AUDIT COMMITTEE MEETING OF THE
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Room 437
Waller Creek Office Building
507 Sabine
Austin, Texas

9:00 a.m.
Friday,
January 26, 2001

COMMITTEE MEMBERS:

C. KENT CONINE, presiding
JAMES DAROSS
MARSHA WILLIAMS

ALSO PRESENT:

DAISY STINER, Executive Director
DELORES GRONECK, Administrative Assistant
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MR. CONINE: Good morning. We'll call to order the Texas Department of Housing and Community Affairs Audit Committee meeting on January 26, 2001.

A roll call right quick. Kent Conine is here for the chair.

Jim Daross?

MR. DAROSS: Here.

MR. CONINE: Marsha Williams?

MS. WILLIAMS: Here.

MR. CONINE: We've got a quorum. All right.

Is there any public comment this morning to the Audit Committee? If there is, I think there's probably some public comment forms to fill out down here.

Any public comment?

(Pause.)

MR. CONINE: Seeing none, we'll close the public comment section and go to the action items. Number 1: Discussion and approval of the minutes from our Audit Committee meeting of October 13.

MR. DAROSS: We didn't do those yet?

MR. CONINE: Well, I -- that's what's sitting in front of me. I don't know if that's the right one or not. Wait a minute.

MR. DAROSS: Well, I move they be approved as
written.

MS. GRONECK: Ms. Stiner had a couple of changes from the ones of --

MS. WILLIAMS: December 8.

MS. GRONECK: Yes.

MR. DAROSS: Yes, the December.

MR. CONINE: Is this the 8th, or the 13th?

MS. WILLIAMS: December 8.

MS. GRONECK: The 8th.

MR. DAROSS: With December 8, there were a couple of changes.

MR. CONINE: Okay.

MS. GRONECK: She had a couple of changes right here. I faxed these out yesterday.

MR. CONINE: Okay.

MS. GRONECK: So that's why we're --

MR. CONINE: Well, this says the 13th, and I'm -- that's why I messed up. I'm sorry. I'm reading off the agenda for the last one.

MR. DAROSS: Oh.

MR. CONINE: How about the minutes for December 8, 2000? How is that?

MR. DAROSS: I move that they be approved with the corrections that were faxed to us and, I believe, were noted on the summary of the minutes that you have in front
of you.

MR. CONINE: Okay. I also have some other suggested changes, I think, on page 4. Let me make sure. (Perusing document.)

(Pause.)

MR. CONINE: Well, the type's a little different. Okay. The next-to-last paragraph on page 4, the last sentence to that paragraph, where it says, "They worked on these, and there were seven issues over two years old. Management has furnished the information to Mr. Gaines, and these are finished and/or," and then, right here, I want to insert the words, "in the process of being implemented." It's fairly simple.

And then, in the very next paragraph: "Mr. Gaines stated no further action is intended," and then insert the words, "on these issues identified as partially implemented." And then, "And he believes," and then go on with the rest of that.

MS. GRONECK: Yes.

MR. DAROSS: I'll accept that.

MR. CONINE: If you can add those to your minute motion?

MR. DAROSS: I'll accept that amendment to my motion.

MS. GRONECK: As identified?
MR. CONINE: As implemented --

MS. GRONECK: Implemented?

MR. CONINE: Partially implemented.

MS. GRONECK: Okay.

MR. CONINE: Okay. All those in -- we have an amendment on the minutes.

Good morning, Ms. Stiner.

MS. STINER: Good morning.

MR. CONINE: A motion has been made to approve -- and seconded -- the amended minutes. All those in favor say aye.

(A chorus of ayes.)

MR. CONINE: All in favor say -- all against say no.

(Pause.)

MR. CONINE: All right. The next is report items.

Mr. Gaines, are you ready?

MR. GAINES: I'll be trying something a little new today.

MR. CONINE: You're going to sit down today, huh?

MR. GAINES: And I'm going to sit while I do this.

MR. CONINE: All right.
MR. GAINES: For the record, my name is David Gaines, Director of Internal Audit. Good morning, chairman and members of the committee and Ms. Stiner.

MS. STINER: Good morning.

MR. GAINES: Before we begin today, the first thing I'd like to do is introduce the newest member to the Internal Audit Division, Theresa Cruz. Theresa --

MR. CONINE: Good morning. Welcome aboard.

MR. GAINES: -- is a CPA. She has been -- had over 13 years of experience. She has had over four years experience here with the Department in the compliance division. She also has experience with the Controller of Public Accounts, the Texas Department of Health community action agency, two different independent CPA firms, two different savings and loan institutions and a commercial bank. And all this experience has been in audit and financial-related areas.

I know that Theresa is going to be a real complement to the Department and especially to the Internal Audit Division. So we'd like to welcome Theresa.

MR. CONINE: Welcome aboard.

MR. DAROSS: Yes, welcome.

MR. GAINES: If you will, please -- the first report item is the status of prior audit issues. So if you will, turn to that report in your Board book.
MR. GAINES: These are issues that have been outstanding for greater than one year but less than two years. You'll recall, last meeting, we discussed those outstanding greater than two years. We'll also be discussing the status of prior audit issues that have recently been identified in the HUD Section 8 review, the management review, and the State Auditor's office's audit of the Department's HOME Housing Trust Fund and Low Income Housing Tax Credit programs.

Are you all ready for me to proceed? It looks like you're scrambling for information.

MR. CONINE: I think we've got it all now.

MR. GAINES: Okay.

MR. CONINE: Okay.

MR. GAINES: The first three issues on page 1 of the summary resulted from an internal audit that was released in June of '99. Management continues to report these issues as in progress.

Two of the issues will probably sound a little familiar to you. The first issue, Reference 136, relates to the need for management information systems to enable and facilitate the monitoring and performance evaluations of the Department subrecipients. Management has basically responded that the issue remains in progress pending the
departmentwide database. In this respect, I'll just repeat some previous comments that I've made.

These information systems are important regardless of how the information is captured. While the Internal Audit Division believes a departmentwide database is needed and a desirable goal, this issue relates primarily to identifying and capturing and monitoring related information. This information should be available for monitoring and risk-assessment purposes and for making award decisions.

In order to make the information available, management needs to specifically identify what information is needed, and executive management needs to establish a departmentwide standard operating procedure that requires the program areas to accumulate this information in a usable form and make it available for those that need it to perform their jobs.

The second issue, Reference 118, relates the need for the Department to use a risk-assessment process for identifying subrecipients for monitoring purposes and for determining the extent of monitoring procedures to be applied. Management has reported that HOME and CDBG is using a risk-assessment process. The issue is classified as in progress since Energy Assistance, the Community Service Block Grant programs and Housing Trust Fund are
all in various phases of implementing a risk-assessment process.

The third issue, Reference 119, relates to the recommendation that the Department's programs conduct joint-monitoring visits in those instances where a subrecipient is administering more than one of the Department's programs. The original intent of this recommendation was to promote efficiency and effectiveness of the monitoring function.

Additionally, since the recommendation, there is the Senate Bill 177 of the last legislative session that was passed that requires agencies to design and implement procedures to detect and report double-billing by contractors. Monitoring multiple programs or contractors administered by a single contractor or a single subrecipient would allow for the Department to implement some effective procedures to accomplish the intent of this legislation.

Management reports that this issue is in process. A departmentwide standard operating procedure has been developed and is in the process of being reviewed.

Reference 149 on Page 2 of 12 is the next issue I'd like to discuss. And this relates primarily to a legislative requirement that the Department conduct a bi-
annual software audit primarily for the purposes of identifying unnecessary license and maintenance costs associated with software that's not being used. Since this issue was -- since this report was prepared, management has reported to me that this audit has been completed.

Please interrupt at any time if I'm going too fast of if you might have questions.

MR. CONINE: No. Go ahead. I was going to let you finish, and then there may be some questions.

MR. GAINES: Okay. The next two issues on Page 2 of 12 relate to the HUD OIG audit of HOME administrative expenditures. These are the same issues that we've discussed in prior committee meetings.

The first issue, Issue 145, relates to the administrative expenditures of the Department. Management reports --

I'm sorry?

(Pause.)

MR. GAINES: Oh, okay. I -- management reports that HUD has accepted $1 million -- approximately $1 million of the $1,262,000 questioned. The balance of $261,000 has been returned to HUD from non-Federal funds. That warrant was issued or -- the paper work was processed December 14. And in management's mind, this
issue's now closed. The second issue --

MR. CONINE: Can you read that number off one more time? 200 and how much?

MR. DAROSS: 261-.

MR. GAINES: The balance returned was 261,398.

MR. CONINE: Okay. Thank you.

MR. GAINES: The second issue, 146, relates to the administrative expenditures of the Department's subrecipients. Management reports that HUD has accepted support for all but $80,000 of the 408,000 originally questioned. Management also reports that HUD has provided the Department an interpretation of the OIG report recommendation that the Department review all subrecipients of the Department.

MR. DAROSS: Well, will that 80,000 also be returned to HUD?

MR. GAINES: The way I understand it based on the discussions with the director this morning is that they believe they've exhausted their efforts on that $80,000 and that it will need to be returned.

Management has also reported that HUD has provided an interpretation of the OIG report recommendation that we review all administrative draw-down requests of all subrecipients. HUD has interpreted this to mean the additional 40 or so files that were included
in the original OIG sample that were not tested during their field work.

And so that's the piece of good news we've been looking for. HUD is allowing the Department until April 1 to provide support for these files.

The next issue, 153, Page 2 of 12, has two primary recommendations. The first relates to the HOME Program establishing procedures to monitor and evaluate contract performance statements and time tables during the contract period. And the second portion relates to including a remedy or graduated sanction schedules for breach of contract or substandard performance in HOME contracts.

Regarding the first portion of the recommendations, management has reported that HOME has developed a draft checklist for the regional coordinators to monitor contract performance during the contract periods and that performance statements and time tables have been established in the HOME 2000 contracts which will be tracked and monitored for those contracts.

Plans are still pending to include in the HOME contracts the remedy or graduated sanction schedules for breach of contract or substandard performance.

MR. DAROSS: Is this -- the additional contractual remedies that we're building into the
contracts -- is that going to be subject to the request that we made for additional funding for additional FTEs to be able to monitor this, or is this something that can be monitored with existing personnel?

MR. GAINES: I have my opinions, but I believe management needs to respond to that.

MR. DAROSS: Okay.

MR. GAINES: To monitor -- this is basically --

MS. STINER: David, excuse me.

MR. CONINE: We'll let Ms. Stiner --

MS. STINER: Excuse me. Exceptional requests -- that's a part of our riders for four additional monitors.

Suzanne, you can come forward. But across the board -- but the monitoring checklists that we're putting in place now -- we currently have how many HOME monitors in place?

MS. PHILLIPS: We have three HOME monitors in place. And the exceptional items that we put in specifically relates to our multi-family portion -- the tax credits in HOME, and not programmatic monitoring. The programmatic monitoring is -- it's a -- we do the specific federal and state requirements. And I think that the -- so there's not really a connection between those two.

But at this point, we've set a goal of a
certain number of monitoring that we're going to do based on our existing resources.

    MR. CONINE: Thank you.
    MS. STINER: Thank you.
    MR. GAINES: This issue also -- while it started out as not a recommendation, I'm quite confident -- included in the Senate Bill 177 that I referred to earlier, there's also provisions requiring graduated sanctions for non-performing contractors. So this is something now required of us, as well.

    Issues 154 and 157 on Page 3 of 12: Management has reported that these issues have been implemented. Issue 157 relates to a material weakness finding relating to the HOME monitoring function. The State Auditor's office issued this finding in connection with our Fiscal Year 1999 statewide single audit.

    While management indicates that it has addressed this issues identified by this finding, the SAO is re-issuing an updated version of this finding for the Fiscal Year 2000 single audit. And this is because a significant portion of the Fiscal Year 2000 had expired before management was able to take corrective action on this issue.

    The next series of audit issues are those relating to the recent Section 8 management review. Of
the 17 findings originally reported, management has indicated that it has implemented eight, eight are in progress, and one has been delayed. Of the eight that are in progress, the planned target dates for completion have not expired for six of those issues. The planned target date for Issue 173 is today, and a target date has not been established for Issue 186.

Finally, Issue Reference 187 has been delayed. And I've asked management to be available if you'd like further information on any of those that have been delayed or not implemented at this point. If you'd like a paraphrase of any of the particular issues that are --

MR. CONINE: Well, the one with the target date that was today -- is it done?

MR. GAINES: I understand that it has been done and it's pending --

MR. BURRELL: It's pending final approval, but it has been done.

MR. CONINE: Okay.

And the one that we're -- the last one I think you said was indefinitely delayed. Let me see.

MR. GAINES: Issue 187, relating to the self-sufficiency program.

MR. CONINE: Yes.

MR. GAINES: Can you speak to that, David?
This is David Burrell, Director of Housing Programs.

MR. BURRELL: Mr. Chairman and members of the committee and Ms. Stiner, on that particular one, we have been talking to the County of Montgomery through the Montgomery County Housing Authority to get them to work with us under a contract where they would handle some of our certificates and vouchers and would also provide the self-sufficiency plan. We've worked out a deal with them, but it's now awaiting HUD's approval of that particular contract.

MR. CONINE: Now I know why it's indefinite. You're awaiting HUD's approval.

MR. BURRELL: We're hoping to be able to hear from them sometime fairly soon.

MR. CONINE: Okay. Thank you.

MR. BURRELL: Thank you.

MR. GAINES: Okay. The next series of audit issues are those relating to the recent SAO audit on the HOME, Housing Trust Fund and Low Income Housing Tax Credit programs. Of the 12 issues identified by the audit, management has reported that three have been implemented and nine are in progress.

And if you will, please -- on your summary report, Page 12 of 12, the last, Issue Reference 199, I
failed to get the status code in there. There needs to be a "PX" indicated there, which indicates, "In progress per management." And if you'll just insert "PX" on your summary report, that will make that complete.

Of the nine issues in progress, the target date for one of the sub-issues within Issue Reference 188 has expired. Management's original response indicated that the genesis reconciliation of unexpended balances would be completed by January 1. The most recent status update indicates that an initial draft of the reconciliation has been completed, and so I've characterized this on your summary as substantially complete. At this point, no other target dates for completion have expired that are indicated in progress.

Due to the nature and uncertainty of a couple of the issues, target dates have not been established. These are Audit Issues 197 and 199 on Page 12 of 12. Issue 197 relates to recommendations regarding the statewide needs assessment, and Issue 199 relates to data quality problems noted with the program's information systems.

And if there's no further questions requiring the status of the prior audit issues, we can go to the next report item.

MR. CONINE: Let me back up to the first two or
three, on 136 and 118 and so forth. And maybe this is a
question for Ms. Stiner.

Have we got people assigned in each of the
various Departments on completing these tasks, or are
we -- do we have like an ombudsman that's kind of cutting
across -- a swath across all Departments to gather
information and bring it back?

MS. STINER: The method that we had used was to
handle it at the Department level; each Department was
working on their own piece. So that's how we've handled
it.

MR. CONINE: It just seems like the target
dates keep shifting under that scenario. And I guess we,
hopefully, stress that we -- now we've stuck it way out
here in July, of course. And that's quite a long time
after the FY '99 audit. I'd like your response as to
whether you think we can accelerate that process or not.

MS. STINER: Of course, we can. What we have
had delay us, too, is the hope that it would be part of
our centralized database. I think you heard Mr. Gaines'
opinion that we need an interim measure, so we'll work on
an interim measure.

But -- the July date reflects our optimism that
we'll get funding approval by a waiver to at least start
the Phase One of our centralized database, but, certainly,
we'll look at an interim measure, rather than leaving that out there until July.

As we all know -- I think the latest projection I heard for the statewide budget is $300 million. So I don't know if I can remain optimistic that we're going to have any funds to move forward on the other phases of our centralized database. So, certainly, an interim step is something that we'll work to put in place here at the Department.

MR. CONINE: Is -- are some of these issues restrained by resources that -- and maybe other Departments would have the resources? And I'm just thinking of the Compliance Division as a for-instance where they might have some resources to help out in some of these efforts. Or --

MS. STINER: Of course, Compliance would ultimately be the division that's responsible for the administration of monitoring. Suzanne's looking at me. Certainly, we can borrow from Suzanne's resources and make this an assignment to the monitoring division. But yes, we'll work on a way to make sure.

I -- it doesn't have as much to do with the human resource aspect as it does that we were depending on the centralized database. But as David has indicated to you this morning and I think I've conceded -- my optimism
is steadily fading -- we may not get all of the funding that we are anticipating for our centralized database. So that cannot be our default position, so we'll look at getting Suzanne busy on helping us do some of this.

You don't need to respond now, Suzanne.

MS. PHILLIPS: Oh, okay.

MS. STINER: You'll need to turn it down now. But we will find a way, whether it's Suzanne or whether it's someone else in the Department, to make this a high-level assignment so that we can come up with some interim strategy rather than waiting for funding of our centralized database.

MR. CONINE: Any other questions by the committee members on this particular report?

(Pause.)

MR. CONINE: Proceed, Mr. Gaines.

MR. GAINES: The next report item is the status of audits, which is probably the last page of your book, and you can see that several have been completed recently. Specifically, on KPMG, they've completed their annual financial audits, and we're planning on having them at the next Audit Committee to present their audit results.

On the opinion audits and the balance of the audits, we have -- with the Controller of Public Accounts, I believe that's beyond planning at this point. They're
supposed to be releasing a report in February. So that's -- I believe they've already completed their field work. That's probably incorrect, and that needs to be, "Reporting stage."

The State Auditor's Office is in the process of wrapping up their review of the 2002/2003 legislative appropriations request budgeting process review, and that was a legislative request. I believe, in the last day or two, I've heard that has been extended for --

VOICE: It will be out in one more week.

MR. GAINES: So it will be released by the time we have our next Audit Committee, I presume.

The HHS audit's still in question as to when it will -- we'll receive a report on that. That was actually completed and finalized in June.

And one of the new items that you haven't had on your reports previously is an internal audit, the last report on your summary there, being a review of the monitoring function of poverty-related funds of the Community Services Block Grant, which we've just recently started. Theresa will be the project manager on this project. And between now and August, in the interim, she'll be taking off about three months to have a baby. So --

MS. CRUZ: I'm seven months pregnant, for the
record.

MR. GAINES: Any particular items you'd like to discuss further?

MR. CONINE: Yes. I was in receipt of a letter from the State Auditor's Office to Ms. Stiner on our ISAS situation. Is that reflected in this software audit here or one of the others?

MS. STINER: Uh-huh.

MR. GAINES: That is the second bullet under the State Auditor's Office.

MR. CONINE: Okay.

MS. STINER: They came over -- pardon me, Mr. Chair.

MR. CONINE: Go ahead.

MS. STINER: They came over -- Was it last month --

MR. GAINES: Yes.

MS. STINER: -- when they made the presentation?

MR. GAINES: They provided a briefing --

MS. STINER: A briefing last month. And --

MR. GAINES: -- or summary of that report during the last Audit Committee's meeting.

MS. STINER: -- this is the final report.

MR. CONINE: And it recommended that we update
our bi-annual operating plan. Has that been accomplished?

MS. STINER: I'm --

MR. GAINES: I believe --

MS. STINER: -- looking for it.

MR. GAINES: -- it has, but --

MS. STINER: See it -- a bill?

MR. CONINE: Okay.

MS. STINER: Okay.

MR. CONINE: All right. Any other questions from the committee members on the stuff we've got going forward?

(Pause.)

MR. CONINE: Any other reports from you, Mr. Gaines?

MR. GAINES: That's all from me.

MR. CONINE: Thank you for your update. As always --

MR. GAINES: Yes, sir.

MR. CONINE: -- we appreciate that.

We'll go back to Tab 2 now and let Ms. Stiner do a presentation of a resolution, I believe.

MS. STINER: Thank you. I'll ask Mr. Burrell to come forward and make the presentation for the resolution to have the Board establish maximum administrative fees. If you'll remember --
You may not have to come forward.

If you'll remember, this was an item on last month's agenda. When there was a discussion on Section 8, the committee instructed the Department to bring back to it an action item to approve the establishment of a maximum administrative fee related to the Section 8 program. You have a write-up in your books.

But, David, you might just want to comment and talk about the maximum limit and what you anticipate that will be.

MR. BURRELL: Yes. We have an action item which would cover the administrative fee reserve regulations. HUD recommended during the audit that we establish some limits as to how the funds could be spent and how the authorizations could be authorized.

What we are recommending is that Ms. Stiner be authorized to make expenditures or -- approve expenditures up to 100,000 from our reserve administrative fee account and that the Board be established as the authority for any expenditures over 100,000 from that account.

MR. CONINE: Any questions from the Audit Committee?

MR. DAROSS: No. I think we talked about this at some length at the last meeting; we just needed to bring it forward for an action item.
MR. CONINE: A little clarification on my behalf: Is this a cumulative $100,000 for a fiscal year? Is that what we're talking about --

MR. BURRELL: Before the --

MR. CONINE: -- for the executive director, and then, when we go to 101,000, that -- the one dollar comes to the Board --

MR. BURRELL: Yes. That's --

MR. CONINE: -- for the Board's approval?

MR. BURRELL: 100,000 for the --

MS. STINER: No. The 101,000 --

MR. CONINE: The whole thing?

MS. STINER: The 101 --

Pardon me, David.

The $101,000 would come to the Board.

MR. CONINE: Okay.

MS. STINER: Okay.

MR. CONINE: Is this a once-a-year event, or does it kind of happen --

MS. STINER: It's --

MR. CONINE: -- through the course of the year?

MS. STINER: -- an ongoing -- the expenses are paid out of this account on an ongoing basis.

MR. CONINE: Okay. And our reserve fund -- is there a specific Section 8 reserve fund that we draw down
out of there? Do we have a specific set-aside reserve on
our general reserves, or just --

MS. STINER: I --

MR. CONINE: Is it just general reserve?

MS. STINER: I don't know how that -- the
mechanics of that.

Bill, do you want to come and help us out on
how that actually works?

MR. DALLY: The -- my name is Bill Dally, the
chief financial officer for the Department. Good morning,
Board members.

MR. CONINE: Good morning.

MR. DALLY: What happens is that we -- these
are federal funds. These are federal funds, and we earn
approximately -- about 67 percent of our current
contracts. And what has happened over the years is that
we have actually spent less than that in administrative
costs. And this is administrative costs for both the
Department and for our local operators. So what has
happened is that we have gotten an accumulated balance of
about $700,000 that has accumulated over the years.

MR. CONINE: Okay.

MR. DALLY: What we're creating now is that --
looking back at that, we would have an account of $100,000
that would go over and above a particular operating budget

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or year that Ms. Stiner could approve. And then, if we go beyond that, it would come to you for approval.

   MR. CONINE: Okay.

   MR. DALLY: But they are federal funds.

   MR. CONINE: And these would be like expenditures we felt like either were warranted or, for some reason, HUD disallowed during some sort of review, or something like that. Is that right?

   MR. DALLY: No. They --

   MS. STINER: Housing-related --

   MR. DALLY: -- could not be used for disallowed --

   MS. STINER: Only housing-related --

   MR. DALLY: -- purposes, no.

   MR. CONINE: Just housing-related stuff?

   MR. DALLY: Right, and for our particular admin costs related to that program.

   MR. CONINE: Okay.

   MR. DALLY: So it would be an unusual event of some sort of cost related to the administration of that program that went over and above a particular year's budget.

   MS. STINER: Vis-a-vis, paying for the inspectors -- inspection contracts for site visits and to clean up some of the stuff that we're now doing in our
Section 8.

MR. CONINE: Okay. Any other questions?

(Pause.)

MR. CONINE: Do I hear a motion maybe from one of the members?

MR. DAROSS: I move we recommend approval to the Board.

MS. WILLIAMS: Second.

MR. CONINE: Resolution Number 01-02? Would that --

MR. DAROSS: Is that what the number is?

MR. CONINE: Would that be in order? I think that's the one referred to in our book.

MR. DAROSS: Right, Number 01-02.

MR. CONINE: We have a motion and a second for recommending to the Board that we approve the establishment of the administrative fee threshold reserve and policy here in our book. All those in favor, say aye.

(A chorus of ayes.)

MR. CONINE: All opposed say nay.

(Pause.)

MR. CONINE: And the ayes have it.

Thank you, very much.

MR. DALLY: Thank you.

MR. BURRELL: Thank you.
MR. CONINE: While we're on money, I want to go back to -- if I could, Ms. Stiner, go back to -- and maybe Bill could help out answering this -- the money that was returned to HUD on the two issues that -- well, I guess, the one issue plus the other one that's contemplated.

My understanding is that we expended those dollars to our subrecipients and we're now having to pay those dollars back. And my -- I have two questions. One:

I assume that money comes out of our reserves or some operating surplus for the year if there is any.

MR. DALLY: That's correct.

MR. CONINE: Okay. And are we going to go -- is it traceable to go back to the subrecipients, or is it -- are we just going to blow that off and move on down the road?

MR. DALLY: Well, that's a policy decision, but they are essentially in the same spot that we are. In other words, they -- we -- came in and audited and said, You went out and paid the subrecipients cost, and they didn't have support for it. And then we've gone out and asked, Okay, please bring in the support for this. And they have not.

And so yes, I would be of the opinion that ultimately the liability does lie with those subrecipients, but --
MR. CONINE: Ms. Stiner, do you want to comment?

MR. DALLY: -- I don't know what policy-wise we -- whether we want to go after that or not.

MS. STINER: Yes, I'll comment. Bill's absolutely correct. So it depends on what instructions I guess that HUD would want to give us. Traditionally, if a subrecipient has not kept records, we go in and do an audit. And we will cite them for, you know, noncompliance. But I guess that they -- you know, we can cite them.

But if there's really a real possibility that, you know, those funds would be repaid, we ought to think through that. I mean this is something we need to think about, how we're going to proceed --

MR. DAROSS: Yes.

MS. STINER: -- from this point forward.

MR. DAROSS: It occurs to me that most of the people that we would be going after probably don't have any assets to go after other than --

MS. STINER: Yes, what we give them.

MR. DAROSS: -- what they've built already.

MS. STINER: Yes.

MR. DAROSS: And that would put us in the position of, I guess, foreclosing on property and taking
property back. And I don't think we want to be in the
business of owning these properties.

MR. DALLY: No. And to clarify, see, the first
issue, where we had the million-two -- those were the
Department's own administrative costs. And we found
support for roughly $1 million, and then we returned the
261-. And now the amount that's in question, the 80,000-
whatever, is from the subrecipients.

MR. CONINE: Okay. All right.
MR. DAROSS: Oh, okay.
MR. CONINE: I had --
MS. WILLIAMS: Okay.
MR. CONINE: I had it confused. I thought it
was both.

MR. DALLY: So there's not a recovery for the
261-; that was the Department's own. It's that second
finding, on the 80,000, where we would --

MR. DAROSS: All right.
MR. DALLY: -- do something with regard to
subrecipients.

MR. DAROSS: Well, two comments. I'm assuming
that some of the controls we're putting into place and
some of the new database management procedures are going
to, hopefully, do away with the possibility that we'll
have that 260,000 figure or some figure like it come up
Mr. Dally: That's correct. What we've done now is -- those groups in the compliance monitoring area that put their efforts in several different programs are now keeping that time for each one of those programs. And then we make adjustments in payroll, too. So the support is -- are those time sheets and those -- that payroll, which is what was lacking before.

Mr. Daross: But, you know, having said what I said earlier about not being able to collect this, I'm kind of rethinking that because it seems to me that as a policy matter, we ought to take the position that we're going to hold these people's feet to the fire if they're not reporting to us with proper documentation so we can back up their figures to HUD. And maybe we ought to look at, at least, a policy statement that we don't want this to happen again.

Ms. Stiner: I think that's very reasonable. And we've gone beyond, and we often extended management and technical assistance training. And if you are -- we can issue a directive, I suspect.

Ruth, I know you've worked with this. Do you want to add anything to that?

Ms. Cedillo: Sure.

My name is Ruth Cedillo, and I'm deputy
executive director. It's very unlikely that we would be able to recapture any funds from the subrecipients. And, again, you know, we do have to take some responsibility because there was some deficient training that we'll have to take responsibility for. So it will probably be very difficult to recapture any of these funds from the subrecipients.

However, the staff has done a phenomenal job in documenting the administrative funds for the agency. HUD has worked with us very well in accepting a lot of the information.

The staff even went as far as going back to executive briefs, where they had documented all their activities. They also went back to their travel vouchers and allocated costs and time allowed for the monitoring -- well, for the visits. And there were more site visits that were done. And so I think that it's about where it's going to be with regard to documentation.

MS. STINER: Will you speak more to the training and technical assistance for the subrecipients so that those things are not repeated?

MS. CEDILLO: Well -- and some of the things that we've done -- also, you know, we've separated the regional coordinators in the HOME program of -- from the monitoring staff. And I think that the regional
coordinators will be able to concentrate on providing that
technical assistance and the aspects of implementing the
program, where the monitors can go back and make sure that
the requirements of the program have been met.

So I have even heard comments from the staff
that it has really helped to separate those
responsibilities because usually, it's very easy to set
aside the monitoring when you have requests for funds that
have to be processed and the day-to-day activities of a
program. So I believe that that's going to help a lot in
making sure that the administrators follow the program
requirements.

MR. CONINE: Would it be possible to furnish
this committee with a list of the subrecipients that make
up that $80,000, just to --

MS. CEDILLO: Yes, sir.

MR. CONINE: -- name who they are? Is that
doable --

MS. CEDILLO: I believe it's doable.

MR. CONINE: -- just for information purposes
only?

MS. CEDILLO: Yes, sir.

MR. DALLY: I think I want to add a little
something. The difficulty that the subrecipients had
is -- some of these contracts were stretching back two and
three years ago. And so if they didn't keep that time and
those time sheets, it's -- they're -- it's almost
impossible.

It's reasonable to think that they put in the
efforts and they delivered the program, but having -- the
A-87 requires the documentation and time sheets. And it's
difficult at this point to recreate that, but, certainly,
now that they're on notice, we can expect that they're
going to keep those kinds of documents and that we'll have
them before we actually send admin dollars back out to
them.

MS. MORRIS: If --
MR. CONINE: Come on up.
MS. MORRIS: -- you don't mind, I wanted to
further comment that we do --
MR. CONINE: Sure.
MS. STINER: Why don't you identify who you --
MS. MORRIS: I'm sorry.
MR. CONINE: Come on up, and --
MS. STINER: Yes.
MR. CONINE: -- state your name.
MS. MORRIS: I wanted just to add a comment.
I'm Pam Morris, Director of Housing Finance Programs.
We did change our implementation manual, and we
had HUD approval for how -- we have explained how you
document your administrative fees and have given them some guidance. And that has gone out. And we've clarified our HOME contracts to enforce that it's reimbursed expenditures and you do have to document your expenditures on administrative.

We emphasized it strongly in the HOME implementation training that we did back in August for the 2000 contracts. And we've even gone to the step to possibly have HUD come in for the next training session and do training on what the OMB circulars mean and how you document your administrative expenses, because we don't always get consistent answers from them on what appropriate documentation is.

And I think that -- I'm hoping that will solve the problem long term. I think we've certainly raised the awareness with the subrecipients.

MR. CONINE: Good. Thank you.

MS. MORRIS: Thank you.

MR. CONINE: Okay. Thank you, Ms. Stiner. We certainly appreciate that.

Anything else, before we go into executive session, from the committee?

(Pause.)

MR. CONINE: All right. We need to go into executive session. This is for discussion and possible
approval of the performance evaluation for the internal
auditor, under Section 551.074, Texas Government Code.

(Whereupon, the committee went off the record
for executive session.)

MR. CONINE: We're back on the record from the
executive session, back in public session, I guess. The
Audit Committee has completed its executive session of the
Texas Department of Housing and Community Affairs on
January 26, 2001, at 9:58 a.m.

Is there any other business to come this
morning before the Audit Committee, committee members or
Ms. Stiner?

MS. STINER: No. None, sir.

MR. CONINE: Thank you.

We stand adjourned. Thank you.

(Whereupon, at 9:59 a.m., this meeting was
concluded.)
CERTIFICATE

MEETING OF: TDHCA Audit Committee
LOCATION: Austin, Texas
DATE: January 26, 2001

I do hereby certify that the foregoing pages, numbers 1 through 39, 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.

01/31/01
(Transcriber) (Date)

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