence that we're going to get
9 detailed requirements in time for ISD to have the time to
10 be able to hit the proposed resolution date? I mean, it
11 requires teamwork with two divisions.

12 MR. GAINES: Right. I know the areas have been
13 working together on that, and I would assume so. But if
14 anyone would like to specifically speak to that --

15 MS. ANDERSON: I would just encourage our user
16 community to make sure that they work effectively with ISD
17 so that we give ISD the amount of time it needs to make
18 the changes so we can get this into production. Takes two
19 to tango.

20 MR. GAINES: It looks like our information
21 systems director is nodding, and I know he's been working
22 with the community affairs program. Yes, ma'am.

23 MS. ANDERSON: That's it. Thanks.

24 MR. GAINES: Okay. Great.

1 MR. GONZALEZ: Any other questions?

2 MR. GAINES: That's my planned speaking points
3 for the day, and I'm at the pleasure of the Committee.

4 MR. GONZALEZ: Any other comments?

5 MR. GAINES: Thank you.

6 MR. GONZALEZ: If there's not any other
7 business to come before the Board, then we'll entertain a
8 motion to adjourn.

9 MR. BOGANY: I move.

10 MS. ANDERSON: Second.

11 MS. ANDERSON: Motion, second. All those in
12 favor?

13 The motion carries.

14 (Whereupon, at 8:40 a.m., the meeting was
15 adjourned.)

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MEETING OF: TDHCA Audit Committee Meeting
LOCATION: Austin, Texas
DATE: December 11, 2003

I do hereby certify that the foregoing pages, numbers 1 through 26, 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) 12/22/03
(Date)

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