

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
AUDIT COMMITTEE

Friday, August 19, 2005
Waller Creek Office Building
Room 437
507 Sabine
Austin, Texas 78701

COMMITTEE MEMBERS:

SHADRICK BOGANY
NORBERTO SALINAS
PATRICK GORDON
EDWINA CARRINGTON

P R O C E E D I N G S

MR. BOGANY: We're going to call the Texas Department of Housing and Community Affairs audit committee meeting, August 19, 2005. We're going to call the row.

Shad Bogan, Chair. Present.

Gordon Patrick.

MR. PATRICK: Here.

MR. BOGANY: Norberto Salinas.

MR. SALINAS: Here.

MR. BOGANY: We have a quorum, and we're going to begin the meeting. Has everybody had an opportunity to -- before we do that, any public comment?

MS. GRONECK: Didn't have any.

MR. BOGANY: Great. And has everyone had an opportunity to review the minutes? Any corrections or additions to the minutes?

(No response.)

MR. BOGANY: Can I get a motion to approve them?

MR. GORDON: Motion to approve.

MR. SALINAS: Second.

MR. BOGANY: Okay. Motion approved. All those in favor, say aye.

(A chorus of ayes.)

MR. BOGANY: We're going to bring up our auditor, Mr. David Gaines, and he's going to go over the first item on the agenda, the audit report on Housing Trust Funds and HOME investment partnership program, TDHCA.

MR. GAINES: Good morning, Chair, members of the committee, Ms. Carrington. David Gaines, director of internal audit.

If you'll turn to your first tab in your materials, 8-A, this is the state auditor's office's audit on the Housing Trust Fund and HOME programs. I want to briefly touch on the objectives of the audit. That'll kind of put in perspective the types of issues they noted and the conclusion they've reached.

The objectives were to determine whether the department has processes to deliver housing services to the neediest parts of the state, objectively awards contracts, effectively monitors contracts, and ensures that funds are disbursed in a timely manner -- and also determine whether the department has used the HOME and Housing Trust Fund appropriations in accordance with federal and state law, department policy and the related General Appropriations Act.

As a point of interest -- and again, this is also to put the issues in perspective and the results of the report. I just thought it was real interesting that over 16 auditors participated in the audit. The department actually began preparing for the audit in February 2004. The audit work began late June 2004, and the report was released this July.

I intend to focus my discussions primarily on the issues highlighted in the executive summary, but I've -- as I was preparing my comments, I found the best way to do that was to focus on those issues but refer to the detail, because you do have to drill down a little bit to get a feel for why these comments were made.

So if you will, in that respect, please turn to chapter 1-A on page 1 of your report. That's several pages back, right past the contents.

The auditors concluded under chapter 1-A that -- concluded that the department cannot ensure that it allocates HOME and Housing Trust Funds to the neediest parts of the state. This conclusion was reached because the regional allocation formula used in fiscal year 2004 to allocate the funds from these programs did not contain all the statutorily required information.

Specifically, we're including the fact that the

regional allocation formula was to consider available resources throughout the state. And at that time, the formula did not consider housing tax credit program resources in the regions.

The department has responded that it's begun including HOME, Housing Trust Fund and housing tax credits as sources of other available housing resources in the 2005 regional allocation formula, and this addresses the auditor's concern.

If you will, on page 2 of your report, the first bullet, the auditors noted that the department was unable to demonstrate in its needs assessment process that it considered input from statutorily required groups and/or the regional development coordinators when it prepared its State of Texas Low Income Housing Plan and Annual Report.

And accordingly, by not considering this input, we may not have all the information necessary to identify regional housing needs.

In this case, the department believes it has in fact adequately considered this input from the regional development coordinators and considered them in development of the plan.

The department, in its response, also spoke of

considerable public comment throughout development of the plan, including public hearings, written comment, roundtable development meetings, and the regional advisory committee meetings that affects the formula which is considered in the development of the plan.

Page 5, Chapter 1-B. The auditors concluded that the department may not be obtaining information necessary to identify regional housing needs, because it did not comply with all the statutory requirements regarding its coordination with the regional development coordinators across the state.

And this conclusion is based upon the auditors noting that the department did not comply with the requirement to employ or contract a regional development coordinator within each region of the state. They noted that we had identified persons in eleven of the 13 regions identified as coordinators.

The department has responded that it did act in good faith. It did fund part-time coordinators the first year. However, resources were very limit, and these requirements were not funded.

The department also responded that it considered its efforts reasonable considering these limitations and also a contingency rider in the General

Appropriations Act that states, Appropriations made in this act may be expended only for purposes and programs specifically funded in this act.

On page 5, the second bullet, the auditors noted that the department's 2004 guidelines for the regional development coordinators didn't align with all the statutory requirements, and they recommended that the guidelines, of course, align with those requirements. And again, the department responded that it does believe that it has substantially complied in good faith with resources made available.

On page 6, the first bullet -- this is chapter 1-B. I believe the auditors were noting that the 2004 guidelines did not require the regional development coordinators to gather and manage data related to affordable housing and community development needs from specific data sources.

Additionally, the guidelines did not require the regional development coordinators to identify partners for the department to team with in order to provide housing to the needy.

The auditors recommended that the department ensure that the regional advisory committees comprise the representatives required by statute.

In this case, the department's responded that it doesn't have the authority to require the regional advisory committees to do anything. It is -- according to the state statute, it is the COG's responsibility to form regional advisory committees. The department works with the committees, have advised them, have provided assistance. But this is a responsibility that falls in their part.

MR. BOGANY: Can I ask you a question on that?

MR. GAINES: Yes, sir.

MR. BOGANY: So if they're continuing to cite -- they're saying we're continuing to tell them, Hey, this is what we're doing, where -- at what point does it get -- they accept our -- what we're doing? Or are we constantly still trying to reach the level that they want us to reach? Or is that possible?

MR. GAINES: Well, I believe we certainly continue to recognize the intent of the requirements and work to that extent the best we can. I think, in response to your question, the state auditors in their executive summary have said that our responses were in general agreement with their recommendations, with one exception that I'll be bringing up momentarily.

MR. SALINAS: But what they're saying is that

we're not meeting all the needy --

MR. GAINES: They're -- they are saying because of certain requirements that maybe weren't satisfied to the letter of the law -- that that does not ensure that we provide resources to the neediest parts of the state.

MR. SALINAS: Why? Well, why are they saying that?

MR. GAINES: During the compliance audit, they're going to go down the requirements specified in the state law, maybe board policy. And it's going to be yes/no. Are you doing this? Yes/no. And of course, there's a good handful of those requirements, and these were some of the exceptions where they couldn't say yes all the way.

MR. SALINAS: But they're saying no on all of them. No?

MR. GAINES: No, not at all. In fact, that's why I tried to highlight the amount of time spent on the audit and the results that they actually come up with. The auditors -- if and when there's differences between an audit comment and management's response -- of course, there's two sides to every coin.

In those instances, if the auditors take strong objection to the department's comment, they'll have a

follow-up comment. In this particular report, there was one follow-up comment that I'll be speaking to momentarily.

Also, of course, this report's distributed to the legislative audit committee and members of the legislature that are interested and I'm sure get copies. And in that case, if there are differences, there is a possibility that we might have to justify our position before the legislative audit committee or some oversight legislative group.

MR. SALINAS: This is not a good audit.

MR. GAINES: I'm sorry.

MR. SALINAS: This is not a good audit.

MR. GAINES: No; I don't think it's a bad audit, although --

MR. SALINAS: Then not a good audit.

MS. CARRINGTON: I believe staff believes it is a good audit. I mean, we were really very pleased with the results of this audit. My staff worked very hard over the course of the year, as Mr. Gaines has pointed out -- how long it took SAO.

There were many issues that once SAO sat down with staff, they understood. There are several items through here, as Mr. Gaines is pointing out, that State

Auditors Office pointed out, and we said, Yes, we're already -- you know, with -- at the point in time when you did this audit, we weren't doing that, but now we are doing it.

And then there's a couple of others where we said, Yes, you're right. We'll start doing that. So when we take a look at, in the period of time covered, the dollars and the amount -- I mean, the State Auditors Office is always going to find something, and they should, because no one ever administers a program perfectly.

And so I really believe that from the standpoint of this audit compared to other audits that this agency has received -- that indeed, this is a very good audit and that we're basically very pleased with the results of it.

MR. GAINES: I think Ms. Carrington makes a real good point that I didn't make earlier. The period covered by this audit extends from 2001 to present. So in instances they were noting things -- by the time -- you know, at the time they noted them in earlier periods -- we may have corrected in latter periods and included those kind of comments in our responses.

MS. CARRINGTON: Yes.

MR. BOGANY: Okay.

MS. CARRINGTON: So they're not going to incorporate, of course, what we might be doing now if we weren't doing it in the period of time when this audit took -- you know, the period of time that they looked at. And basically, I mean, what they're saying is from time to time they're finding some weaknesses.

MR. SALINAS: Are you going to be recommending the -- on what --

MR. GAINES: The state auditors have recommendations with the different issues they've noted. The department's been in general agreement with those recommendations. In some instances -- have actually had the recommendations implemented even before the conditions were noted by the auditors. So it's taken care of, because they were noting conditions in earlier periods.

MR. BOGANY: Okay.

MR. SALINAS: Okay.

MR. GAINES: Okay. I am speaking at a very high level too. I'd encourage each of you to look at the department's responses. There's a lot of stimulating considerations going on. There's a lot of efforts that have been done by the department. I would be here for most of the rest of the day if I was to touch on each of those.

And Ms. Carrington, you being -- I'm sure -- you're familiar with the board. If there's an area you'd like me to drill down into a little bit deeper to talk about those things, I certainly would be glad to do that.

But if you'll turn to page 10 of the report. This is the Chapter 2. The auditors concluded that the department awarded HOME and Housing Trust Funds in accordance with applicable state and federal requirements but that it should work to increase the number of qualified applicants for the Housing Trust Fund.

And this is based on the fact that in fiscal year 2004, the department did not award approximately \$839,000 of the \$5.4 million it had available for award.

MR. BOGANY: What was their suggestion that we do to allocate? Are they suggesting we change some rules or --

MR. GAINES: Well, the department's response was it's a challenge finding qualified applicants and that we are working with nonprofits, working with constituent groups to further develop those. I believe the SAO's recommendation by making this comment and pointing out the lack of qualified applicants or acknowledging that -- they're basically saying marketing, capacity

building.

And I believe the department agrees with both those strategies. And how do you best do that?

MR. BOGANY: I have a question for Ms. Carrington. What happens to that 839?

MS. CARRINGTON: It was rolled over. It will -- it was or will be rolled over into the next year's funding for the Housing Trust Fund. So it was not dollars that were lost to the state or --

MR. BOGANY: Okay.

MS. CARRINGTON: -- the agency.

MR. BOGANY: All right.

MR. GAINES: The dollars were not lost. It is the appropriation authority.

MR. BOGANY: Okay.

MR. GAINES: On page 13 of the report, chapter 3 -- and if you look at the broad statements in each chapter, they're generally concluding positive, and then they'll highlight opportunities for improvement.

In this case, the auditors concluded that the department's contract award process for the HOME and Housing Trust Fund programs was generally objective. However, noncompliance with certain scoring requirements diminishes the department's objectivity in awarding

contracts.

Of course, that's subject to debate. But what they're specifically referring to is that -- on the first bullet, page 13, the auditors noted that cost-effectiveness in the leveraging of federal resources were not used as scoring criteria for the Housing Trust Fund for the rental housing development applications as required by the government code.

And the department's acknowledged this, and it's reviewed its scoring process for the development applications, Housing Trust Fund, for the 2000 funding round to include these criteria.

And the auditors -- excuse me. The department also pointed out that while cost-effectiveness may not have been used as a scoring criteria, primarily trying to -- I believe primarily due to the fact that it is somewhat difficult to quantify, it has been used as a tie-breaker in the past.

Page 13, the second bullet. The auditors noted that the multifamily applications must be scored in consideration of the department's consolidated plan and the extent to which families and individuals with very low incomes are served by the applicant.

In this case -- this is the case where the

department disagrees with the auditors, and the auditors did in fact have a follow-up comment. But the department responded that it does include the consolidated plan in the extent to which very low and low income populations are served as threshold criteria.

And so if they don't meet that threshold criteria, they're not considered further. And because the applicant's required to meet this, it would be somewhat redundant to include it again as a scoring criteria.

So technically, as the auditors were looking at it, it's not a scoring criteria.

MR. BOGANY: So where do we go from here?

MR. GAINES: Well, in this case, the auditors really reiterated their concern, and we basically said we didn't respond. And in this case, the report's been released. And if there's oversight agencies -- or in legislative groups or the governor's office or the board disagrees with the department's position on this -- well, they'll certainly let us know, and we'll have to deal with it at that time.

MR. BOGANY: Okay.

MR. GAINES: Another piece of this is that the department disagrees with the assertions that it failed to incorporate these criteria during the 2004 HOME

multifamily application cycle. And that's because using these -- the department used these as threshold criteria, and this cycle, the 2004 HOME rental development program, was an open application cycle.

And while competitive application cycles may require these criteria, during an open cycle, it's first come, first served. And so we ensure they meet that minimum threshold before they're considered further. And so in that case, the -- there's just a total disagreement on that.

And that's evidenced, again -- the auditors, in their conclusions, don't agree with our response, and that's indicated by their follow-up comment reiterating their concerns in this regard. This was the one instance throughout the report where they did not accept our response.

MR. SALINAS: What's that do to us, Ms. Carrington?

MS. CARRINGTON: What it means is we don't agree with the state auditor's office. We're on record that we don't agree with them, and they're on record that they don't agree with us.

MR. SALINAS: Who's right and who's wrong?

MS. CARRINGTON: Well, of course we think we're

right.

MR. SALINAS: You think so?

MS. CARRINGTON: Yes, we do.

MR. SALINAS: Okay. Well, we're going to trust you on that one.

MR. GAINES: And I will say these responses were very well thought through. We solicited concurrence from, minimally, the board chair, certainly the executive director. We worked with the governor's office in coordinating our responses and made them fully aware of them to make sure we're all on the same page.

MR. BOGANY: Were they -- we were all on the same page?

MS. CARRINGTON: Well, we are. The state auditor's office isn't. But --

MR. GAINES: All except for the state auditor's office.

MS. CARRINGTON: That's right.

MR. BOGANY: Okay. But the governor and everybody else is on the same page.

MR. GAINES: I assume so, because we didn't get reactions to the contrary.

MR. BOGANY: And the only reason I'm asking is that I've found that people use audits to try to disrupt

us doing business -- and saying we didn't do this and the state auditor said that, and especially when we disagree.

And so I'm just making sure that the powers that be are on the same page.

MR. GAINES: And I wouldn't be surprised if there might be a little bit of that, but it will be a couple more years before there's another session, so maybe it'll be kind of stale by then.

MR. BOGANY: Okay. All right.

MR. SALINAS: Two years.

MS. CARRINGTON: Year and a half.

MR. SALINAS: Two and a half?

MS. CARRINGTON: A year and a half.

MR. SALINAS: Before they start --

MS. CARRINGTON: A year and a half.

MR. GAINES: It'll be here before you know it.

MS. CARRINGTON: That's right.

MR. GAINES: Okay. Let's move to the next agenda item. Now, that's 8-B.

MR. BOGANY: 8-D or 8-B?

MR. GAINES: 8-B --

MS. CARRINGTON: B as in boy.

MR. GAINES: -- in your materials. And this relates to an internal audit report on the portfolio

management and compliance division's subrecipient risk assessment process.

And for your information, the internal audit reports, pursuant to the Texas Internal Auditing Act, are required to be distributed to the department's governing board, as I am today, the governor's office of budget and planning, legislative budget board, and the state auditor's office.

The objectives of this audit were to determine whether the PMC or portfolio management class division's subrecipient monitoring risk assessment process provides reasonable assurance that high-risk contractors are identified for field monitoring purposes. The PMC is responsible for monitoring HOME and Housing Trust Fund contracts.

So as not to leave the impression my skill may be broader than it is -- that the risk procedures, risk assessment audit and risk assessment procedures performed by other divisions weren't included within the scope of this audit.

The community affairs divisions and Office of Colonia Initiatives are responsible for monitoring their programs. And then there's multifamily finance -- monitors capacity building and predevelopment loan

contracts, so this audit wouldn't extend to risk assessments in those activities.

Our overall conclusion's that PMC has developed a risk assessment methodology that's reasonable to provide -- or it's designed to provide reasonable assurance that high-risk HOME contracts are identified for field monitoring purposes. And while we conclude it's well-designed, we did note some opportunities. As Ms. Carrington is saying, auditors are always going to do that.

The first issue on page 1 of the report relates to PMC considering a complete population of contracts for its risk assessment purposes. Currently, the population considered does not include Housing Trust Fund multifamily development contracts. And management's agreeing and intends to include those in future risk assessments.

On page 2 of the report -- this relates to using the results of the risk assessment to schedule field monitoring visits. And while visits are scheduled based on the results of the risk assessment process, which again is designed to identify high-risk contracts, higher-risk contracts may not actually be selected since the assessments are risk-ranked by region.

And so accordingly, a lower-risk contract in

one region may be selected for a field monitoring visit before a higher-risk contract in another region.

And additionally, the field monitoring visits are also conducted for reasons other than being identified as high risk. The department will conduct a monitoring visit upon a served recipient based on its close geographical proximity to a high-risk subrecipient -- that they are out on a field visit.

And there's other reasons as well. However -- which may be fully warranted. However, there are instances where these -- where the reasons were not adequately documented. While the reasons are posted to a database maintained by PMC, they're not necessarily adequate to communicate the underlying circumstances prompting the monitoring visit.

And in instances, the reasons for the field monitoring visit could not be determined, either because the reason stated in the field monitoring database was either incomplete or incorrect. These types of exceptions were listed in the series of bullets noted in the middle of page 2 of your report.

Here we recommended that the field monitoring resources be allocated to the department's highest-risk contracts and that management reconsider whether the

strategies it has in place relating to ranking these by region and proximity are appropriate strategies for effective use of the department's resources.

We also recommended that the -- I'm sorry. Shad.

MR. BOGANY: No. Go ahead. Finish.

MR. GAINES: We also recommended that the reasons for scheduling a field monitoring visit be thoroughly documented to enable the monitor going out on the field visit to plan and -- to effectively plan and conduct the monitoring visit. Knowing the reasons it was selected would certainly help in that respect.

Finally, we recommend that the data quality controls over the field monitoring database be established to ensure complete and accurate data for management decisions and for performance reporting purposes.

And PMC, again, has responded favorably and is essentially in agreement with these recommendations.

Yes, sir.

MR. BOGANY: What's the time frame on getting this implemented -- I guess, Ms. Carrington, getting it to this point? I'm surprised that -- it looked like high risk is the ones we would be monitoring more than the low risk in certain regions, so I'm just wondering what the

time --

MR. GAINES: I'm not necessarily saying low risk. They may all be classified as high risk.

MR. BOGANY: Okay.

MR. GAINES: Or they may not be, because sometimes the reasons couldn't be determined.

MR. BOGANY: Okay.

MR. GAINES: But I'm -- based on interviews and even based on management's response, they are scheduled based on high risk, and they'll fully document their reasons going forward.

MR. BOGANY: Is this something that we -- is going to automatically go into place, or is this something -- like February 2006 this should be in place, or is this something immediately goes -- this is a problem able to be fixed?

MR. GAINES: Management's planning on incorporating this into their next risk assessment.

MR. BOGANY: Okay.

MR. GAINES: Target dates are generally around the end of September. One significant challenge, I believe, that's not highlighted in this report is that we've got LBB performance measures on the number of visits that may be out of alignment with reality and what's

necessary.

MR. BOGANY: Okay.

MR. GAINES: And for example, when we're testing -- going on a field visit for close proximity to a high-risk sub or we're visiting a sub because of its general proximity, I think there's a couple of reasons for that.

One is to get performance numbers up. We're out there. But another reason and a better reason is selecting subrecipient at random that are not necessarily high risk is an effective strategy in that it makes everyone aware that everyone's subject to being monitored, and so it encourages general compliance.

MR. GORDON: What kind of criteria are you all using to determine what's a high risk and a low risk?

MR. GAINES: I do speak about that in just the next finding or so, if you'll allow me.

MR. GORDON: That's fine.

MR. GAINES: Okay. In fact, it's the next one, page 3. This is the reasonableness of the risk factors. Management continues to search for the right combination of risk factors to successfully identify high-risk contracts.

Ongoing additions, deletions and adjustments to

the factors and their weights have occurred over the last five risk assessments over the last two years. And we certainly consider it appropriate to adjust these factors as need be, and we consider it reasonable to change or adjust the factors and their assigned weights to better identify high-risk contracts.

However, management has not been maintaining the documentation supporting the progression of the methodology, the changes made or the -- and the evaluation of the effectiveness of the changes, i.e., are the changes resulting in better identification of high-risk contracts?

The factors most recently used -- and this is in response to your question, Mr. Gordon -- are reasonable. However, they relate more to inherent risk of the contract, such as the activity and set-aside types and the number of contracts administered by the subrecipient, rather than performance related factors, such as the results of prior subrecipient monitoring visits, prior history of noncompliance, single audit results, responsiveness to addressing prior issues.

So while the inherent risk factors, I believe, are very valuable, inherent risk -- be the complexity of a particular contract -- performance related factors are also important.

MR. GORDON: Well, do you all follow up with the financial viability of the project, for example, if a project's not leasing up the way that it was presented when it was approved? Do you all monitor that as well?

MR. GAINES: There is monitoring of -- I'm not able to speak to that really. I know there is, but I'm not sure to what extent. And it looks like Ms. Carrington would like to say a word on that.

MS. CARRINGTON: Yes, we do.

MR. GORDON: And so --

MR. GAINES: Well, I could have said that.

MR. GORDON: Okay. So if a project was not leasing up as fast as you all wanted, you'd kind of put it in the high risk and watch it.

MS. CARRINGTON: It really -- it depends on what the funding source is. We certainly don't watch the bond and the credit transactions as quickly -- or as closely as we watch HOME and Housing Trust Fund allocations, because those are in many instances properties that we have first liens on.

And there are certain milestones or certain triggers that are -- when they're -- when we come up on those, then we go out and monitor. And so at that point, we would be picking up that there might be a problem. You

know, do we get monthly leasing reports? No. But there are certain milestones they have to meet -- that those kinds of problems would show up.

MR. GAINES: And I suspect those are the kind of visits that aren't identified in the risk ranking that are appropriate visits, and we just need to document explanations for those visits.

The last issue noted on page 4 of 8 of the report relates to the need for PMC to formally document its internal controls, to more formally document them. There is a considerable risk assessment procedures manual that's used. However, it's deficient in several respects, and those are enumerated by the bullets on page 4 of 8.

So here we're just -- we're recommending that the procedures be formalized as well as ensuring that the procedures are in place to ensure that employees in fact comply with the procedures. And again, management's in agreement with this and has plans to do that by the end of September.

Okay. Prior audit issues. If there's no further questions there. The next agenda item is behind tab 8-C. There are nine issues being reported to you, and the first issue is from last year's federal single audit. It's being reported as implemented.

The remaining issues relate to the HUD onsite monitoring of environmental review procedures that was presented to you at the last audit committee meeting. Since the time, the department's provided a formal response to HUD and is currently waiting on responses from HUD before much further action's taken on that. So we consider this pretty much in HUD's court at this point.

Tab D, 8-D, status of central database project.

The first category for the compliance monitoring tracking system enhancements is expected to be finalized by the end of this month. While the completion aligns with the target dates for completion last reported to you in February, there have been functionalities originally planned that has been dropped and other functionality that's been added.

And these decisions have been based on the needs of the primary user staff and in concurrence with the information systems division development staff.

If you will, I'd like to direct your attention to the program monitoring module on 23. The August 31 date that was previously reported to you in February has been extended to the end of the calendar year. The four-month extension in time is necessary due to longer-than-expected time required for the staff familiarization with

the programming database environment, a learning curve, if you will.

There's also been turnover in key user staff on this module that has created some delays. ISD has recognized the need for greater focus on this, and the current date is at the end of the calendar year.

Now if you will refer to line 21 of your report, the multifamily module. I want to speak to this just for a moment. This is really the biggest challenge remaining in completing the central database project as it's currently defined.

Since the last report to you -- the teams work primarily on development of the multifamily module release 1, represented by line 24 of your report, and the planning and development of that module, which is represented by line 25.

The team rolled out this portion of the multifamily or this module, release 1, earlier this month.

You may recall at the February meeting there was some unresolved considerations relating to how to best proceed with the balance of the multifamily module.

The module I just spoke of, release 1, was released earlier than release 2. In February we spoke of the specifications being substantially finalized by the

project team, but there continued to be a list of concerns that needed to be addressed before development could begin.

Since that time, the project team thought it best to revisit the overall strategy of developing the multifamily module in-house. After considering its options, including a vendor providing a demonstration of its third-party software, the project team has concluded that its originally decision to build the system in-house was still valid.

And as ISD worked with system users to resolve the outstanding concerns noted in February relating to the specifications and how to best proceed with the multifamily module, it was decided that the specifications of that module be integrated with the application and construction module that's currently on line 35 of your report -- so to integrate those two modules.

It should be noted the construction aspects of the application and construction module, for the most part, have been completed in connection with the fiscal year CMTS -- fiscal year 2005 CMTS enhancements, the portion I told you that was released earlier this month.

So in that case, the construction aspect is going to be minimal going forward. But this decision to

integrate the two applications was just made Tuesday of this week and will be presented to the steering committee for approval at the next meeting.

If approved by the steering committee meeting -- at the next meeting, then the remaining module of the central database, the remaining module beyond the program module I just spoke of, going forward will be referred to as multifamily module release 2.

And that will be what you'll be seeing going forward. This will provide an end-to-end multifamily module that, when considered with the compliance monitoring tracking system, will support user's needs from application intake through compliance monitoring during the affordability period.

And since this decision was just recently made -- it's still pending approval of the steering committee -- it's going to take some time to finalize the overall specifications, at which time a more solid time estimate can be made for the project.

Any questions relating to this portion of the central database update, the summary project plan status?

MR. BOGANY: Do you think we'll ever finish?

MR. GAINES: Well, currently on your project plan, we have an August '07 date that ISD believes we can

shorten by merging these two application modules. And if we don't expand or redefine the database as it's currently defined, there is hope.

Having said that, there is an attachment that we'll speak to in a moment talking about the maintenance of the database, and it takes considerable resources to maintain a system like this. There will be ongoing maintenance.

Each time there's a legislative session, each time the program rules change, they're going to have updates, and it's going to require resources.

MR. BOGANY: Do you feel by with us making this big move, it's going to set this back at all?

MR. GAINES: I think to the extent there's been setbacks, those have been previously discussed. I don't think anything I'm discussing today is setting us back. I believe what we're discussing today may be moving us forward.

Okay. Following the -- that whole eight pages or so of the summary plan project, there's a listing of various issues being addressed by the project team. And these are issues where special teams or individuals were assigned for work because the project team either didn't have the authority or the resources or the technical

expertise to address these issues.

Two of the three issues reported are -- two of the three issues that are being reported have been resolved by the team, and the remaining issue is ongoing.

We're optimistic that that one will be concluded also at some point in the near future.

Just past issues -- the issues list, there's a status of funds report, status of funds as of July 20. The only point I wanted to make here is we're at the end of a biennium. And you'll note the bottom line, note 1, there's, you know, appropriation balance.

And it's estimated a hundred thousand dollars of this appropriation is going to be lapsed at the end of the year as explained in note A. And this -- the funds weren't used primarily because we didn't use them needlessly, and the specifications for the multifamily module took longer than expected.

These are some of those delays that we've previously discussed -- I just mentioned. A contract programmer we had on staff was switched to part-time. And so we do have this appropriation balance. An important note, the last sentence of -- I need to elaborate on that last sentence of note A, and it may be a little confusing, since the note is associated with an appropriation

balance.

While the department keeps the unexpended balance in cash, as the note says, and that cash can be used for future projects, it's the appropriation balance that's being lapsed.

Any questions relating to status of funds?

(No response.)

MR. GAINES: In that final document under the central database tab is a summary of the maintenance work performed by ISD, and that's what I was referring to a moment ago. This is just being provided to you to give you some idea of the amount of work performed by ISD on this project that's above and beyond the balance of the status report.

These were the day-to-day activities that generally don't get recognized or people maybe fail to acknowledge.

Any questions on the central database?

MR. BOGANY: I think the staff -- since I've been here, I think the staff has made -- I think the audit -- I think the progress that's been made is a lot -- our sheet's a lot smaller than what it used to be, and so I think we're making -- but I guess as -- the board is always, What have you done for me lately? So, you

know, how can we get better and better at it? But I think you guys are doing -- the staff is doing a good job.

MR. GAINES: Well, we bring you, for the most part, our issues, challenges and problems. And there's a whole lot of things happening successfully that never get elevated.

If you'll turn to item 8-E. This was requested by the board chair, and I just wanted to bring that up as an explanation as to why it's in the board book. I thought it was a real good request of the board chair. And what it relates to is that -- you might recall in February we provided you an overview of the department's risk assessment methodology.

And within that overview, we gave you a live example of one of the processes that we had assessed as of that time. And that assessment, which was of the user accounts, information systems user accounts -- that assessment identified three high-impact risk and one medium-impact risk that staff did not consider to be adequately controlled.

And Ms. Anderson's comment -- question was, What, if anything, are we doing with these assessments, this assessment in particular? What has become of those uncontrolled risk or inadequately controlled risk? Those

are the risks that are listed in the table you see on that summary.

And since the assessment, the ISD has implemented the controls that it believes will reduce the likelihood of these risks occurring to a low probability.

Once we get it to a low probability, even though they're high-impact risk, we consider that acceptable.

And these controls included a standard operating procedure on user accounts, a network access that became effective in March 2005. The SOP requires specified system administrators and user account administrators to perform complete user audit of the applicable systems, generally twice a year in most cases.

It also requires the department's information system security officer to be responsible for enforcing this policy. Additionally, all the system administrators, database administrators and user account administrators are now required to sign an acknowledgment form of their advanced levels of systems access, and a misuse can result in termination of employment.

The information security officer of the department collects these -- collected these forms in April 2005. Again, ISD believes this reduces these risks to an acceptable level. This is an instance of the value

of the risk management work we're doing to try to identify fires before they start, assess where we have vulnerabilities or weaknesses and correct those in a proactive manner rather than responding to audit findings.

The last agenda item, the status of internal/external audits, the first one being subrecipient monitoring. The audit report on the risk assessment was provided to you today. We're in a draft mode for the single audit and are cautiously optimistic that it's going to come together for us so we can release that report by the end of this month.

The next big due date on this project will be the draw process in October. While we're working hard to meet that -- it's pretty aggressive at this point, but we're going to work real hard to try to make that happen.

The whistle blower report needs to come off the schedule, as reported to you at the last meeting.

Relating to the RP36 initiative and the department's risk management program, since the time the status report was included in the board book, I've spoken with the director of internal audit over at the governor's office and have learned that the due date of the report to the governor's office on the department's implementation of RP36 is being extended, and currently it's estimated

that November's going to be the earliest that this report is due.

And so I would share that Ms. Carrington, but we're all kind of pleased about that, because we have a whole lot going on between now and the original due date, which was October 1.

If you will, turn to the middle of the next page. The internal auditing plan is in the process of being developed. The internal audit division has solicited input on its plan; we've requested input from the directors and managers, from the executive team; from Deloitte & Touche, the department's external auditors; from the state auditor's office, from KPMG single audits, from the department's governing board.

We'll take input from any direction. Generally, it's going to be management that maybe knows where the concerns are that possibly need attention. Of course, after being here for awhile, internal audit has some pretty good ideas on that as well.

Ms. Carrington's requested that I meet with her to discuss this input that has been received and the proposed audit plan. We have a meeting scheduled for next Tuesday. And I'm not real sure if Ms. Carrington's aware of this, but there's another significant agenda item on

that meeting also.

So I'm not sure how far we're going to make it on the audit plan, and we might need to schedule another meeting to fully address the plan, which is -- which will be presented to the board for approval at the October meeting.

MR. BOGANY: So the estimated date of 8/31/05 is not probably a good date.

MR. GAINES: Estimated date of the audit plan of 8/31/05.

MR. BOGANY: I guess the draft in the proposed plan. Is that a good date? Or probably it's a September issue.

MR. GAINES: 8/31/05. The draft of proposed plan to the executive by 8/31/05 is very doable.

MR. BOGANY: Okay.

MR. GAINES: And is currently within the plan.

MR. BOGANY: In the plan. Okay.

MR. GAINES: Yes. And there's some ongoing activities. If you'll turn to the last page of the report. And this is external audits. As we just discussed earlier, the state auditors have completed their Housing Trust Fund and HOME audit.

Deloitte & Touche and KPMG have both completed

their interim work and will be back in the fall to complete their opinion of audits on the department's financial statements and on the federal single audit. And I'll be glad to --

MR. BOGANY: Any questions from the committee members?

(No response.)

MR. BOGANY: Well, I call this meeting.

MR. GAINES: I second the motion.

(Whereupon, at 9:45 a.m., the audit committee meeting was concluded.)

C E R T I F I C A T E

MEETING OF: TDHCA Audit Committee

LOCATION: Austin, Texas

DATE: August 19, 2005

I do hereby certify that the foregoing pages, numbers 1 through 42, 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) 08/27/2005
(Date)

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