Texas Department of Housing and Community Affairs

Audit Committee

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

Thursday, July 27, 2000
5:45 p.m.

COMMITTEE MEMBERS:

C. KENT CONINE, Chairman
JAMES DAROSS
MARSHA L. WILLIAMS

ALSO PRESENT:

DAISY STINER
DAVID GAINES
RUTH CEDILLO
SUZANNE PHILLIPS
BILL DALLY
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MR. CONINE: I've got 5:45. Let's call the Audit Committee of the Texas Department of Housing and Community Affairs into session, if we might. First thing we'll do is call the roll. Kent Conine is here.

Jim Daross?

MR. DAROSS: Here.

MR. CONINE: Marsha Williams?

MS. WILLIAMS: Here.

MR. CONINE: We've got three members present. We're all accounted for.

At this point I would call for any public comment. If there is any public comment, please turn in a witness affirmation form. I don't have any. I don't think anybody else has any. So we'll move on to the action items, if that's all right.

Tab 1 is the presentation, discussion, and possible approval of minutes of the Audit Committee meeting on March 24, 2000.

MR. DAROSS: I move that the minutes be approved as submitted.

MS. WILLIAMS: Second.

MR. CONINE: Moved and seconded. Any discussion?

(No response.)
MR. CONINE: All those in favor, say aye.

(A chorus of ayes.)

MR. CONINE: The minutes are approved.

Next are the report items, the internal audit reports. David Gaines.

MR. GAINES: Thank you, chair, members of the committee, Ms. Stiner.

The second item on the agenda under report items would be Housing Trust Fund subrecipient monitoring audit. If you'll turn to the first section behind Tab A, that's where you'll find that report. And what I'd like to do is just briefly walk you through the different sections of the report.

The first couple of pages is just the transmittal section. It highlights a couple of the report's significant issues and then just the fact that the report follows. The following page is the distribution page, which is a required distribution by the Texas Internal Auditing Act. Table of contents will give you a quick overview of its contents, and then the report begins on page 1 of 16.

If you would, I'd like to just start out by focusing in on the program overview, the last paragraph. It talks about the size of the Housing Trust Fund staff. And at the end of our field work there was five people
involved with that program, one being the manager, construction coordinator, senior planner, assistant planner, and administrative assistant to carry out the duties of that program.

Considering that, the Housing Trust Fund manager has concentrated their monitoring resources on the construction program, which is the largest of their programs over the last -- from the years '97 through '99. That comprised slightly over 50 percent of their total awards for that period.

On page -- the following page there's an executive summary, and I'm pretty much talking off the executive summary but I'll walk you through it as to where it's laid out in the report. On page 3 we begin the construction section, and as I was saying, this is where the Housing Trust Fund has emphasized their monitoring activities and review of those activities -- we've assessed they do have adequate procedures in place to provide assurance that construction is of high quality.

They've done this primarily by site visits, actual construction inspections, and reviewing the reasonableness of the related draw-down requests and relating those back to what's actually being placed out at construction sites. While the function provides reasonable control over these projects, we know that the
opportunities to improve the effectiveness of the function
departmentwide, because of the changing role of the
construction coordinator, which I've briefly discussed
here and the growth of the Housing Trust Fund, the limited
resources of the fund, the specialized nature and skills
required of a construction inspector; because of the fact
that other programs within the department have similar
functions, we've recommended that management consider
alternatives to what the Housing Trust Fund is currently
doing. And I'll just touch on those alternatives briefly.

The first one we suggested was considering an
agencywide construction inspection section to provide
services to each of these different areas on an as needed
basis. We believe by doing so you'll make better use of
these specialized resources. The construction staff could
provide assistance to program staff in areas such as
technical assistance to the underwriting staff for front
end property and rehabilitation inspections for the
compliance division, and these resources to be drawn on an
as needed basis.

We believe such a function should be reporting
to a level of management that's independent of the program
areas, because by doing so, they aren't going to have the
pressures of the award process or program pressures to
produce results on that function and allow them to

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objectively assess the quality of construction for the department.

A centralized staff would also allow for consistency in the quality of the inspections among the programs, a consistent coordinated hiring, training, and recruitment program to ensure that we have appropriate skill levels for the function; and it would relieve the program areas of this responsibility and allow them to focus on technical assistance, contract administration, contract awards.

We also recommended as another alternative that the department consider contracting with third parties to conduct these inspections on behalf of the department. This approach is currently being taken by the Tax Credit section and may be of benefit to the other programs. If this alternative was chosen, the department would still need to maintain some minimum level of skills in construction inspection to oversee those contracts and ensure that the contract services are being properly performed.

In connection with either of those, we are recommending that there be a formal evaluation of the degree of overlap between our inspections and those of third parties, such as the primary lenders or the local governments where the Housing Trust Fund projects are

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located to determine the extent that there is overlap and
the extent that we can rely on those functions -- rely on
those third-party inspections to avoid duplication and to
better accomplish our objectives with our limited
resources.

And finally, out of those alternatives -- and
the last one is across the board, to consider what third
parties are doing -- if none of those prove to be
acceptable, we're going to have to go to what I would
consider the last resource, our last recommendation, and
that would be there's a need to increase the resources
because of the growing needs of the Housing Trust Fund.

MS. WILLIAMS: May I ask a question?
MR. GAINES: Yes, ma'am, any time.

MS. WILLIAMS: When you say establish an
agencywide construction inspection section, is that common
in other states that have -- they have their Housing Trust
Fund? I would just be curious to know whether that's kind
of something that's been done in other states; if it has
been, how successful, et cetera?

MR. GAINES: I'm not able to respond to that.
It's a good question and actually one I've had myself, but
we didn't do the research. Management has indicated it's
in general agreement that they need to consider the
alternatives and have indicated that they plan on doing
that, hoping to have a plan in place by December 31.

And as we proceed through this, I am going to paraphrase management's responses just briefly, but of course, all the relevant management personnel are here and they're prepared to speak to any of those detailed questions you might have on how they might proceed.

The second issue is just enhancing of --

MR. CONINE: Let me ask a question of Ms. Stiner if I can right there.

MR. GAINES: Yes, sir.

MR. CONINE: Who under your leadership is going to have a broad view of the construction inspection services that we do as a total department to be able to come back -- to do a recommendation back to you, then ultimately back to us by December 31? Have you thought that through yet?

MS. STINER: Yes, sir. Kimbal Thompson, who is the staff assigned to Housing Trust Fund right now is a person with many years of construction experience. If we were to organize it in-house, we'll need to see where it would be placed. As David has indicated, we -- no, it won't be in the Housing Trust Fund, but we haven't thought through where in the agency it would be placed. But in terms of an individual, if I understand your question correctly, to help us --
MR. CONINE: Yes. Just a point person.

MS. STINER: It will be Kimbal Thompson.

MR. CONINE: And he's familiar with what's going on with the tax credit side and the HOME side and all the other construction inspections we do throughout the department?

MS. STINER: He is, and has even done some of our Section 8 program. He's worked with those folk in the Section 8 program, actually gone out and done some inspections of the housing quality standards there. So he's the person with that kind of knowledge and would be coordinating such an analysis with us in the department.

MR. CONINE: And he's also capable of running a financial analysis on whether we've got enough revenue coming in to do it in-house or whether we need to go out-of-house with it?

MS. STINER: No, sir. That would be Mr. Bill Dally's responsibility, the CFO.

MR. CONINE: Okay.

MR. DALLY: I've just got a comment. I think our issue here is we're going to run into some resource issues about FTEs.

MR. CONINE: Right.

MR. DALLY: And what I think is important here is that we have construction reports coming in on our
projects that show that it's adequate, that it's meeting
the standards it should. But I think there are third
parties with that kind of expertise out in these places
that do it.

Now, in tax credits we had that rider that
required that those sets of inspections -- and we also
turned around and said, Okay, we're going to charge back
whatever those fees are for the engineers that go out and
look at those because those are -- I think, too, there's
different levels of inspection. We have a group that does
manufactured housing, but that's a whole other issue of
ty ing down and setting up. That's not multi-family,
multi-units construction, which is a whole other arena.

And so I think we're going to be limited in
having expertise to cross all of those versus a single
family inspection, so I think we should -- our strategy
should be to look for third parties where we can, but have
a coordinator, Kimbal Thompson or somebody who draws in
and sees that we have reports on all of our projects where
we should, and that's in the files.

If someone -- a qualified inspector -- has
looked at it, and we have it documented in our files, but
not that we're going to staff up and send a lot of people
out to do that. That's my thought on it.

MR. CONINE: Okay. Thank you.
MR. DAROSS: Yes. There was a comment along these same lines about the possibility of utilizing other inspection reports that are being done by other entities involved with these things, which I think we certainly ought to look at from an economic standpoint. But do we have any kind of an actual requirement, legislative requirement, that we perform the inspections ourselves, or could we look at inspections being done by other agencies involved?

MR. DALLY: I don't think we have a requirement that we, in particular, do it. I think the requirement is that one is done and that we know it's done and documented in our files.

MR. GAINES: We do have that responsibility to be satisfied with those inspections.

MR. CONINE: Right.

MR. DALLY: And I think that's where we need to be sure that we have in our files inspections from qualified folks, but not necessarily that we go out and do it.

MR. CONINE: Okay. I just --

MR. DALLY: Those are my thoughts.

MR. CONINE: It takes someone with either knowledge of all of our little departments or a group of people that come from each of those to figure out how to
do it, and I just wanted to make sure that was in process.

MR. DALLY: But I think we do need a contract coordinator or someone whose charge is to see that all these reports are coming in and if there are areas or programs that are not getting an inspection done, then it may fall to us or someone in-house to find someone, or we do it until we find someone to do it.

MR. CONINE: Okay.

Continue on, Mr. Gaines.

MR. GAINES: The next issue is closely related. It's just referring to the job description of the inspection coordinator of the Housing Trust Fund. The actual employee is well qualified to serve in this capacity. I'm referring to the job description itself. The written job description needs some improvements so we can assure ourselves that any future applicants hired into the position has the appropriate qualifications to fill it. And management's agreed with that.

On page 5 of the report I go into programwide issues. But before I do that, I just wanted to touch briefly on the acquisition awards, and the reason I'm doing that is we went after the big dollars during this review as Housing Trust Fund has done in their applying resources in their monitoring function. But the acquisition awards comprised approximately 33 percent over
the last three years, '97 through '99, and so with acquisition and construction, we're up over 84 percent at this point.

And this just helps you put it in perspective as we get down to some of these other issues, the overall relevance.

The Housing Trust Fund relating the acquisition awards has little to no responsibilities associated with acquisitions. The primary controls over these activities really relate to the contracting award process, the underwriting process, and then the monitoring process of affordability period, which is performed by compliance division. And because of these reasons, they weren't -- this activity was not included within the scope of our audit.

Now to the programwide issues. The first issue is the uniform grant management standards, and the Housing Trust Fund does contract with organizations that may be subject to these standards, including local governments and nonprofit organizations that receive federal block funds. These standards are the state's counterpart to the federal standards A133 that relates to federal funds, and these are the state's standards counterpart.

In fact, it's almost difficult to differentiate them if you don't look at the title at the top. I think
for the most part, the state took those standards and adopted them.

So we do need to incorporate those standards, refer to them in the contract, develop procedures to monitor to ensure compliance with those standards, and Housing Trust Fund has agreed that that needs to be done and has indicated that they're planning an implementation date of October 31.

On page 6 I briefly talk about the reporting and follow-up process, the monitoring results. And for the construction program, they're generally adequate. They have procedures in place to where if a compliance exception is noted, they hold future draw requests until those exceptions are resolved.

On the other areas -- excuse me. Before I get to that, even though they're generally adequate on the construction program, there are several opportunities to improve those, not only to the construction programs but to all the programs within the division. Currently there's not formal procedures for communicating these results to the executive director or to other programs that may contract with the same subrecipients, and there's not really a management information system that's in place.

These are similar comments to what you've heard
in previous reports related to the department's monitoring function. And without this type of information, it's difficult for people involved in planning, executing, monitoring, and overseeing program activities. You'd like to be able to use these results to risk-rank subrecipients and the actual compliance requirements to determine the allocation of monitoring resources to subrecipients and to procedures to be applied.

We need to improve the SOPs across the board for adding quality control review procedures. Currently reviews are going on. They just aren't documented in the SOPs as to how those reviews should be conducted, and they aren't documented so you can determine the extent of those reviews.

Additionally, relating to just the non-construction related contracts -- so we're getting into the smaller program areas -- the SOPs should be enhanced to specify the required report content of these reports: the scope, the nature, time frame considered, possibly rather than the reporting of a particular instance, maybe the underlying control that wasn't operating that allowed that incidence to occur, things such as that.

And policies and procedures should also be established for following and tracking deficiencies that have been noted to ensure that proper corrective actions
are eventually taken, and management has agreed with that.

They've agreed to update their policies and procedures by October 1. The recommendations relating to using the monitoring results for risk-ranking of the subrecipients is contingent upon completion of their Housing Trust Fund database that's currently in progress. They anticipate four to six months before that will be completed.

On page 8 I talk about the financial monitoring, financial management reporting systems, and currently the Housing Trust Fund is using spreadsheets -- electronic spreadsheets to collect and attract its financial data to assess the performance of individual subrecipients. While this may be the best tools they have to work with at this point, this information is not currently reconciled to the department's accounting records to ensure the completeness or the accuracy.

Additionally, they have not been receiving from the financial services division information to assist the program as a whole rather than each individual subrecipient; information such as Housing Trust Fund appropriations, overall expenditures, balances, loan payments from borrowers, funds at risk of lapsing. They need to be receiving this on a regular basis to effectively monitor and assess the overall program.
performance.

So accordingly, we're making recommendations that they request this information formally from information systems. We've acknowledged in similar comments some system problems. I think in the meantime we need stopgap measures until we can get these interfaces, consolidated systems, centralized database put together to where the program managers can draw off it themselves -- retrieve it themselves. In the meantime there just needs to be stopgap information provided.

MR. CONINE: I don't know who this question is for. I see where the database is going to take four to six months. Ms. Stiner, I guess -- how are we coordinating that database with everything across the department and into some global system that will be available some time early next year or mid-next year? What's the latest and greatest?

MS. STINER: The latest and greatest is that the centralized database for the whole department is what we're building and moving toward. What is out there -- the task force met yesterday, the IS task force, in terms of talking about priority for the centralized database, and I don't know what the projected date of completion is. But each program, as you know, needs to be able to interface with the current system that we have, and I
think that's what this is going to. I see Keith shaking
his head about the four to six months.

Can you come forward and explain how it's going
to interface with the centralized database that we're
building for the entire department?

MR. HOFFPAUIR: Yes. What we anticipate is the
database that we're going to be utilizing. We received a
template of the CDBG database, and we will be cutting and
pasting on it to make it a little more what we need within
the Housing Trust Fund. The CDBG database is based on an
Oracle platform, which we anticipate, from what I've heard
on the agencywide database, that's going to be the
platform for that database as well, so there will be
commonality and there will be communication interface
possible with those two databases.

MS. STINER: There's a plan in place to bring
every program area onto that platform. CDBG was one of
the first major programs to go on that platform, and so
you're going to be utilizing that as a model to convert
your -- what is your data in now, Genesis?

MR. HOFFPAUIR: No. Right now it's in Excel
spreadsheets.

MS. STINER: Oh. You just said that. Excel
spreadsheet. So you'll be putting it into the model the
CDBG is using that's on the Oracle platform?
MR. HOFFPAUIR: Right. We received a copy of a template this week, and we're already going into it. Rebecca Peterson, my assistant planner -- she's already starting to go into it and analyze the pages, and we're going to start putting our information into it and seeing if our program fits into that.

MR. CONINE: The -- what would you think the target date is for the agencywide database as opposed to just the Housing Trust Fund database?

MR. HOFFPAUIR: I don't know what the agencywide target would be.

MS. STINER: I think that is a better question for -- well, probably a better question for me. I'm looking around. I can't see anybody I can just download that one to.

MR. CONINE: I'm just trying to get a feel, because I think a lot of what Mr. Gaines is bringing up will be naturally resolved by that time.

MS. STINER: Let me tie this in for the committee. One of the recommendations -- well, we've been working on a centralized database at this agency a number of years.

MR. CONINE: Right.

MS. STINER: We started by buying the Oracle system and the accounting program, of course -- all bills,
financial services are on there. We've talked about doing
that, and we were building that in-house with our IS
staff. And the projections that we were getting from our
IS staff was too far out for that -- for us and what we
need to do, especially given that a lot of the
recommendations that came out of Sunset, and just where we
need to be as a business plan.

So as we speak, we have put together an IS task
force and committee. The committee is chaired by David
Long. This committee will be responsible for looking at
the overall business needs of the department and
prioritizing that with IS so that IS can devote the
necessary resources it needs to whatever the project may
be.

But the centralized database is on that laundry
list. It is somewhat very close to the top, so as we
speak, I don't know that we've had a chance to project out
what the completion date is on that particular one
development, but it is something that's on the plate for
that committee to look at.

MR. CONINE: Okay. Thanks.

MR. GAINES: Thank you, Keith.

On page 9, briefly, I have a section on non-
construction activities, and what I'm referring to here is
the down payment assistance predevelopment loans to
capacity building. This comprised approximately 16 percent of the total over the last three years, 7 percent for the down payment assistance capacity building, 5 percent predevelopment at 4 percent.

The down payment assistance, the largest of the three -- the Housing Trust Fund, although they don't have responsibilities -- monitoring responsibilities once the assistance loans are closed, as I've discussed in your Attachment A, it does have other monitoring responsibilities relating to the subrecipient's responsibilities for marketing the program, targeting the income and special need groups specified in the contract, and for completing the contract within contract terms.

At this point the Housing Trust Fund doesn't have their policies and procedures formalized for this, and accordingly, we're recommending that they do so. Management is in agreement with that and has an anticipated completion date of December 31.

On the predevelopment loan and capacity building subrecipients, page 9 -- I'll continue on -- while there's adequate monitoring checklists that have been developed and used for monitoring these activities, they haven't formalized them in standard operating procedures.

Accordingly, there were instances noted where
maybe a checklist wasn't completed, without explanations why, no indication or evidence of supervisory review. And so this is what formal policy and procedures hopefully will accomplish, and so we're recommending that to provide resource rooms [phonetic] that management's objectives are accomplished in monitoring those activities.

We also recommend relating these activities that clear outcome measures be developed and measured against the actual results. This provides management with the information necessary to assess if the department is receiving the benefits it expects from these types of activities. Without the performance outcome measures, we aren't really able to effectively assess whether the public benefits derived warrants a continuance of the activity.

Management's agreed with these recommendations and they intend to formalize their monitoring policies and procedures by December 31. They've also indicated they're in agreement with the outcome measures on the predevelopment loans. They have a good idea what those outcome measures are, and it's just a matter of accumulating the information and using them in the decision making process.

On the capacity building, it's a little bit more difficult to identify, and this program is to train
and build the capacity of nonprofits so they can deliver these construction activities, housing activities, also. Currently, the Housing Trust Fund does have procedures in place to evaluate the training programs, evaluate the trainer and the trainees — trainers — evaluate the trainers. They receive evaluations. Bottom line is we don't know if these activities ever result in building the capacity of these guys, and that is challenging.

Housing Trust Fund has indicated they're going to look into this a little bit further, research what that outcome measures may be out there. The ones I think of might take several years of accumulating data and having applicants attest whether they're received capacity building in the past. It will take considerable effort and time to get a meaningful database in that respect, but I believe management appreciates the need and value of it, and they've indicated they'll look into it.

That concludes the significant issues of the Housing Trust Fund report. Is there any questions I can ask, or answer?

MR. CONINE: Jim?

MR. DAROSS: Just a comment. I was much more pleased after I finished reading this report than the last report you gave to this committee. Certainly, there are -- you're always going to find some things that need
changes, and --

MR. GAINES: Yes, sir.

MR. DAROSS: -- I think the changes here are, first of all -- the construction initiative I think was a really good idea. And it seems to me -- it seems like a model you'd see in corporate America, where you gather all of your similar functions together instead of having them broken up among different departments. I think that's a good idea if we can do it.

But generally, I was pleased at the outcome of the report, that there weren't a whole lot of really terrible problems. There were some issues you thought could be changed and that's good.

MR. GAINES: Yes, sir. That's a good summary, and I certainly don't want to take full credit for that idea. It's been floating around for a while. I'm just trying to get us to address it formally.

MR. DAROSS: I also noted that the turnaround time from the date that you submitted your report to management to getting the management response back was very good.

MR. GAINES: Yes, sir. Thank you for those comments.

MR. CONINE: Marsha, any comment?

MS. WILLIAMS: No.
MR. CONINE: Go ahead, Mr. Gaines.

MR. GAINES: The next report is -- if you have, Selected controls over board awards for low-income housing tax credit allocations -- I've faxed you a copy of that because it wasn't in the book. Do you each have a copy of that in front of you? And I can provide copies if you don't.

MR. CONINE: (Perusing documents.) 7/25 at 4:12 in the afternoon.

MR. GAINES: Anybody not have it?

MS. STINER: Mine's upstairs. I have it.

MR. CONINE: You can cheat off me.

MR. GAINES: I'd like to first turn to page 4 of this report and bring your attention to the scope and objectives of the audit. The objectives were very specific and focused on whether the department had adequate controls over 9 percent tax credit allocations relating to the underwriting conditions imposed on projects that were relied on by the board members as well as other conditions that maybe have been imposed by the board in awarding these projects.

Being a very specific scope, we are reporting on what we call our one-page reports, but you can see it took me four pages to do it. But this is for conciseness and there's a lot of information in a small area here. So
please ask any questions if I haven't gone into sufficient
detail.

If you will, let's turn to the transmittal
letter now -- that'll be the first page. And basically,
we concluded that there are reasonable controls in place
to ensure the project conditions are satisfied prior to
the issuance of 8609, which serves as the project owner's
basis, serves as the basis for claiming the tax credits
against this federal income tax returns.

However, we did note that we believe there
needs to be better communications between the tax credit
division and the underwriting division. These
communications need to be formalized to ensure that the
conditions identified by underwriting are properly
understood by tax credits, and that the assumptions
underlying -- the assumptions considered by underwriting
divisions are the same as those considered by tax credits,
and following up on those conditions.

We're recommending that the tax credit division
in coordination with underwriting divisions, develop and
implement procedures to ensure that the underwriting
division is sufficiently involved in determining that the
significant conditions are adequately satisfied prior to
the issuance of 8609.

Additionally, the tax credit staff should
enhance their standard operating procedures to include the
financial feasibility analysis which is performed to
determine the final tax credit allocation amount, which
should be no greater than the amount recommended by the
underwriting division as a condition of the award
allocation. These procedures should require the tax
credit staff to provide sufficient detail and explanation
as to how the supporting documentation meets or satisfies
the conditions that are noted.

Management's in basic agreement with greater
involvement with the underwriting division. Management's
recognized that we need an agencywide procedure -- an
agencywide SOP that's apparently being developed. It's in
the process of being developed to ensure that all
conditions relied on by the board members, including
programmatic and legal conditions, as well as underwriting
conditions, are satisfied prior to closing or allocating
funding or providing incentives to borrowers.

All program directors will have the
responsibility of coordinating with underwriting and legal
to determine the adequacy of their representation that all
conditions have been satisfied prior to funding, and in
the case of tax credits, prior to the issuance of 8609.

Management is currently anticipating that this
SOP would be completed by October 31, 2000. Management's
also agreed to amend its SOPs to provide for a more
detailed write up of what the feasibility analysis entails
and how it should be conducted.

MR. DAROSS: I have a question about this
portion of the report, and you started off by telling us,
and indeed it's entitled, A review of selected controls
over the board awards.

Is there a reason why you only looked at that
one particular function?

MR. GAINES: Generally in selecting our
projects we go risk-based. This didn't necessarily hit
our risk assessment at that level. This project resulted
from -- we also solicited input from management, external
auditors, from board members. This project actually came
about by a request or a suggestion from one board member
and two different directors. The three of them expressed
interest in this question.

MR. DAROSS: Okay. Do we need to recommend
approval of these reports to the full board? Is it
something that gets approval by the board?

MR. GAINES: I'll be glad to respond to that.

MR. CONINE: Please.

MR. GAINES: May approve or disapprove which
direction management agrees to go on a recommendation or
not, but I'm just presenting these reports, if you will.
They don't need --

MR. DAROSS: It's not anything like a budget that we need to approve or --

MR. GAINES: No, sir.

MR. DAROSS: Okay.

MR. GAINES: No, sir.

MR. CONINE: No.

MR. GAINES: Okay.

MR. CONINE: Can I ask one -- are you finished with your presentation?

MR. GAINES: Yes, sir. Any questions for me or management?

MR. CONINE: What I'm gathering here is we're trying to coordinate a communication between the underwriting department and, I guess, it's the tax credit department that issues the 8609s to make sure the two of those guys have communicated appropriately and that the dollars on the tax credit 8609 is understood and fully represented and so forth?

MR. GAINES: Yes, sir.

MR. CONINE: And this goes on after the project's up, and it's been there year after year when they get their 8609. How does the compliance department fit into this little loop that we're trying to create?

MR. GAINES: I'll be glad to give you my
impression, but maybe the compliance director would be better suited to do that.

VOICE: You give your impression --

MS. STINER: Well, if you want me to give my impression --

MR. CONINE: That's good, because I've got a question for both of you.

MS. STINER: I think the area that we're talking about now is before the development gets placed in service. The compliance division comes in at the --

MR. CONINE: Okay.

MS. STINER: -- the development has been placed in service. But this procedure that we're talking about is during that two-year interim period of time that the credits are allocated and the developer has to put it -- yes. And then, now, you may direct your questions to the compliance and allocations staff.

MR. GAINES: That's real close to my response. Compliance would be even more during the affordability period.

MR. DAROSS: My question relates to the review that you gave us of the previous report on the HOME program. Are you going to be addressing that?

MR. GAINES: Addressing the prior HOME report?

Yes, sir.
MR. DAROSS: Yes, I'll wait until after you're done on that.

MR. GAINES: Okay. That is our next agenda item -- behind Tab B.

What you have here in front of you is -- and you probably recognize at least the format -- you have an extract out of our prior audit issue tracking system relating to HOME issues. You have a three-page summary which provides a high level summary of basically the report, when it was issued, the issues itself, the recommendation, and the status as of the most recent status update.

Following that, you have the detailed report which identifies by issue the original report recommendation, original response, and any changes in status since that point in time. And so walking through this, basically I can summarize these HOME prior audit issues in three broad categories.

The first category relates to the HUD-OIG issues, and these are issues 145 and 146 on your summary page. Issue 145 questioned -- well, both the issues, if I may -- we had questioned costs relating to the department not providing adequate supporting documentation for administrative expenses. These administrative expenses can be recapped between those of the department and those
of subrecipients that were tested by OIG when they were conducting the audit.

Issue 145 is relating to costs incurred by the department. There is right at 1.2 million, 1.3 million questioned in administrative costs. The department has provided HUD documentation in support of these costs. HUD has informally accepted some of this documentation and has rejected the balance of it. The department continues to work with HUD in trying to resolve these remaining questioned costs.

I don't have that recap on the dollar amount as to how much has been accepted or not, and management may be able to answer any questions in that respect.

MS. STINER: I'll let management answer it, but we haven't gotten an official response. These are informal kind of responses back from HUD saying, This looks okay; this doesn't; you'll going to need to work on it some more. So that's -- I'll defer to management. We haven't gotten a formal response back yet from them. Okay.

MR. GAINES: One of my concerns about waiting on a formal response is once it's formal they'll formally tell you how much they aren't going to allow, but maybe by then, we'll document something a little bit sooner.

MS. STINER: Don't let me categorize the nature
of the response. I should do like -- I should defer to those folks. There may be something --

    MR. GAINES: Absolutely. That's correct, what Ms. Stiner is saying.

    Issue 146 relates to the subrecipient administrative costs. OIG tested 19 subrecipient files. Of those files, they questioned 424,000 administrative costs that wasn't supported in accordance with federal guidelines, so we submitted information in support of those costs. The first submission, HUD rejected about 387,000 of that.

    So the department again continues to try to work through this. It's informal at this point, and this is where we're at at this point.

    MR. DAROSS: I can understand what would happen if HUD does not accept some or all of this 1.2 million of the department's administrative expenses, but I'm assuming that subrecipients have already received the funds, and if HUD doesn't accept their allocation to administrative costs, do we then go to them and say, Give us back the money?

    MR. GAINES: That would be a recourse. I'm pretty confident all the contracts refer to the federal requirements placed on them. That would be a viable recourse.
Okay. The next category of issues is really issues 151 through 155, and this is the result of an internal auditing division report that Mr. Daross referred to earlier, and it's a series of recommendations relating to the effectiveness of the HOME monitoring function. The state auditor's office also identified a -- what they call a material weakness in the HOME monitoring function, which is issue 157.

So for issues 151 through 157, I've got a brief summary comment relating to the status of those. The department has transferred responsibility for the monitoring of the HOME program from that program to the compliance division. The compliance division is in the process of incorporating those activities within their operations. At the same time, the monitoring function for the CDBG function was transferred also.

Again, the compliance division is not only in the process of incorporating those functions and staff -- I believe four or five for CDBG were transferred -- employees, and two employees from HOME were transferred at this point. In addition to incorporating them, they're also in the process of incorporating the recommendations through that series of recommendations.

MR. CONINE: Have they said whether they like working for their new boss yet or not?
MR. GAINES: Not publicly.

MR. DAROSS: When we discussed this matter before, the question of the role of the compliance division -- I questioned how they fit in with the monitoring. And I was told at that time it was really two completely different functions. Now it sounds like we're applying the monitoring role to the compliance section. Is that accurate --

MR. GAINES: That's right.

MR. DAROSS: -- and will that require redefining their function?

MR. GAINES: Well, previously on high level terms, the monitoring was done by the program areas up to occupancy or the affordability period, if you will, and then compliance division would ensure compliance with the land use restriction agreements. Now that's all one continuous monitoring stream underneath compliance division.

MR. DAROSS: Is that going to be able to be accomplished with the FTEs that we've got and that have just now been reassigned?

MS. STINER: Ruth Cedillo has taken the responsibility to implement that for the department, so Ruth, do you want to come forward?

MS. CEDILLO: Yes. My name is Ruth Cedillo,
One of the reasons that we worked with getting the CDBG program monitoring section combined with the HOME program is that there are a lot of commonalities, and we felt that perhaps at some point we could cross-train the CDBG monitors and the HOME monitors, because it's program monitoring, and that's still their function. The manager of that section -- of the CDBG section went to compliance.

And so we're hoping that those two programs will benefit from each other's experience. However, we don't have enough monitors in the HOME program. We're looking at transferring another position from the program area into monitoring. So hopefully that will give us three monitors for HOME program. But we do need more FTEs in the program area, but right now, to fix the monitoring situation, we are transferring one of those FTEs to the monitoring section.

As far as the responsibilities of those monitors, they maintain the previous responsibilities. However, they're all in one section. In HOME, the program monitors were with the regional coordinators, and they were all in one section, so in order to separate those responsibilities we took FTEs to create that program monitoring section and put it under compliance. And I think for audit purposes that that's a lot better than
having them in the program area.

MS. STINER: Bill?

MR. DALLY: I think I might have something to add. If you -- one of the things you might remember from David's report was we had monitoring FTEs or positions in the HOME program, but when they were filled, somebody in a regional coordinator or somebody at a better position -- that that was the lowest rung on the totem pole in the HOME program was that monitor position, and people were jumping up. And that monitoring position just remained open; the position was there.

I think by clustering -- putting this grouping together and saying we're going to have a monitoring skill on a ladder there, it makes a lot of sense to be in that area --

MR. DAROSS: Well, I also recall that what was happening was the people who were designated as monitors were doing a lot more things besides monitoring.

MR. DALLY: Right. They were being called on, but they were up in that program area and being called on to get allocations and expenditures done and not following up on monitoring, so I think this movement is probably a good idea.

MR. DAROSS: I'd agree with that.

MS. STINER: Thank you.
MR. CONINE: You kind of see a pattern developing here between construction, inspection, monitoring, compliance. We're going to get grouped here before it's all over. Cross-training, isn't that --

MR. DAROSS: I just think it was a power play by Ms. Phillips.

(General laughter.)

MR. CONINE: Could be.

MR. GAINES: The third category that I'd refer to is that the state auditor's office in their single audit identified that the department was not complying with the federal reporting requirements relating to federal cash management calculation of interest reporting and the HOME match reporting. They didn't find errors necessarily; they just had problems with us not following the requirements as they were written.

They also identified an instance where the department was not complying with the three-day cash limitation, which is you disburse federal funds within three days of receipt.

Management has indicated that they've implemented the recommendations relating to these issues and of course, is available if you have any questions.

MR. CONINE: This was the stuff behind the green sheet, David? Is that right? Oh, okay. You're
MR. GAINES: The first three pages is a summary and then -- 

MR. CONINE: 158 and 159?

MS. WILLIAMS: I just did not understand what it meant when it says, the Department has not accurately recorded HOME matching -- this is more for edification than anything else -- department has not accurately recorded HOME matching requirement information to HUD, and then in parentheses, although records support that the matching requirements for the HOME program has been met.

MR. GAINES: If I recall right, I believe what was not in compliance was the time periods. I think we were reporting January to January and their requirements said fiscal year to fiscal year, which would be like September 1 to September 1.

MR. DALLY: Yes. The reporting should be on the federal fiscal year, begin October 1 and end September 30. And we were reporting January 1 on the program year, and the regulations were a little hard to understand in that they wanted us to report on our program year, but they wanted us to look back. It's sort of like reporting your income taxes January to December in April. That's what they wanted.

They wanted to see the federal fiscal year
reported by our program year end --

MS. WILLIAMS: Okay.

MR. DALLY: -- which is in January. And so what essentially happened is we had to take our numbers and re-subdivide them into the federal fiscal years and re-report it.

MS. WILLIAMS: Okay. Thank you.

MR. CONINE: Moving on?

MR. GAINES: The last and final issue here -- or issues is the status of audits, and in your book you have a summary status as of today. Of course, we have the sunset that's ongoing. The most recent information we've been provided is that there is -- and the commission will issue its final report -- final decisions in September.

I did speak to the project leader on that project, and he said that there was an interim report coming out in mid-July, and all that was going to be was the original report updated for how the commission's voted up to this point in time.

And now this last week, I requested a copy. I still haven't received it, so I'm not real sure what that looks like.

MR. CONINE: Can I ask a question about the sunset thing, and Dave, you may know something about this too. Kind of like what you said about HUD a minute ago,
instead of waiting until the formal one comes out, it might be nice to know what's coming ahead of time. Do you think we're going to get any of that information over the next two or three weeks, or do you think we'll have to wait until September?

MR. GAINES: Well, I believe this interim report I spoke to is all we're going to receive prior to the commission resuming. The latest word we have is in September.

Is that right, Daisy?

MS. STINER: Yes. The latest word we have is in September. We haven't gotten a specific date in terms of when that's going to happen.

MR. GAINES: Right.

MS. STINER: But I would suspect, not knowing anything, that the interim report will be a restatement of the vote that was taken when we were before Sunset. I don't think we're going to have any further clarification, anything other than was talked about when we met with them last.

MR. GAINES: That's the characterization I received from the project leader.

The state auditor's office has several projects going right now. The first one, a follow-up on the review of investment practices -- you'll notice my comment here
that I'm just going to drop this from the future status reports.

The project leader has told me that they don't have any comments relating to us in that, which is good, and I've been carrying this for an extended period of time, updating release dates. So at this point I don't think it's real relevant to the department.

The audit of selected housing programs and this audit of ISAS, which is basically the department's accounting system, the department's version of People Soft, is a project that's currently ongoing, and both of these reports are anticipated in November of 2000.

KPMG in their annual audits -- they're doing interim work on the revenue bond enterprise fund and they're worthwhile, so I'll include the general purpose financial statements and the computation of the unencumbered fund balance, which they do every year, and that work's pending.

On the internal audit reviews, Housing Trust Fund, I presented that earlier. Tax credits, I just presented that. Controls over board awards and contract awards -- originally, we had Housing Trust Fund and HOME also planned on that. I was thinking we could do them all together, but it turned out tax credits was such a different animal I've split those out, and I'd like to
talk about that just a little bit further here in a moment.

And then single family lien procedures, to assess that -- we have adequate procedures to ensure that we're securing our liens. That's -- we'd started on that, and then I kind of delayed it when we decided we wanted to move right into Housing Trust Fund, and I'd like to just talk about that briefly, too.

And that brings us to the final part of that last agenda item and audit status/annual audit plan. Here's the annual audit plan, if you will, and our current status on that. Excuse me for not providing you this earlier. The projects in the left-hand column is basically what we approved for the year, and then a summary status of where we're at on these.

If you'll notice just scanning through it, as I just mentioned, board contract awards pending for HOME and Housing Trust Fund, subrecipient monitoring. We'd also had Section 8 in there at one time. Last meeting I proposed that we delay looking at that, and actually, I thought the committee was in general agreement with that to go ahead with the Housing Trust Fund. Once I read the transcript, I realized that's not the way it played out.

The way that transcript reads is no, go ahead and do it but again, I'm proposing that we delay that, and
we can talk about that as I finish through this.

HUD CMIS system -- we presented an oral report to audit committee in March, and we haven't done anything else with that, really don't plan to. I know the DGMS [phonetic] -- well, I'm going to back up on what I know on that, because it's been changing quite a bit, but our original dates for that have been delayed.

During that oral report I presented in March there was a series of recommendations that we made to the HOME staff, and I'm not real sure to what extent, if any, those recommendations were adopted and incorporated into their process in trying to clear those exceptions.

On single family lien, pending, follow up on prior audit issues is just ongoing. The CMIS policies and procedures under client assistance -- we had two activities. One was to do a review of what they were doing and make recommendations on how they might proceed, and the second was to actually roll up our sleeves and help them out with this. And once we got an understanding of what it involved, I backed off on that.

I don't believe we have the resources or would want to take the time to develop the expertise in all the idiosyncrasies that are involved in what's there and what's not. I think that's one of our big problems; nowhere has HUD actually defined for us what a problem is.
I believe -- and I don't want to put words in management's mouth, but I think the strategy may be -- it may be the best strategy, is let's move to the new system and load up what we have. Get it as clean as we can before that point in time, and then once we're loaded in the new system clean up the remaining amounts, which if I understand things right -- and Ruth, you may know the answer to this -- under the new system, we'll have direct access to that, to where we can post, adjust, make corrections, while now we're having to send all this to Washington and wait turnaround time.

MS. CEDILLO: There was a concern about the numerous corrections that needed to be made on the HOME program, and HUD had sent us this four-inch stack of corrections that were -- some may have been really important, but there was some minor things like where maybe they had S-T instead of S-T-R-E-E-T, so what we decided to do since the Department of Housing and Urban Development has agreed to help us go on IDIS and their target date is August 14, they have sent consultants to train staff on IDIS, and we are going on IDIS.

We had been told that we would skip IDIS and go directly into the departmental grants management system that HUD was trying to implement for 104 programs. Their contractor they had for DGMS did not perform. They
released that contract, and they're in the process of
getting another contractor, so basically they've come back
and said, We need you on IDIS; we're spending a lot of
money keeping Texas only on the same system that we've
been on, and we will do everything we can to help you go
on IDIS.

So what we did is we took the stack of
documents that had been sent by the Fort Worth office,
sent it to HUD in Washington. They have agreed that we
can transfer HOME without making all of those corrections
and they can be made as we move on, because it is an issue
right now. We have -- we're short on staff in the HOME
program and to stop everything to take care of these,
which many are minor things, would be very difficult for
the staff, so HUD has agreed that we can go on IDIS
without making those changes immediately. They have to be
made -- some of them will have to be made eventually.

Now, our understanding from HUD is that it may
be a little more difficult, but we're not convinced that
that is correct at this point.

MR. GAINES: The balance of the audit plan --
we looked at the quarterly performance measures just for
reasonableness: are they clear, concise; do they allow
enough prior reports? We'd also had a goal of maybe
looking at a particular measure each quarter and assessing
the adequacy of the support for that. We have not been
able to get around to doing that, but that's an ongoing
goal that we strive for.

MR. DAROSS: Is that another FTE issue?

MR. GAINES: No. What that issue is is we
report these performance measures -- oh. In my case?

MR. DAROSS: Uh-huh.

MR. GAINES: Well, sure.

(General laughter.)

MR. DAROSS: Good answer.

MR. GAINES: Which by the way, I don't know if
the committee has been advised. I lost one of my
auditors, so I do have an FTE issue, and it's a real
tight, competitive market. I've had that posted since, I
think, mid-June and I've had three applicants. One I
wouldn't even given the time of day to, and I'm not real
pleased with the other two.

I'll take that back. The other two don't have
the background experience that I'm looking for.

In continuing with the audit plan, we still
have our annual internal auditing plan itself, and that's
why I wanted to bring this up. In doing that plan, I
solicited input from board members: what we should be
doing, what are your concerns, what keeps you awake at
night, because that's probably what we should be working
So I'm letting you know that now so maybe you can think about it and feel free to call me at any time. I would say you bring it up at the next meeting, but the next meeting I need to have the plan put together.

So --

MS. STINER: Which is in two weeks. Right?

MR. GAINES: I'm sorry?

MS. STINER: The next meeting.

MR. GAINES: The next audit committee meeting, excuse me. Yes, but any time I run into you, just please let me know, or please feel free to call.

MS. STINER: No. I'm saying are you saying that you plan to bring the audit plan to the next board meeting?

MR. GAINES: Audit committee meeting. I'm sorry.

MS. STINER: Audit committee meeting in three months.

MR. GAINES: Right.

MR. CONINE: I'd like to address that issue, if I might, because -- and I'm speaking kind of globally and wrapping up here, so if any of the other committee members have any comments, please jump in.

But in March when we had our meeting and had
all that to listen to and a lot of target dates to hit, we were, I think, pretty explicit with not only you, Mr. Gaines, but with management that we wanted to see some stuff fixed and some things going on.

We have a lot of target dates and we were going to wait until the July meeting -- or June meeting at that time, I think, that then got pushed to July. And here we -- and this time we get Housing Trust Fund and low income tax credit reports, and we've got target dates set out over the next several months of when management is going to hit this, that, and the other.

And, quite frankly, I get confused, because it runs -- this report and that report and what date is supposed to be coming -- what particular issue is supposed to get resolved? And so if I can get consensus with the committee members, I think it might be incumbent upon the audit committee maybe to meet monthly from here on out for the balance of the year and to try to review those items that need to be accomplished by that -- or were to be accomplished by prior to that meeting, whenever it might be, and make sure that the word monitoring gets fixed around here, because that's what I keep hearing time and time again, or at least I have in the last couple of audit committee meetings we've had.

And, quite frankly, I have some concerns about
us having a pretty good ability to get our programs under it and then the money out the door, but then the follow-up or the monitoring seems to be a problem with a lot -- not only with you, being the internal auditor, but with some external people that keep telling us that.

And I'd like to see us, us as a committee, take an active role to make sure that over the next six months, or whatever the time frame needs to be, that the staff is responding to the target dates that they've set and if there is an FTE problem or a budget problem or whatever might be a prohibition into getting some of these things done, that we're made aware of that and we're able to help Daisy and her staff either find resources or whatever the case needs to be.

We've got a legislative session coming up and a Sunset Commission review coming -- or report coming out in September. And there's just a lot of stuff coming at us, and I think if the committee has any comments along those lines I'd appreciate them, but I think I'd like to see us meet monthly from here on out.

MR. DAROSS: I think that's a great idea.

MS. WILLIAMS: I agree.

MR. GAINES: And I do, too, with one reservation. I don't have a summary of the planned implementation dates on the reports I released today right
in front of me. On the summary here, I have target dates, and I don't believe any of them are prior to September. And so if that's the case, I'm not sure what we'd be following up on.

MR. DAROSS: Well, especially when you consider that our August board meeting is two weeks from tomorrow.

MR. CONINE: Is that when it is?

MR. DAROSS: Yes. So maybe starting September we could have a meeting a month.

MR. CONINE: I guess one of my concerns is how are we doing with the HOME monitoring function and getting interim updates, if nothing else, on that process prior to the Sunset Commission's report coming out in September. That's one of my concerns. And if the August meeting is in a couple of weeks, that would be too quick, obviously.

Let me just -- I'll visit with the chairman about that, and if we need to call a special meeting in between or something, we can do that for at least that one time.

I can't remember what the meeting schedule is for the balance of the year board meeting-wise, because it's been moving around a little bit, and I know since we got a new chairman he's thought about moving some dates. But anyway, we'll check on that and get back to the committee and the staff.
MS. WILLIAMS: When is the annual internal auditing plan to be submitted for fiscal year 2001?

MR. GAINES: The plan itself -- they say annual but they don't talk about which annual, and so I've taken the liberty to choose my own year, which means pretty much whenever I want to as long as I do it yearly.

Now, the annual report which is required of me November 1 is a report of the prior year's activities -- fiscal year activities, so November 1 I have to submit a report of our activities for the year ending August 31.

And the preliminary report guidelines that are prescribed by the state auditor's office indicate that they would like the annual plan in that report this year, in which case -- they have the authority to prescribe those guidelines, in which case my annual plan needs to be done by November 1, which I'd intended to anyway. but that would be a drop-dead date for me.

MS. WILLIAMS: I just didn't know if that could be an agenda item, if there were things that needed to be discussed to be included in the plan. That was the only thing I'm thinking about.

MR. GAINES: Yes. And as Mr. Conine was saying, we can meet any time you care to. I currently have -- I'm looking forward to the October meeting is what I'd like to see as our next significant meeting, because
I'll have the annual report. I intend on having the annual plan at that time.

MR. CONINE: Would it be possible to put together some sort of graph that overlays all your -- all these audit things and target dates the staff's trying to hit into a one or two or three-sheet or a four-sheet, or whatever it takes?

MR. GAINES: Could I refer you to that three-page summary right behind Tab B?

MR. CONINE: I'm looking at it.

MR. GAINES: That target date.

MR. CONINE: Uh-huh.

MR. GAINES: Is there something you'd like more --

MR. CONINE: I think it's the sub-reports that are due, like in the one we just -- the Housing Trust Fund that we just reviewed today for the first time. It's got dates from August 1 until December 31 or maybe even further than that --

MR. GAINES: Yes, sir.

MR. CONINE: -- and what I'm saying is -- as each month as we have a meeting, I want an update on that particular program and its report. And then you've got low income tax credits and HOME. The HOME thing is voluminous, and --
MR. GAINES: Yes. Let me suggest if I may --

after this meeting, as a normal course of business, I'll
go and input these reports I released today in this
tracking system.

MR. CONINE: Right.

MR. GAINES: So I'll go ahead and do that, and
what I need from management is to provide me regular
updates, because currently, as you might recall at the
last meeting or two, I requested, How about if we do this
over six months, because it is a lot of work for people.

But -- and we did -- or we agreed at that
point, but presenting it every six months and getting
updates regularly is two different things, so I just need
management to update me as things are done, as these
target dates change, and I'll provide you those updates as
they're changing.

MS. STINER: I think we can speak on behalf of
management that if that's the desire of this committee, we
certainly will get those updates.

MR. CONINE: I think it's important. I really
do. And again, back in March when we got -- I'm sure the
March HOME report had a bunch of staggered dates in there
that we were trying to hit, and one of them may have been
in June. And right today I can't tell you whether they
got met or not, and I'm just trying --
MR. GAINES: Would this summary information -- it's not useful? Or do you have any suggestions on what I might do beyond this summary report?

Now, one thing this report doesn't have, Mr. Conine, if I can point out to you, that is real useful is -- and the reason it's not here is because we haven't had any changes in target dates, but --

MR. CONINE: I think you're confusing the target date that you submit back to us with the target dates that management has said they can do something or other. What I'm trying to monitor is -- or what I'm trying to look after is what management has told us they could do something by a certain date in a particular program.

MR. GAINES: And that's what this target date --

MR. CONINE: Again, I go back to the Housing Trust Fund we just looked at today.

MR. GAINES: Right.

MR. CONINE: There's a bunch of different dates in there.

MR. GAINES: Yes, sir.

MR. CONINE: I just want to monitor management's -- I don't want to monitor. Listen to that -- that's terrible -- I want to review management's
attempts to complete whatever those tasks are each of the months as we go along, and then if we need to go backwards and make sure in updates and things -- I just need you to put that together in a little graph, so we'd have a little easier chart to follow than the one we've got.

Does that make sense?

MR. GAINES: I'll give you a call if I get confused while I'm working on this.

MR. CONINE: That's fine.

Am I burdening the system too much, Ms. Stiner?

MS. STINER: Of course, sir, but -- no, sir, we can comply.

MR. CONINE: Well, with all the eyes and ears that are looking at Texas Department of Housing and Community Development right now, I think it's prudent for us to do that.

MR. GAINES: Yes, sir.

MR. CONINE: Anything else before -- on your report at this point?

MR. GAINES: Well, one -- I would like to backtrack if I may, if you'll allow me just a moment --

MR. CONINE: Yes, sir.

MR. GAINES: -- back to our prior audit issues, because I did overlook one that may be our most significant of all of them, and that relates to the OIG
report. It was in my speaking points. I failed to mention it. It was -- I mentioned the 19 subrecipients.

HUD has also recommended that we go back and review the administrative costs of all our subrecipients since the beginning of time, and that's such an enormous challenge that I don't think any of us even have an idea how we will proceed with that.

They've told us if we cannot support those costs we need to pay them back with non-federal funds, and that could be, or that is a big, dark cloud hanging over us. We've had different negotiations back and forth, but nothing has materialized out of those negotiations at this point.

MS. STINER: Ruth has an update.

MS. CEDILLO: We did have some discussions with HUD, in fact, today. We have a real concern with going back to about 2,000 subrecipients and whether -- is the time best spent in going back to 2,000 subrecipients or making changes and moving forward with the program? And we're still negotiating with them on the subrecipient administrative funds and also the dollars that were spent on administration for the Office of Colonia Initiatives.

Today we agreed that we're going to pursue it, and we have a deadline of November 1. As Ms. Stiner said, we will be getting a letter from HUD, but it's not a
letter saying, This is it; you have no more time. But
that should be coming in the next week, but we will
continue to negotiate.

And we're going to send them documentation as
we see that they may, after our -- based on our
discussions, what we believe they really need, because it
seems that we didn't give enough guidance to our
subrecipients on what was really needed. So we're going
to send a sample to HUD, let them agree on something.
Then we'll go back to the 19 subrecipients and try to
clear those.

MR. CONINE: Can -- what's happening with other
states in this arena, with other state housing finance
agencies? This is -- seems like a laborious exercise and
one which 40 or 50 state agencies called the National
Council for the State Housing Finance Agencies could get
together and sit down with HUD and negotiate something out
if the other states are having the same problem.

MS. CEDILLO: Well, there are federal
requirements as far as documentation on administrative
dollars, whether it's within our agency or subrecipients,
so --

MS. STINER: I think -- pardon me for
interjecting, Ruth, but I think if I follow your
question -- that is a good question: are other states
besides Texas experiencing the same level of monitoring?

Is Suzanne coming forward to --

MS. PHILLIPS: Not really.

MS. STINER: -- share some roundtable discussions within the NCSHA?

MS. PHILLIPS: This past January we were at a monitoring workshop and I asked the question in a Q and A whether other state agencies were having the same problem, and it seemed as if there were -- it depends on the type of agency.

A lot of them already have these procedures in place, the type of documentation that they needed for time sheets and things like that, but then there were another group that didn't, and that group that didn't were very, very surprised at the level of review that we were going through.

So we had some informal discussions with HUD while we were there about what was going to be acceptable documentation and what would not, and I think that has helped us through this process as we've submitted documents. But the issue on the 2,000, I think Ruth made very clear when we talked on the phone today that we needed to discuss that further, the other subrecipients and going backwards rather than looking forward --

MR. CONINE: Yes. I'm a big fan of going
forward. I don't have to tell you that, and I'm sure the staff would be too.

It is -- in those roundtable discussions that you've had with other state agencies, it is incumbent upon us to learn what they're doing and how to do it better, if we can do it better going forward.

MS. PHILLIPS: Right.

MR. CONINE: If it becomes a, Let's pick on Texas this year because it's the fun thing to do issue with HUD and it requires a one-time negotiation, I personally would like to be aware of that, because your board may have some resources there to draw upon that we might help in those negotiations.

MS. WILLIAMS: What length of time are we talking about? When David says the beginning of time, what is the beginning of time?


MS. PHILLIPS: And so when they're talking about admin, they're looking at all the admin that we've had through the agency, and from the subrecipients.


MS. WILLIAMS: Is there such a thing as statute of limitations on that --

(General laughter.)

MS. WILLIAMS: Well, no, I'm very serious about
that question.

MR. DAROSS: No. Not for something like this.

MR. DALLY: Let me kind of frame it. These admin costs are ten cents out of the dollar. And the department keeps six cents, and four cents goes to the subrecipients. And like I said, the program has been here since 1992. This was not looked at or monitored from the HUD staff in Fort Worth. It was the HUD OIG, who I guess is their watchdog, came and looked.

In my view, we're being written up for making a failing of looking at our own subrecipients. I think maybe we've been failed, that this has been important in the monitoring to us that we've gone since '92 and the issue has not been raised to us. And we've had -- they come out and look at us every year. We have external auditors, we have -- in other words, just -- no one's brought this up.

But I think part of it is just let's remember this is ten cents of a dollar, so I think it's appropriate that all of the focus has been on the 90 cents, and one, our expenditure rates were an issue two or three years ago. We've moved that up. Now that we have people putting things in, now it's the monitoring of what they've done, and then this last piece is our admin cost.

And part of it -- I think we still have a good
argument yet to make, even on some of these that our initial support they've not accepted in the sense that they still are a little bit focused on -- there's form and there's substance, and the form is they want an A87 [phonetic] a certain kind of time sheet and those kind of issues.

Well, we said up front when we initially responded that we didn't do time sheets that way, but what we did say was that we had done work -- the Office of Colonia Initiatives and credit underwriting and compliance have done work that benefitted the HOME program, and I think we still have some arguments to make on that.

Now, with the Office of Colonia Initiatives, obviously they don't see that in most of the states. That's not something they've seen with a HOME program. That's unique to Texas.

So I think we still have an opportunity to make some arguments that way and sway them, but we need to move them off of form and on to substance so that we've actually done some work. And we did. We sent documentation to them, but our response is there's still -- the missing thing is that connection of where were the dollars spent?

And I got with Homer and OCI [phonetic] and said, Show me the HOME dollars that you're administering
and the expenditures and those rates for down there in
that Colonias area. That may be the missing piece that we
still need to kind of tie in with their efforts, so I'm
still hopeful that we can -- we still have some points to
argue with them.

And sort of what's happened in this process is
in general audits, the auditor comes to your site, you
bring him materials, he looks at it, he comes back and
questions you, and you kind of go through it, I don't see
this; I don't see this, and you have an opportunity. In
this particular instance, they've been off site and we've
sent material to them. They've looked at it. They've
consulted with the IG, but in some instances they haven't
necessarily come back to us, and until recently they sent
us some e-mails, but I think we still have an opportunity.

This is their first round of questions. They
still don't see the support, but we need to meet with them
and try and answer some more of their questions. But at
this point it is true, they're still questioning some of
those costs.

MR. CONINE: Okay.

MR. DALLY: Now, they have accepted some of
them, and some of them --

MR. CONINE: Just don't wait too long to yell
help if you need it.
MR. DALLY: Okay.

MS. STINER: We won't.

MR. CONINE: Okay.

MS. STINER: But basically if we have to do 2,000 --

MR. CONINE: Yes. It's nuts.

MS. STINER: -- audit.

MR. DALLY: Common sense has got to come to fore somewhere.

MS. WILLIAMS: Prevail somewhere.

MR. CONINE: Don't count on that. I've dealt with HUD too many years.

MR. DALLY: Is there anything else I can add on?

MR. CONINE: Any other committee members have any questions?

MS. WILLIAMS: No.

MR. CONINE: David, are you finished with your wrap up?

MR. GAINES: Yes, sir.

MR. CONINE: All right. We need to go into executive session, so I want to thank the staff and everyone for coming this evening an spending a little extra time at the office today. Go get you a good meal and a good night's rest because we'll have a long day.
tomorrow, I'm sure.

MR. DAROSS: I'll second that. Thank you.

(Discussion was held off the record.)

MR. CONINE: -- for the Audit Committee, back into open session. Is there any other business to come before the Audit Committee?

(No response.)

MR. CONINE: Thank you for coming. We stand adjourned.

(Whereupon, at 7:21 p.m., the meeting was adjourned.)
CERTIFICATE

MEETING OF: TDHCA Audit Committee
LOCATION: Austin, Texas
DATE: July 27, 2000

I do hereby certify that the foregoing pages, numbers 1 through 67, inclusive, are the true, accurate, and complete transcript prepared from the verbal recording made by electronic recording by Sunny Peer before the Texas Department of Housing and Community Affairs.

08/03/00
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