

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

AUDIT COMMITTEE MEETING

8:45 a.m.  
Thursday,  
August 8, 2002

Capitol Extension Auditorium  
1400 North Congress Avenue  
Austin, Texas

COMMITTEE MEMBERS:

VIDAL GONZALEZ, Chairman  
ELIZABETH ANDERSON

STAFF PRESENT:

EDWINA CARRINGTON, Executive Director  
RUTH CEDILLO  
DAVID GAINES

A G E N D A

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P R O C E E D I N G S

1  
2 MR. GONZALEZ: We'll call the meeting to  
3 order -- the Audit Committee meeting.

4 The committee will solicit public comment at  
5 the beginning of the meeting and will also provide for  
6 public comment on each agenda item after the presentation  
7 is made by the department staff and motion is made by the  
8 committee.

9 The Audit Committee of the Board of the Texas  
10 Department of Housing and Community Affairs will meet to  
11 consider and possibly act on the following. We will start  
12 with our roll call.

13 Beth Anderson?

14 MS. ANDERSON: Here.

15 MR. GONZALEZ: Shad Bogany?

16 (No response.)

17 MR. GONZALEZ: Absent.

18 We have two present and one absent.

19 So we'll go to Item Number 1, presentation,  
20 discussion and possible approval of the minutes of the  
21 Audit Committee meeting of June 13.

22 MS. ANDERSON: Mr. Chairman, I move approval of  
23 the minutes.

24 MR. GONZALEZ: Okay. We have a motion. I

1 guess I second it.

2 MS. ANDERSON: I hope.

3 MR. GONZALEZ: All those in favor, say aye.

4 (A chorus of ayes.)

5 MR. GONZALEZ: All opposed?

6 (No response.)

7 MR. GONZALEZ: Motion carries. Okay.

8 And we'll go to Mr. David Gaines for the status  
9 of prior audit issues.

10 MR. GAINES: Good morning, Mr. Chairman.

11 MR. GONZALEZ: Good morning.

12 MR. GAINES: Ms. Anderson.

13 MS. ANDERSON: Hello.

14 MR. GAINES: And Ms. Carrington.

15 The first agenda item in your board book is the  
16 status of prior audit issues, and two reports have been  
17 provided to you. The first report relates to the HOME  
18 issues specifically, and the second report are all of the  
19 department's prior audit issues including the HOME issues.

20 So there will be repeats in that second report.

21 Although I'll be glad to discuss any particular  
22 issue you may be interested in, my discussion today is  
23 going to be focused on the HOME issues that are  
24 outstanding since they are the most significant and most

1 difficult in dealing with right now.

2 First, I'd just like to provide you an overview  
3 summary, a bird's eye view, of all the prior audit issues  
4 as to where we're at. The status reports provided to you  
5 reflect nine issues that have been implemented or  
6 otherwise resolved since the last status report.

7 There's another 21 issues that the department  
8 is working on; eight of these relate to the HOME Program  
9 that we'll be discussing further. Another four of these  
10 issues relate to accounting. Three of these issues relate  
11 to accounting for financial information and reporting that  
12 information, and we expect these to be resolved in  
13 connection with this year's close-out and annual financial  
14 report.

15 The fourth issue relates to the integration of  
16 multiple systems being used by accounting, and that's an  
17 ongoing process. A specific target date is real elusive.

18 It's really an assessment by each independent auditor as  
19 to how -- if we're complete or not. We hope that issue  
20 will be dropped from this year's report.

21 Three of the issues -- 136 on page 1 of the  
22 report -- and 119 and 252 -- these are these cross-cutting  
23 issues that affect multiple programs. These issues relate  
24 to monitoring concerns affecting all programs.

1 Beth, are you with me? I see you're kind of  
2 flipping through the paper.

3 MS. ANDERSON: Well, I'm just trying to figure  
4 out where you are.

5 MR. GAINES: Okay.

6 MS. ANDERSON: I have one document that's seven  
7 pages. And that's the HOME Program prior audit issues?

8 MR. GAINES: And I'm kind of -- excuse me for  
9 that. I'm on this -- the report following that. I'm kind  
10 of giving a bird's eye view.

11 MS. ANDERSON: Okay. And --

12 MR. GAINES: The 13-page report.

13 MS. ANDERSON: Yes. Okay. And what audit  
14 number are we looking at, 252? Is that what you said?

15 MR. GAINES: Yes, ma'am. Three of the issues:  
16 136 and 119 on the first page --

17 MS. ANDERSON: Okay.

18 MR. GAINES: -- of that --

19 MS. ANDERSON: Okay.

20 MR. GAINES: -- and 252 on the second page.

21 These are those monitoring-related issues that take all  
22 programs and that have been outstanding for a considerable  
23 time now. I believe a primary reason for that, as I've  
24 previously stated, is that we have not had a specific

1 point person assigned specific responsibility for carrying  
2 those forward. Since the last status report, Ms.  
3 Carrington has identified and assigned that  
4 responsibility, so we're looking forward to making  
5 progress on those.

6 And, I believe that these issues are just going  
7 to logically be resolved during the course of the  
8 reorganization. The monitoring processes for each of the  
9 programs have been mapped in Phase 2 of the re-org. Phase  
10 3 will be concentrating on redesigning the processes.  
11 Many -- each of these issues relates to coordination  
12 between the decentralized functions right now. And  
13 information flow between the decentralized functions, I  
14 believe, will logically be resolved as we combine those  
15 functions and standardize those processes.

16 MS. ANDERSON: Okay.

17 MR. GAINES: The remaining six issues are  
18 scattered among various areas of the department, with no  
19 one area having more than two outstanding audit issues.

20 That's kind of a bird's eye view. Again,  
21 specific discussion focuses on the HOME report, which will  
22 be the first report in your board book. The outstanding  
23 HOME issues relate to a HUD monitoring visit in November  
24 of 2001, a KPMG finding in connection with last year's

1 single audit that they conducted in contract with the  
2 state auditor's office, and there's two outstanding issues  
3 relating to an internal audit review relating to loans and  
4 the accounting for those loans and the documentation  
5 supporting those.

6 I'm going to focus on the HUD issues and KPMG  
7 specifically today as those are being the most difficult  
8 to work through. If you turn to page 1 of 7 on the HOME  
9 report, there were eight issues included in this HUD  
10 report. Management considers two of these issues as  
11 resolved. One of them has been cleared by HUD, and we've  
12 received a letter to that effect.

13 There's one issue that the department disagrees  
14 with, and it has provided HUD additional documentation in  
15 hopes that the additional documentation will resolve the  
16 issue. And then there are five of the issues that the  
17 department continues to work on.

18 The issues resolved are Issues 256 and 259.  
19 256, on page 2 of 7, relates to a contract for deed  
20 conversion program where vacant lots were purchased yet  
21 the construction of housing units were not completed  
22 within a year as required by the HOME regulations. And  
23 additionally, HUD identified one instance of a contract  
24 for deed recipient not having documentation on file to



1 verify eligibility.

2           Since that time, the department has recovered  
3 the funds relating to the vacant lots purchased for which  
4 housing was not built within a year. So those funds have  
5 been recovered. The department has also reviewed  
6 eligibility for those applicants that received assistance  
7 under the program and found support for all recipients.  
8 This information has been provided to HUD, and we're  
9 waiting on a response or clearance of that issue based on  
10 that input.

11           Issue 259, on page 4 of 7, is the issue --  
12 we've received notification from HUD that the issue has  
13 been cleared. And it's based on the department's  
14 assurance that in the future, benchmarks, set-ups and  
15 draws will be well documented and reviewed prior to the  
16 release of funds. And this issue just relates to  
17 advancing funds before necessary or before the costs have  
18 been documented.

19           The issue that the department disagrees with  
20 and has provided the additional documentation in hopes  
21 that it will be resolved is Issue 253 on page 1 of 7.  
22 This issue relates to HUD's conclusions that the  
23 department's not providing adequate monitoring and  
24 oversight of the processing and construction activities of

1 the HOME program. And in connection with that, HUD  
2 identified instances of insufficient or lack of  
3 documentation supporting compliance with applicable  
4 construction standards.

5 HUD's corrective action was for the department  
6 to reinspect all units assisted since 1998 through the  
7 present, and in instances where documentation was not  
8 sufficient, to reimburse HUD with non-federal funds. The  
9 department has informed HUD in a letter of January of  
10 2002, of this year or -- 2002, that it disagrees with the  
11 conclusions reached by HUD and its prescribed corrective  
12 action plan.

13 And the letter states that the department does  
14 believe that it's providing adequate monitoring and  
15 oversight, and it refers to the fact that the monitors are  
16 trained and experienced in federal requirements and  
17 monitoring techniques, that 190 HOME contracts, many with  
18 multiple projects, have been monitored since January of  
19 '01, and that the monitoring tools being used are  
20 developed based on HUD publications. The department --

21 Yes, ma'am?

22 MS. ANDERSON: Maybe I just misheard you, but  
23 did you say the HUD -- letter that you're describing the  
24 contents of was sent to HUD in January?

1 MS. CARRINGTON: You did say January, David.

2 MR. GAINES: I'm sorry. I --

3 MS. CARRINGTON: He meant July.

4 MS. ANDERSON: You meant this? Okay.

5 MR. GAINES: Right.

6 MS. ANDERSON: Okay. I just wanted to make  
7 sure it was the same letter.

8 MS. CARRINGTON: Yes.

9 MS. ANDERSON: Okay.

10 MS. CARRINGTON: It was the July letter.

11 MR. GAINES: Yes, ma'am.

12 MS. CARRINGTON: July 26.

13 MR. GAINES: Excuse me.

14 MS. ANDERSON: Okay.

15 MR. GAINES: Let's see. The department also  
16 argues that the sample selected by HUD was not  
17 representative of the population and so, therefore, going  
18 back to 1998 is not really a reasonable request. And they  
19 provided documentation as to why it was not representative  
20 of the population.

21 The department responded to HUD that it did not  
22 consider -- that HUD did not consider documentation that  
23 was available at the subrecipient, and HUD has  
24 acknowledged that condition in a letter to the department.

1 MS. ANDERSON: They have?

2 MR. GAINES: Yes, ma'am.

3 MS. ANDERSON: Okay.

4 MR. GAINES: The department informed HUD that  
5 based on tests conducted by TDHCA staff of all of the  
6 files that HUD reviewed plus another 120 files, 104 being  
7 homebuyer assistance and 16 being owner occupied, based on  
8 our tests, 100 percent of the documentation was available  
9 for all those files. We've provided this --

10 MS. ANDERSON: This -- and that's in the --  
11 this is in the letter that went to HUD, also?

12 MR. GAINES: Right.

13 MS. ANDERSON: Okay.

14 MR. GAINES: And assuming we're both looking  
15 for the same documentation and --

16 MS. ANDERSON: Right.

17 MR. GAINES: -- acceptable supporting  
18 documentation, HUD will, I believe, have to acknowledge  
19 that this information has been provided to HUD. And we're  
20 awaiting to hear back from them at this time.

21 MS. ANDERSON: Let me ask a question. At one  
22 point, there were -- have we been to the -- had a  
23 discussion at the management level with the HUD Fort Worth  
24 office about this? At one point, I think maybe Ms.

1 Cedillo was -- had that scheduled. Did that --

2 MS. CEDILLO: We did go in January.

3 MS. ANDERSON: Oh. Okay. And made sort  
4 of -- and discussed this topic at all?

5 MS. CEDILLO: Yes, ma'am.

6 MS. ANDERSON: Okay. Thank you.

7 MS. CARRINGTON: We wanted to get our July  
8 letter out after we had done the review of the 100 or so  
9 files that David mentioned. One of the things that we  
10 talked about a couple of days ago at the staff level was,  
11 How quickly are we going to hear from HUD --

12 MS. ANDERSON: Right.

13 MS. CARRINGTON: -- which -- we are a little  
14 apprehensive about this because there was a real time lag  
15 from the last time we had correspondence with them. So I  
16 think --

17 MR. GAINES: That was from February to June.

18 MS. CARRINGTON: From February to June. So we  
19 pretty much decided that if we hadn't heard from them like  
20 sometime mid-September, it was time probably for us to  
21 visit again.

22 MS. ANDERSON: Okay. Well, it would be --  
23 since we have another Audit Committee meeting, I'm  
24 assuming, anyway, on the 12th of September, I probably

1 won't need reminding, but it would be interesting to know  
2 if we've heard from them by then.

3 MS. CARRINGTON: Okay.

4 MR. GAINES: The department continues to work  
5 on the remaining five issues. Issue 254, on page 2 of 7,  
6 relates to reconstruction and the rehab work on two  
7 projects that was paid for by one of the department's  
8 subrecipient's contract with a third party lender. And  
9 this was work paid for that was never completed.

10 HUD's corrective action requires the department  
11 to investigate all loans funded under this lender and to  
12 determine if the disbursements were justified and why no  
13 effort has been made by anyone, at least in HUD's  
14 perception, to ensure completion of the projects or -- to  
15 ensure that the projects were completed. The department  
16 has informed HUD in its July letter that it's working with  
17 the subrecipient to obtain the related files for review,  
18 and once that process has happened, determine how to best  
19 proceed, and that will be communicated to HUD as a result  
20 of that review.

21 Issue 255, on page 2 of 7, relates to an  
22 ongoing issue we've had relating to data entry and  
23 correction problems on the IDIS, a HUD management  
24 information system. HUD's corrective action requires that

1 the state review all projects set up and the project  
2 completion reports for activities since 1998 through the  
3 present and to make the required corrections.

4 And the department has informed HUD in the same  
5 July letter that it's working to develop and prepare a  
6 plan of action and, also, to inform HUD that preliminary  
7 standard operating procedures have been developed to  
8 initiate a comprehensive mass contract close-out process  
9 which the department believes will address these  
10 outstanding IDIS corrections that need to be resolved.

11 And management's estimating that this is going  
12 to require two staff people a year working full time to  
13 resolve this.

14 MS. ANDERSON: Was that in the letter, the July  
15 26 letter to HUD?

16 MR. GAINES: I believe that was in the letter.

17 MS. ANDERSON: The magnitude of what they're  
18 asking us to do, two man-years of effort? Okay.

19 MR. GAINES: Yes, ma'am.

20 Issue 257, on 3 of 7, relates to documentation  
21 supporting the existence of contracts. HUD could not  
22 determine that some lower-tiered contracts with one of the  
23 department's subrecipients was in existence. And without  
24 the contracts, they could not determine whether the

1 services being provided were being priced at a reasonable  
2 level, could not determine the reasonableness of the  
3 amounts paid for those services.

4 HUD's corrective action requires that the state  
5 provide assurance that no further funds be disbursed  
6 without the existence of executed agreements between all  
7 parties and that such agreements are in full compliance  
8 with the HOME regulations. The department has informed  
9 HUD that it plans on sending the subrecipient a letter  
10 requesting the status of these projects and require the  
11 subrecipient to either notify the department that these  
12 projects have been cancelled or provide copies of executed  
13 agreements between the related parties.

14 With the implementation of the new HOME manual  
15 in March of 2001, the department's requiring all HOME  
16 contract administrators to execute written agreements and  
17 that applicable third party service providers or -- excuse  
18 me -- written agreements with the third party service  
19 providers and that all charges for services and provider  
20 fees are reasonable prior to releasing funds.

21 MS. ANDERSON: I just -- I have one question  
22 about that, also. When we -- when is the expectation that  
23 this letter will go out to the subrecipient?

24 MR. GAINES: That was, I believe, the target



1 date -- let me get this in front of me here.

2 MS. ANDERSON: Is it the August 15 date I see  
3 up here?

4 MS. CARRINGTON: Ruth says yes.

5 MS. CEDILLO: Yes.

6 MS. ANDERSON: Okay.

7 MR. GAINES: Okay. So that's --

8 MS. ANDERSON: Okay.

9 MR. GAINES: That is that target date.

10 Okay. Issue 258 on the same page, 3 of 7,  
11 relates to a prohibited clause that HUD identified in a  
12 land use restriction agreement executed between the  
13 subrecipient, [indiscernible], and the Texas limited  
14 partnership -- they were doing business -- regarding the  
15 ability of the partnership to waive occupancy  
16 requirements. And HUD's corrective action was that the  
17 department review all LURAs since 1998 and remove any such  
18 clauses.

19 The department has determined that the  
20 prohibitive language is included in the HOME LURAs and is  
21 working with the legal staff to determine an appropriate  
22 remedy. There's a couple of options, basically, and the  
23 department prefers the option of issuing a policy  
24 statement to the effect that we are not going to honor

1 that clause, just an across-the-board policy statement, as  
2 opposed to requiring each of the project owners to execute  
3 a new LURA removing that. And we're waiting and hoping  
4 HUD will find that acceptable.

5 Additionally, the subject subrecipient has  
6 informed the department that it's going to request an  
7 amended LURA for that specific project, and the department  
8 will ensure that it's properly written and complies with  
9 the HOME regulations. The target date for this is really  
10 contingent upon hearing back from HUD on our proposed  
11 action.

12 Issue 260, on page 4 of 7, relates to two  
13 different circumstances. The first relates to instances  
14 noted where there was no documentation for newly  
15 constructed units that they're in compliance with the  
16 model energy code.

17 HUD's corrective action was for the department  
18 to review all newly constructed projects since 1998 and  
19 ensure compliance with the energy code. The department  
20 informed HUD in the same letter we've referred to, the  
21 July letter, that it's sending the subrecipient a letter  
22 requiring it to identify all such projects and to provide  
23 documentation that these projects are in compliance.

24 MS. ANDERSON: I have the same question I had

1 earlier about the other issue about this. When do we plan  
2 to send this -- when do we expect that letter to the  
3 subrecipient might go out? Because this one says that  
4 target date's January 31 of next year.

5 MR. GAINES: I believe this was a letter just  
6 within -- it may already be out.

7 Is that right, Ruth?

8 MS. CEDILLO: Yes.

9 MR. GAINES: Yes. It was in the works as this  
10 status was prepared.

11 MS. ANDERSON: Okay. Thank you.

12 MR. GAINES: The second circumstance related to  
13 a HOME-funded apartment complex that was not in compliance  
14 with Section 504 accessibility requirements. And HUD's  
15 corrective action was that, again, the department re-  
16 inspect all properties since 1998 and that the subject  
17 property be -- the conditions be corrected.

18 And the subrecipient has informed the  
19 department that it's scheduling a visit to the property,  
20 and, based on the results, will amend the applicable LURA  
21 requiring the accessibility requirements and -- I guess,  
22 by extension, that would assume -- any modifications to  
23 the property that would be necessary. And the department  
24 in regard to going back to 1998 currently is in the

1 process of initiating an invitation to bid for contracting  
2 these services to a third party.

3 And outsourcing these inspections will not only  
4 ensure that the 504 requirements are complied with but  
5 fair housing compliance, as well. The department hopes to  
6 be able to begin this this fiscal year -- I believe they  
7 need to factor in and look at monies available -- if not,  
8 it'll be Fiscal Year '03. Once the contract's executed,  
9 we'll get back with HUD and provide them a time line for  
10 completion based on that contract.

11 Those are the HUD issues relating to that  
12 November report. There was one other HUD issue I wanted  
13 to discuss that's not on the report because it was not so  
14 much generated by a prior audit but by a letter from HUD.

15 In the future, I believe I'm going to include it on this  
16 just for tracking purposes. But, basically, the letter  
17 related to the -- excuse me. The letter related to  
18 program income.

19 And it was a November 2001 letter basically  
20 advising the state that we have not been receiving or  
21 posting our program income to the IDIS, and it indicated  
22 to the department that procedures must be implemented for  
23 state recipients to regularly report the receipt and  
24 disbursement of program income. Additionally, HUD also

1 expressed concern that the subrecipient they had visited  
2 was retaining their program income and we weren't  
3 adequately monitoring the use of that.

4 In response, the department has developed  
5 standard operating procedures effective in April that  
6 address the receiving of program income and the accounting  
7 of that. Furthermore, the -- all of the HOME programs for  
8 the 2000 year -- excuse me -- 2001 year and going forward  
9 prohibit the subrecipients from retaining and further  
10 usage of that program income, and it's going to be  
11 required to be returned to the department, which will make  
12 the accounting much easier. While it is allowable for the  
13 subs to do that, it's quite difficult keeping up with it.

14 The next issue is the KPMG outstanding finding  
15 relating to last year's single audit that they conducted  
16 in contract with the state auditor's office. This is  
17 Issue Reference 275 on page 7 of 7 of the report, and it  
18 relates to a lack of documentation supporting soft costs.

19 HUD's corrective action requires the department  
20 to review all subrecipient draws for project-related soft  
21 costs since 1999 and ensure that all draws are adequately  
22 supported and, if not, repay the funds with non-federal --  
23 from non-federal sources. The department's planning on  
24 requesting from HUD to reconsider its corrective action.

1 The department believes that the corrective action being  
2 prescribed is based on HUD's belief that KPMG in their  
3 report projected questioned costs of \$2.3 million, or 100  
4 percent of the estimated soft costs for that year, 2001.

5 In discussing this issue with KPMG, they've  
6 responded basically that a projection to the total  
7 population is not possible based on their sample results  
8 because it was not a statistically valid sample and the  
9 reference to the \$2.3 million in their report is an  
10 estimate of the total questioned costs -- excuse me --  
11 total soft costs for that year assuming there was no  
12 documentation whatsoever.

13 However, their test results were 87.5 percent  
14 successful; 35 out of 40 was adequately supported. So  
15 that's -- the department believes HUD has misinterpreted  
16 this. We're going to clarify that. We're going to -- the  
17 department intends on providing a KPMG contact name and  
18 telephone for HUD to discuss this further. KPMG has  
19 represented that they'll be glad to clarify the wording in  
20 their report.

21 The department's also in the process of re-  
22 assessing its documentation standards relating to soft  
23 costs and what's required of them. And the documentation  
24 standards are really contingent upon your classification

1 of different parties as either vendors or subrecipients  
2 with a much higher threshold standard for the  
3 subrecipients than for vendors.

4 So once the department comes to a conclusion on  
5 how particular parties should be classified, especially in  
6 regard to these five where support was not located by HUD,  
7 based on that classification, we'll be able to suggest to  
8 HUD, Here's the documentation necessary for these five.  
9 And, hopefully, we'll be able to provide that  
10 documentation.

11 If HUD accepts our proposal or accepts,  
12 acknowledges, that maybe they -- if in fact they  
13 misunderstood what KPMG was saying, I believe that the  
14 worst case or what would be reasonable would be that the  
15 department would have questioned costs for those five.  
16 The best case is that we'd be able to provide  
17 documentation for that.

18 MS. ANDERSON: And those five are the \$29,400?

19 MR. GAINES: Yes, ma'am.

20 MS. ANDERSON: Okay.

21 MR. GAINES: And, again, the target date's  
22 going to be contingent upon HUD's response to this.

23 MS. ANDERSON: But we haven't sent them a  
24 letter --

1 MR. GAINES: That --

2 MS. ANDERSON: -- saying all this?

3 MR. GAINES: That letter has not been sent.

4 MS. ANDERSON: Right. Okay.

5 MR. GAINES: No, ma'am.

6 MS. ANDERSON: Do we have a target date for the  
7 letter to be sent to HUD?

8 MR. GAINES: I believe the status right now --  
9 And, Ruth, jump in.

10 I believe the status is -- the conclusion  
11 regarding subrecipient versus vendor is pending a legal  
12 opinion from our in-house counsel. Once we receive that,  
13 we'll say, "These are the minimum documentation standards  
14 based on that conclusion," run that past KPMG and then  
15 submit the results of those efforts to HUD.

16 MS. ANDERSON: So can I have an answer to my  
17 question?

18 MR. GAINES: I'm sorry?

19 MS. ANDERSON: Can I have an answer to my  
20 question? When do we think the -- we'll be able to -- I  
21 mean, are we 30 days out? -- 90 days out?

22 MR. GAINES: I'm not able to really speak to  
23 that.

24 MS. CEDILLO: I'd say no more than 15 days out.



1 MS. ANDERSON: Okay.

2 MS. CEDILLO: We're waiting for some additional  
3 documentation from one of -- from the consultant who's  
4 providing some additional documentation on what services  
5 they provide. And what we want to do is have -- legal is  
6 reviewing what has been provided by one consultant.

7 MS. ANDERSON: Okay.

8 MS. CEDILLO: But I'm asking for another one so  
9 we can be sure that we have all the documentation we need,  
10 we can present it to KPMG and, if KPMG agrees with us,  
11 then we can present it to HUD.

12 MS. ANDERSON: Yes.

13 MS. CEDILLO: And until KPMG agrees, I don't  
14 think we can get the letter out.

15 MS. ANDERSON: Yes. Okay. Good. Thank you.

16 MR. GAINES: These target dates are real  
17 difficult when we've got third parties involved. And  
18 often times, work in progress is contingent on timely  
19 communications back and forth. And --

20 MS. ANDERSON: Right.

21 MR. GAINES: -- if history repeats itself, it  
22 may be worthwhile to sit down with the appropriate people  
23 with HUD at the same table and work through this.

24 The next item on the agenda is the summary

1 status of internal and external audits. And for this  
2 item, I'm going to provide the summary results of the  
3 recent payroll audit that the internal audit division of  
4 the department completed. Sam Ramsey was the lead auditor  
5 on this project.

6 And, Sam, I don't know if you want to take a  
7 bow or not.

8 But Sam Ramsey's in the audience, also.

9 Pursuant to the Texas Internal Auditing Act,  
10 this report's being distributed to the department's  
11 governing board, the governor's office of budget and  
12 planning, the legislative budget board and the state  
13 auditor's office.

14 And the objectives of the audit were to  
15 determine whether adequate policies and procedures and  
16 controls are in place to provide reasonable assurance that  
17 payrolls are properly authorized and payroll amounts are  
18 properly supported and calculated, that the department  
19 complies with applicable state and federal reporting  
20 requirements, that access to the department's automated  
21 payroll system is properly restricted to those employees  
22 that need access to perform their job duties and that  
23 terminated or resigned employees are promptly removed from  
24 the payroll system.

1           And based on the results of our tests --  
2 successful results -- we've found that payroll -- the  
3 department's payrolls were properly authorized, supported  
4 and calculated and that the department is complying with  
5 the payroll state and federal reporting requirements.

6           We did note several conditions relating to the  
7 department's payroll activities that should be corrected  
8 to ensure reasonable assurance that the control systems  
9 are accomplishing the objectives of safeguarding the  
10 department's resources and ensuring compliance with the  
11 relevant laws, regulations and management directives.  
12 These conditions relate primarily to employees' access  
13 rights to the uniform payroll system and those rights  
14 being greater than those needed for them to effectively  
15 perform their job duties.

16           This, combined with the multiple duties of the  
17 payroll officer, allow these positions the opportunity to  
18 process and record payroll transactions without  
19 authorization or documentation. Of course, the  
20 opportunity to do this would allow errors or worse to be  
21 posted to the payroll system and not be detected during  
22 the normal course of business; however, no such  
23 circumstances were noted during the course of our  
24 engagement.

1 Management, to offset these potential problems,  
2 these costs and these control weaknesses, has been relying  
3 on compensating controls. And, again, that offsets the  
4 weaknesses noted. However, these compensating controls  
5 had not been sufficiently documented for us as auditors to  
6 rely upon and gain comfort with.

7 I believe that the controls are working,  
8 because our test results were successful, considerably  
9 different results than a similar test I did in 1996. And  
10 so something has happened in that time frame, and I  
11 believe that these compensating controls document those  
12 and then we'll have that kind of documentation available  
13 for our audit. Management has acknowledged the conditions  
14 and has agreed to them and started taking corrective  
15 actions.

16 The audit also found instances of non-  
17 compliance with its internal policies of employees taking  
18 time off for FLSA overtime and to keep those hours under  
19 80. As a result, overtime payments have been necessary.  
20 Executive management has re-emphasized the policy to  
21 management, and the payroll and HR management have  
22 proposed strategies to resolve this issue. I believe it's  
23 back on the radar screen and people are paying closer  
24 attention to it: Not that there will not be circumstances

1 where it's going to be necessary, but let's consciously  
2 allow that and have processes in place to recognize yes,  
3 overtime's necessary and have the proper approvals in  
4 place.

5 Are there any questions relating to that  
6 project?

7 (No response.)

8 MR. GAINES: Well, in that case, I'd just like  
9 to really extend my gratitude to the HR management and the  
10 accounting management and their staff for their  
11 cooperation in the course of the audit. And it was one of  
12 our smoother audits, I believe, and it went real well  
13 overall.

14 MR. GONZALEZ: Great.

15 MR. GAINES: So --

16 MR. GONZALEZ: Thank you.

17 MS. ANDERSON: And thanks to you, also, Sam.  
18 It was a very clearly written report. And we appreciate  
19 management's timely response to our request --

20 MR. GAINES: Sure.

21 MS. ANDERSON: -- for reaction to your  
22 findings.

23 MR. GAINES: That concludes the agenda items.  
24 I guess I have a question to, I guess, the Chair maybe as

1 far as the level of detail for the full Board, especially  
2 on these prior audit issues. I don't know if we're -- I  
3 know that the issue in general has been elevated and  
4 there's high interest and concern.

5 Historically, we've basically made the  
6 reference that issues that were discussed in the Audit  
7 Committee meeting and -- were either satisfied with the  
8 progress being made or not, depending on the circumstance,  
9 and make reference to a report that has been issued and  
10 that management's in general agreement. I'm at your  
11 pleasure on this. If you'd like to do a similar  
12 presentation that I made today, fine. If -- I feel like  
13 it's pretty summarized already. I could try to summarize  
14 it further.

15 MR. GONZALEZ: If you could get it streamlined,  
16 I think that that would be sufficient. We've got these  
17 minutes that they have access to.

18 MR. GAINES: Well, I can certainly streamline.  
19 So if I get too streamlined, I hope that someone will  
20 speak up.

21 MR. GONZALEZ: Okay. Well, if some of the  
22 other Board members have specific questions --

23 MR. GAINES: Okay.

24 MS. ANDERSON: Yes.

1 MR. GONZALEZ: -- then we'll let them ask them  
2 at that point.

3 MR. GAINES: Okay. Great. Thank you.

4 MR. GONZALEZ: Thank you.

5 That concludes the report items. So now we get  
6 to the executive session agenda. On this day, August 8,  
7 at the Audit Committee meeting of the Texas Department of  
8 Housing and Community Affairs held in Austin, Texas, the  
9 committee adjourned into a closed executive session, as  
10 evidenced by the following.

11 The Audit Committee will begin its executive  
12 session today, August 8, at 9:30. The subject matter of  
13 this executive session deliberation is as follows:  
14 Personnel matters, discussion and possible approval of  
15 performance evaluation for an internal auditor under  
16 Section 551.074, Texas Government Code, and discussion of  
17 any item listed on the Audit Committee meeting agenda of  
18 even date.

19 So we'll go to executive session at this time.

20 (Whereupon, at 9:30 a.m., this Committee  
21 recessed and met in closed executive session.)

22 MR. GONZALEZ: The Audit Committee has  
23 completed its executive session of the Texas Department of  
24 Housing and Community Affairs on August 8, 2002, at 10:12.

1 The subject matter of this executive session was:  
2 Personnel matters, discussion and possible approval of  
3 performance evaluation for an internal auditor under  
4 Section 551.074, Texas Government Code, action taken,  
5 none; discussion of any item listed on the Audit Committee  
6 meeting agenda of even date, action taken, none.

7 I hereby certify that this agenda of the  
8 executive session of the Texas Department of Housing and  
9 Community Affairs was properly authorized pursuant to  
10 551.103 and 2306.056 of the Texas Government Code, posted  
11 at the Secretary of State's office seven days prior to the  
12 meeting pursuant to 551.044 of the Texas Government Code,  
13 and that all -- and that two members of the Audit  
14 Committee were present, with the exception of Shadrick  
15 Bogany, and that this is a true and correct record of the  
16 proceedings pursuant to the Texas Open Meetings Act,  
17 Chapter 551, Texas Government Code.

18 MS. ANDERSON: Mr. Chairman?

19 MR. GONZALEZ: Yes.

20 MS. ANDERSON: Do we need a motion to adjourn?

21 MR. GONZALEZ: Yes, we do need a motion to  
22 adjourn.

23 MS. ANDERSON: I so move.

24 MR. GONZALEZ: Second.



1 All those in favor, say aye.

2 (A chorus of ayes.)

3 MR. GONZALEZ: Motion carries.

4 (Whereupon, at 10:16 a.m., this meeting was  
5 concluded.)

