TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

AUDIT COMMITTEE MEETING

Room E 1.012
Capitol Extension
1400 North Congress
Austin, Texas

9:30 a.m.
Thurday
September 12, 2002

COMMITTEE MEMBERS:

Vidal Gonzalez, Chair
Elizabeth Anderson
Shadrick Bogany (not present)

TDHCA STAFF:

Edwina Carrington, Executive Director
David Gaines
AGENDA

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ON THE RECORD REPORTING
(512) 450-0342
MR. GONZALEZ: Calling the audit committee meeting to order. We'll start off with the roll call. Beth Anderson?

MS. ANDERSON: Here.

MR. GONZALEZ: Vidal Gonzalez, here, and Shad Bogany's absent. We'll go to Item 1 and call on David Gaines.

MR. GAINES: Good morning, Chair. Ms. Anderson, Ms. Carrington. You'll notice the agenda has three report items, but I would like to take these a little bit out of order. I have people from the central database project here, and I know they're interested in the status of that. And I'm not sure they're interested in the rest of it.

But in that respect, we have representatives from the technical team, and the leadership of the team, and Chad Landry [phonetic] over here is helping lead up the functional user team. We have one of the steering committee members over here. So I'd like to move that to the first of the agenda.

MR. GONZALEZ: Okay.

MR. GAINES: If you'll please turn to the page immediately following the prior audit issues. And you'll see basically an overview page, Status of the Central
Database Overview, discussing the benefits -- goals and benefits of the project, a brief discussion of milestone dates, of major milestones and those dates, how we set those, the project timeline and the status of funds.

If you'll turn to the first page, which is the overview, I'm not going to go into detail on this. This is just business benefits and business goals. We've touched on these before; we've walked through them before.

I did want to touch on the bottom half of the page that discusses the major milestones in delivering this project, as well as how we came up with the target dates that we're shooting for. And I'd like to discuss that in connection with discussing the timeline of the sale.

So if you'll turn to the next page, the timeline. First, I'd like to just kind of provide you an overview of the type of information we're providing to you. Our goal is to standardize this information so you know what you're looking at, that it's consistent. We can go right to the questions you have, and that'll facilitate ongoing reporting.

Changes -- right now we're anticipating this is pretty much what we'll be reporting. We'll only be providing going forward to the extent you see additional information you like, or to the extent we see that there
is information you need to be aware of and it doesn't fit into these schedules.

I'd like to just use this program module on line 18 as an example of what's being provided here. And if you will, line 18 -- you can turn a couple of pages back, and you see a description of all the modules. And you'll notice at the top of page 5, "18, Program Module," is a description of that module.

And we'll have those descriptions on each of the modules so you kind of see what you're getting. Combine that with the business goals and benefits. That's a pretty good overview picture of where we're going.

Now, if you'll turn back to line 18 again on the timeline, the first page, it's -- excuse me. Back in the back, there is also -- you'll notice if you scan that -- look up a couple, you'll see capital expenditures under some of the modules. Those are the actual capital expenditures to date on that module and a brief description of what those expenditures are.

Now if you'll turn back to page 18 -- or the first page, line 18, you notice for the program module, we're 0 percent complete. So in other words, we haven't started any work on this particular module. The development's start date -- and you can scan above. You can see some of the percentages complete on the prior
modules.

On the next page, we actually have completed modules, or completed activities and milestones. And those were reported as 100 percent complete.

But as we make progress, we'll be given estimated percentage complete. We also have start and finish dates for each of the modules, and you'll notice for the program module, we've got two summary phases, development, functional planning and deployment.

There's major milestones within development that are highlighted on that overview page is what those major milestones are. Then there's detailed tasks supporting those milestones in the detailed project plan that the project team uses to work off of.

Likewise, on the functional planning and deployment phase, the detail supporting that is -- we're really at the threshold of that; deployment comes towards the latter end of the delivered product. So for the most part, we're just at the threshold of identifying the details supporting those phases of the project.

Okay. The development start and completion dates are based on these detailed tasks that have been identified and the consensus experience of the project manager and the IS director in performing similar work in the past, and their other responsibilities they are
currently dealing with, is how those dates have been derived.

The duration of the tasks for the functional planning and deployment dates -- the duration part, is a little less certain. For the program module, the start date is November 20 for functional planning and deployment. And this date was basically an estimated date based on the estimated completion of the technical design of the system, which is in the other phase, being the development stage.

So as technical design is completed, that was the start date of our functional planning and deployment date. And this is generally the latest date at which time the functional user should have sufficient information to develop their deployment plans is why we set that date.

The completion date is estimated to be approximately three months after the technical team delivers the system to the functional users. The detailed tasks and resources necessary to accomplish these phases, these tasks, have not been identified at this point. And so, accordingly, they are very preliminary dates, and they'll be adjusted as the detailed plans -- the detailed tasks and resources -- are identified to do that.

You'll notice some of the preceding modules, lines 1 through 16, have dates that have expired,
historical dates is what I'm calling them. These historical dates and others, such as those reported for the completed tasks, are based on the actual dates. They are the best approximation of when that work was actually done and signed off on.

As far as the type of information being provided, any questions on that? If not, there's a couple of specifics I'd like to discuss.

(No response.)

MR. GAINES: Okay. In that case, let me turn you to the compliance monitoring and tracking system that's line 1 of the project line. Notice that the technical development of the project is substantially complete. We're estimating 95 percent. The technical team's estimating 95 percent at this point.

The functional planning and deployment is being reported as being 57 percent complete. I believe in looking at this that the functional team needs to revisit what all is necessary within this phase and be sure they're satisfied with the progress being reported.

There are considerable data scrubbing and population issues that have not been fully addressed, and I'm not sure they've been factored into this time frame that they're projecting.

So I'll be working with the functional user
over the next few weeks to ensure that all the deployment issues have been taken into account, and based on the results of that, there may be some adjustment to that date. I would like to think any adjustments to that date would be within and concurrent to the following line, which is the industry roll-out period.

You notice, this is a considerable time frame.

And what this period relates to is making the tested, proven system available to the department's multifamily business partners managing properties in the department's portfolio that are subject to ongoing LURA agreements, land use restriction agreements, and getting those partners on line, if you will, to report their tenant and unit information on an ongoing basis.

One thing that the timeline doesn't reflect is the significance of this module. And this module, basically, not only does it include the compliance and monitoring functions and tracking functions, it's also the basis and underlying architecture for the entire system.

And while it's reported just as another module, completion of this module represents a significant accomplishment in the development of the overall project.

And I've kind of just referred to some of the team members that are here with me today, one of them being James Roper. He's the user in the compliance division and
here momentarily would like to provide you a brief
demonstration of the functionality of the system that
has -- at this point, it's estimated to be 95 percent
complete.

In connection with that, I believe James is
going to discuss some survey results that we've
accumulated from the users in the field that have actually
been -- they're what we call our PILOT tests, and will be
part of the acceptance testing of the system.

The only other thing I wanted to point out on
the status report and the standard reporting that we'll be
providing to you is the next handout that follows the
timeline documentation, which is the status of funds as of
August 31.

This has been presented to you previously.
It's a little more summarized. We're taking more and more
detail out, so we won't burden you with it. But we'll be
glad to bring that back to life at any point you might
have questions on it.

I did want to bring your attention to the
bottom line on this. We are currently expecting our
appropriated capital budget to be fully expended by March
2003. And as we've previously discussed, the department,
the project team, the entire team needs to establish
strategies on how to best proceed beginning -- how best to
proceed from that date until the beginning of the next biennium, September 1, '03, where it's assumed at this point that we'll have continued funding for this project.

I didn't have any other planned comments for the project. We're open to questions. And I hope we have the right people here to answer them.

MS. ANDERSON: I'd like to hold my questions until after --

MR. GAINES: Okay. In that case, I'll turn it over to James Roper. And I believe he wants you all to kind of scoot aside.

MR. ROPER: We just want to know if all is clear for technical difficulties here.

(Pause.)

MR. ROPER: While he works on that, I'd like to give you all a brief overview of what we're actually doing in the demonstration. My name is James Roper. And I'm a monitor in the compliance division. I've got to speak to the mike.

Again, my name is James Roper. And I'm a monitor for the compliance division. I'm here today to demonstrate the compliance module to the central database.

Since coming on board with TDHCA, I have worked extensively with compliance monitoring modules. This module was near completion but required testing. After
extensive in-house testing, the system was ready for a PILOT test involving external users on a limited scale in a real-life scenario.

Eleven volunteer properties were chosen to take part in the PILOT program, using the external interfaces that were designed for the end user. Eight separate companies managed these eleven properties.

Automated tests were conducted on the household data input by the external users, and the results of these tests were evaluated against manual desk reviews conducted by in-house personnel. The results of these tests were found to be correct and more accurate than manual reviews, and faster as well, due to not having to deal with interruptions during the day, and the human factor.

After the PILOT program was complete, a customer satisfaction survey was developed to get a feedback on the system and identify any programming issues that were outstanding. This survey asked questions or feedback on functionality and the ease of use of the system. It was graded on a scale from 1 to 5, 1 meaning that the system did not meet their expectations at all, 3 meaning that it met minimum expectations, and 5 meaning that it exceeded their expectations.

Eight surveys were sent out, and eight responses were received. The results of the survey were
positive, and they are as follows: 62.5 percent of respondents gave the system 5's, meaning they exceeded their expectations; 16.6 gave the system 4's; 9.72 gave the system a 3, which meaning it just met their expectations; 1.38 percent gave the system 2's; and there were no 1's reported.

9.97 percent gave no response to some of the screens, because the user simply did not go into that. Of the five programs that the compliance division monitors, the Tax Credit Program, eleven of which were a part of the PILOT program, the HOME program, two of which were in the PILOT, and the Bond program, one of which was in the PILOT, were tested.

The HDP and the HTF program were not tested as a part of the PILOT. These will be tested in the near future. Several programming issues were identified during the PILOT, and these are being addressed now. Most of the issues related to the user friendliness of the external screens and require only minor programming changes.

The data cleansing of the current data and the data population for the missing data is being addressed in the next phase of deployment, meaning we have to worry about migrating existing -- other existing systems, and we also have added fields to the compliance system that was not in our other system.
One of the business issues that was identified was the interrelationship of the data components that we deal with on a day-to-day basis, those being individuals, organizations, properties, and the programs that these properties participate in. By being able to easily track these interrelationships, we will be better able to monitor the effectiveness and efficiency of the programs that we administer.

I hope to demonstrate the value and benefit of the system, not only to the compliance division, but as a foundation for the future modules that will be rolled in, and are being developed now.

The compliance module is the most complicated of the compliance testing. At this time, I would like to log in the system and show the members the functionality that we currently have. This is the log-in screen, if I can remember my ID. Okay.

Once logged into the main screen, the user has the opportunity to search the database by many different fields, being organization, person, address, or the property themselves. Today, I would like to start with an example of an individual, a person that we deal with on a day-to-day basis. I'll search for him by his last name, Mr. Hoover.

And as you see in our database, we have many
persons with the last name of Hoover. The one we're interested in today is Mr. Dennis Hoover. If I click on his name, then I pull up the detail, contact information, address information that we currently have in our database for this person.

At the bottom of the screen, I can click on organizations, and that will lead me to the organizations that this person is related to. And as you can see, there are quite a few organizations that Mr. Hoover is related to. One of the organizations is Hamilton Valley Management. And by clicking on that, I will not only -- I will see the organization's detail, the physical address, contact information concerning them. And by choosing Properties at the bottom, then I can see the properties that are related to this organization.

Again, you will see a number of properties that this company manages, one of which, near the bottom, is Llano [phonetic] Square. Llano Square was one of the participants in the PILOT program. So by clicking on that property, then I pull up the detailed information concerning that property, the review information, contact, and address details; it also lists the individual program requirements that this property participates in, both HOME and Tax Credit.

By going into the profile for each program --
by clicking here, then I can see the exact requirements
for that property to maintain compliance under this
program. It shows the minimum set-asides, their income
and rent requirements, any additional occupancy
requirements, any supportive services, anything that is
required under the program.

Now, by clicking on the name again, I go back
to that main screen. Another feature here is the fees,
the monitoring and compliance fees that are charged to the
properties for each program. We can go into that, set up
a profile of fees that are required under the program. It
will -- and we can bill those fees to the properties and
maintain a record of transactions and keep balances from
year to year.

We can also track the last review that was
conducted. And since this property was a part of the
PILOT program, if we go to Review Groups at the bottom,
we'll see that we conducted reviews for this property, and
because of the automated testing that was done as part of
the PILOT, several findings were generated by the systems
testing.

If I want to find out the individual detail of
the finding, for example, this one -- if I click on the
finding itself, the type, then I can go to the bottom and
find the detail about the finding, what caused the
finding, what corrective actions are required. Also under finding status, I can track each individual finding and what phase it is, all the way through closure.

If I'm interested in finding out what household information caused this finding, by clicking on the unit number here, I can pull up the household information that was input by the end user. And this information includes what the property designated, the household composition, ethnic background of the household, and all of the unit accessibility for that particular unit, and the household information that was input by the end user.

So by having all of this information interrelated, then reporting tools can be developed to monitor compliance with the programs, check for the effectiveness and efficiency that the programs are involved in, and also check for the effectiveness of the programs that we put out there. If they're not working, then we can make modifications to them.

This information will be available agencywide. That way all of the data is interrelated, and it makes the system more powerful. So, as you can see, functionally, the system works. Any questions?

MR. GONZALEZ: Good presentation.

MS. ANDERSON: Thank you.
MR. GAINES: Your pleasure?

MS. ANDERSON: I have a couple of comments, as usual.

MR. GAINES: Okay.

MS. ANDERSON: That's a very -- that's very helpful to see it, you know -- to see a demo representation of the live system and very encouraging results from the field also, about the reaction of the owners to -- both to the friendliness and their satisfaction with the system.

And I agree with you, David, that this really is the foundation for the entire central database project.

It's my experience in this industry that oftentimes when we talk about, you know, development, a lot of systems seem to be 95 percent done for an extended period of time.

You know, you're never really, really finished.

And I think it -- so my request to you and the steering committee and the functional users, the Compliance System, specifically, is that at the next audit committee meeting, I'd like to have a report on what the remaining requirements are to get 100 percent complete development on this initial phase of compliance, so that we can eliminate that dependency from the timetables of rolling out -- of working on the other modules.

So I mean, I think I'm asking for a list of,
you know, remaining user requirements. And I would ask that we have those be restricted to the have-to-have kind of items, not the nice-to-have kind of items.

And then on a reasonable schedule, you know, I'm also very interested in having someone talk to us about what the plans are to -- what's the roll-out plan, and who is going to be responsible for that? How do we coordinate those roles between the compliance division and IS?

What kind of a tool kit, or whatever, is going to be given to all the owners, you know? Are you sending them a diskette with embedded user training or something, so they can -- to install, and then begin to use this system? So I'm not -- I don't know if it's reasonable to expect that one at the next meeting, but I'd at least like to know when we can see that, or have a briefing on the industry roll-out plan, because it just -- I think it's critical to all of our partners in the field to have.

So that's sort of in our compliance. With regard, I appreciate very much the briefing. And it's clear -- as it has been clear, that you and the functional user team and Walt and Curtis, and your contractors and everybody has been working very hard on this.

I'm a little surprised to see, in some of these modules, that the development length of time -- start and
end dates for development on some of these things look much longer than previous versions of the project plan. And so I would also ask that on a timetable you tell us what's reasonable. But that we blow out to the -- and I'm not saying we have to see pages and pages of detailed project plans.

But what I would like is a briefing on what -- when you blow out the detail on the subsequent modules, you know, really starting with the -- probably starting with the application module, these things that have dates that go in past the end of the funding, existing funding and so forth, that we get some validation of these estimates -- time estimates, from the developers that are going to be doing the work, so that you come back and just get me a little more comfortable with the validity of these start and end dates on the development.

And I think maybe if we just focus on these application program and construction modules, the majority of the activities taking place beginning now and into next year, that would really help me to get comfortable that we have a project plan that's valid, and actionable, and attainable.

MR. GAINES: Yes, ma'am. You said someone can provide it today?

MS. ANDERSON: You know, it's -- and I very
much respect Curtis and Walt. And -- but I need to understand what the basis of the estimate is, and that's been validated by the developers that are going to do the work.

MR. GAINES: Yes, ma'am. Very good. Thank you. The next item, or the first item on the agenda is the Status of Prior Audit Issues. So if you'll turn back to the listing following the Tab 3 of your board book.

Since the last report, eight issues have dropped as implemented or otherwise resolved. And one issue has been dropped as no longer relevant. So a total of nine issues, as implemented, or otherwise resolved.

Four issues relating to the internal payroll audit that we presented to you last month have been added to the report. So there's currently 25 issues being reported. Twenty-three of these are being reported as in progress, one issue has been reported as implemented, and one issue has been reported as delayed, pending action by HUD.

Okay. What I'd like to do is just kind of give you an overview of where we're at on these issues and kind of how we got here. Okay. And if you will, just starting at the beginning, I'm going to walk through these briefly, so you all feel free to stop me at any time, although I'd prefer you wait until I'm through.
MR. GONZALEZ: Did you hear that?

MS. ANDERSON: Yes.

MR. GAINES: The first three issues are rather dated internal audit issues going back to the summer of 1999/2000. These issues relate to all program areas, and for the most part, have been reported as implemented by most of the program areas.

Delays in implementation by the remaining program areas in large part relates to a lack of sufficient coordination and just specific assigned leadership in dealing with these cross-cutting issues that cross over more than one division.

More recently, these issues have pretty much been put on hold pending the results of reorganization. And while management recognizes the need to be moving forward on issues in spite of the reorganization, these are some of the considerations that argue in favor of the reorganization and I believe are reasonable to wait until the dust settles on that, and let the new management under the new organization deal in resolving these issues.

The next issue, Reference 187 on page 2 of 12, is a Section 8 issue that was one of 17 issues identified by HUD in a monitoring review in the late summer of 2000 -- one of 17 issues. The other 16 issues have been reported as implemented by management.
This issue is relating to a family self-sufficiency program. And management is currently assessing the local operator's area's capacity to deliver the services necessary under this type of program. If such a capacity is not available, the department intends to request an exception from HUD from the requirement, which is available under certain circumstances, such as not having the capacity in the areas where the Section 8 tenants are living.

Management plans on being through with their assessment and requesting the exception, or recognizing we do have the capacity, and begin developing the plans, by the end of this calendar year.

I'd like to skip over the next several issues. The status updates on these issues have not been provided since the last board meeting, and the target dates are rapidly approaching, so it will be a very short time when a status update will be necessary, and we can report those in future meetings.

Issue 253 on 4 of 12 through Issue 260 on page 7 of 12 relate to a HUD report issued on the HOME Program in November 2001. There has been several written communiques back and forth between the department and HUD.

I believe there has been -- well, I know there has been a couple of meetings in person regarding these issues.
The department responded to the November 2001 report in February 2002 of this year. The department's response was in general disagreement with HUD and offered additional information for HUD to consider and offered alternatives to HUD's corrective actions.

HUD responded to the department June 27, 2002, that the department's response was generally unacceptable except for one finding, which was cleared by HUD.

Since that time, the department has been working to resolve these issues and provided HUD another response on July 26, 2002. In this response, the department reported the progress it's making on addressing these issues, the intentions it has on moving forward and addressing the corrective actions, or stating its arguments supporting its disagreements with the issues or the corrective actions.

Originally there were eight findings in the report. Two of these have been resolved; one has been acknowledged by HUD as being resolved, as I have previously mentioned. So of the remaining six, there is one issue, Issue 253 on 5 of 12, that the department disagrees with, and it's provide HUD additional documentation in connection with the July 26 letter that it hopes will resolve this issue.

There was a considerable amount of
documentation provided in connection with the results of in-house testwork of the same tests HUD conducted, plus additional testwork that tested successfully.

And the department's provided these results and the documentation to HUD in the hopes it will satisfy HUD, whereby the need to implement HUD's corrective action won't be necessary. And their corrective action requires that the department reinspect all units funded by the HOME program for compliance with inspection standards since 1998. So this is something we'd really like to go away.

I'm not going to touch on the details. We've been through them before. But again, I'll be glad to at any -- after my discussion. Actually, I will be glad to right now if you'd prefer. But again, I'll move forward.

There were five other issues -- five remaining issues; two implemented, one, the department disagrees with. The remaining five, the department continues to work on. The significant changes in the status report since the last report, I'd like to just touch on briefly.

Issue 258 on page 6 of 12 relates to the prohibited clause in land use restriction agreement executed between one of the -- between the department and one of the subrecipients regarding the ability of the partnership to waive occupancy requirements.

And HUD's corrective action requires that we go
back to all of the LURAs since 1998 and fix this. And
basically, the department's determined that the prohibited
language is included in the LURAs and that the most
efficient, effective way is to proceed by executing orders
applicable to all the LURAs that are in violation of the
HUD regulations.

There's approximately 140 documents that are in
the process of being prepared and will be presented to the
board at the October 10 meeting for approval prior to
subsequent processing.

Issue 260 on page 7 of 12 relates to two
different circumstances. The first relates to instances
where there was no documentation that newly constructed
units were in compliance with the Model Energy Code. The
corrective action is that we go back since 1998 on all
such properties that are subject to this, obtain
documentation to verify that they are in compliance.

The department has provided the subrecipient
with the listing of all applicable projects. This was
provided on August 22 and has requested the documentation
to support compliance with Model Energy Code. The
department has a meeting scheduled with the subrecipient
on September 24 to consider progress to date.

The second portion of that issue, and the
remaining three issues the department manages to report
on -- there has been no reported significant changes in status since the last status update, which we did discuss the status at that time. However, I understand we continue to work on those issues.

The next four issues result from the department's annual audit of its financial statements by Deloitte and Touche. And these begin on page 7 of 12, Issue 272 through 276. Accounting plans to have these issues resolved in connection with the current financial reporting period and the current audit that's currently underway. Deloitte and Touche have a responsibility to follow up on these issues management believes will be implemented.

And the results will indicate so, with the possible exception of Issue reference 275 on page 8 of 12. This relates to Deloitte's recommendation to develop an integrated system to support the department's financial management needs. This is somewhat a subjective matter that accounting has taken some corrective actions on, believes it's being dealt with to the extent practical, considering the existing systems and resources, and just hopes Deloitte won't consider it an issue that necessarily has to be reported again during -- in connection with this audit, in which case it will be dropped from future reporting as being considered adequately addressed.
The next issue, 264, or the next issues, excuse me, relate to an audit conducted by the internal auditing division, selected single-family loans. The report was released in January 2002. I'm speaking to Issues 264 and 266 on 9 and 10 of 12.

There are seven issues originally reported in this issue, of which five have been reported as implemented or otherwise resolved. Of the remaining two, I'd like to simply discuss Issue 264.

And if you read the issue on this and then review the status, it appears that the issue has been corrected and resolved. And so the logical question is why do we have an August '03 target date? And the reason being is that the issue is not very well summarized. And that needs to be elaborated going forward.

In addition to developing processes to ensure that all loan documentation is in place which has been implemented, the department has a considerable task of conducting historical research of single-family loans made under the Homebuyer Assistance Program, specifically identifying disbursements under that program as loans or otherwise and for those loans accumulating the necessary documentation to support the department's financial interest.

MS. ANDERSON: How far back, when you say
historical, does that reconstruction go?

MR. GAINES: I'm not sure how far back, but it goes as far back as we've been involved in that activity, Homebuyer Assistance Program, which may be back to the beginning of the program, back in the early '90s.

MS. ANDERSON: Okay.

MR. GAINES: And I do have summary information regarding the significance of that if, by chance, you're interested at some point.

The next issue, 268, on page 10 of 12 -- also we had one more issue relating to the internal audit on single-family loans, and I wasn't going to speak to that specifically. The target date is rapidly approaching, and we'll get an updated status at that point.

Page -- the next page, next issue, 268 on page 10 of 12, relates to one of four audit findings resulting from KPMG's federal single audit of the state for fiscal year 2001. This report was released February 2002, and since that time, two of the four issues have been reported as implemented.

On issue 268, again page 10 of 12, there has been considerable confusion surrounding this issue. It was reported to the board at the last meeting, as it is here, that the department planned on requesting HUD to reconsider the issue because the department believe HUD
was misunderstanding the issue as reported by KPMG.

In actuality, the department was misunderstanding, according to the partner with KPMG. We believed that it was wrong for HUD to be accepting the estimate of questioned costs supporting this of 100 percent of the soft costs.

This was based on comments by KPMG that their sample results could not be projected to the total population and based on our reading of the report, whereby 35 of 40 sample items tested successfully. In working through this with KPMG since this report -- since the board book was delivered to you and the materials were delivered for getting it to you -- since that time, the partner, KPMG, has clarified our misunderstanding by stating that no, wait a minute; yes, while 35 of 40 tested successfully, those 35 didn't include soft costs. Only five of them included soft costs.

Thereby, 100 percent of the sample items that included sample -- soft costs did not have documentation. Additionally, HOME management and staff, during the course of the audit, reported to KPMG that documentation supporting soft costs was not required for reimbursement, and that a percentage of the contract amount was allowable. And that was what was being reimbursed.

Considering no documentation in their test
results, considering that comment, HUD -- excuse me, KPMG estimated the total soft costs for the year and then questioned the total soft costs, which is a reasonable conclusion.

What we've done since that time, since that revelation, which has been in the last week, is we've requested and received from KPMG the details supporting their 40 sample items. We had misunderstood KPMG based on verbal discussions and reading of the report.

And while they acknowledge that misunderstanding and the confusion surrounding the wording in the report, they've come back with this additional information. We feel like we need to look at those other 32 items and be satisfied that's the case. Based on the results of that, we're kind of back to stage 1 of developing strategies on how to best proceed with this issue.

Okay. The second of the two issues that still is outstanding relates to issue reference 271 on page 11 of 12. And this relates to the embezzled funds by a subrecipient employee that we do business with. The embezzled funds included $183,000, or 183,400 or LIHEAP funds and 280 -- or excuse me, 28,000 of Department of Energy funds, which on our report of yesterday to the Governor's office, pursuant to a request from the U.S.
Department of Health and Human Services, that it will be returning the HHS funds, or the 184,000 -- the 183,400 -- we'll be returning those funds to HHS no later than October 31 of this year.

The department will also work with the Department of Energy as they contact us to satisfy any possible claims they might have. Are there any questions relating to -- oh, the remaining issues are the internal audit issues relating to the payroll audit. And I didn't have any planned discussion for those today, although one of them we have independently verified as being implemented.

Prior Audit issues. Any questions you'd like to go into on that?

MS. ANDERSON: Are we going to have -- to me, the obvious question when we're getting ready to reimburse HHS is, what the status of the conversations with the grantee are about reimbursing us. Is that a -- I guess that's on the executive session?

MR. GONZALEZ: Yes. And of course that is a recourse to the department. I believe there's plans for further discussion of that today.

MS. ANDERSON: Okay. Great. David, you're continuing to bird-dog this along with this part of the management of the agency. And I'm really -- on behalf of,
you know, the taxpayers, I really appreciate your diligence working through these issues.

And I would just ask that as we approach the next department meeting next month, that, as you prepare this report, you know, some of these items that have not had any updated commentaries since the end of July -- you know, October will be two-and-a-half months after that. Kind of use your judgment, but let's have some updated statuses on some things where it makes sense. Maybe that will --

MR. GAINES: Yes, ma'am.

MS. ANDERSON: Maybe my request for that will help make sure that --

MR. GAINES: Okay.

MS. ANDERSON: -- management can, you know, can make some time to do that. And then, specifically, on this soft cost thing, where we had these recent developments in the last week, I specifically would like to make sure that the next audit committee meeting that we have, you know, that the HOME program has done its review of those items so that you have -- are able to update us on the -- what the current --

MR. GAINES: Yes, ma'am.

MS. ANDERSON: -- thinking is about that next month.
MR. GAINES: Yes, ma'am. And thank you to management working with me on these.

There is one other issue, if you will, that's not included on this report. It didn't result from an audit. This relates to the HOME program income issue. HUD issued a letter to the department dated November 2001, and advised the state that it was receiving all this program income into its management information system, IDIS.

In that letter, HUD also expressed concern that a particular subrecipient that had been generating program income was being retained by them and not reported to the department.

In response to this letter, the HOME staff has developed standard operating procedures that went into effect April 2002 that address the issue of receiving program income and posting it into the management information system IDIS.

Furthermore, the HOME program contracts funded in 2001 and going forward will be written in such a manner, and were written in such a manner, whereby the retainage of program income by the subrecipients will not be allowed.

This will make the treatment and accounting of program income much easier. That will be coming back to
us. And it will just keep tracking and accounting much easier specific to the particular subrecipient, the department's requested program -- all program income generated by the HOME-funded contracts, less any legitimate, allowable expenses against that program income.

To date, subrecipients reimbursed to the department over $600,000 that had previously retained, and the department staff is in the process of reviewing this information to determine if it's complete and accurate.

Okay. The last item on the agenda relates to -- it's titled Review -- let's see, Status of a Review of Low Income Housing Tax Credit Inspection Fees.

After the last board meeting, Ms. Carrington contacted me and other appropriate staff to discuss a situation that had recently come to her attention, the situation related to the department's payment of inspection fees on tax credit properties.

While these fees were to be reimbursed to the department by the property owners, adequate procedures had not been established to properly account for and collect these fees.

Ms. Carrington requested that the internal audit division conduct a review of circumstances surrounding this. To date, as of today, the Tax Credit
Program has provided us an accounting of all related fees and collections that it maintained in an access database.

According to these records, as of yesterday, tax credits in the program has billed $703,000, rounding off for inspection fees. The department's collected 423,000, which includes some overpayments, about $33,000 in overpayments.

Of that 423,000, 236,000 has been collected in the last 30 days. So it looks like people are being very responsive to our requests for reimbursement. The remaining balance is 203,000. And this is net of the 33,000 in overpayments. So it's closer to $237,000 is the remaining balance being reported as being due from the property owners on these tax credit properties.

MS. ANDERSON: When was the payment deadline in that round of bills that went out? I thought it was requested by August 31.

MS. CARRINGTON: I think it was the 29th.

MR. GONZALEZ: The --

MS. CARRINGTON: That was actually a Friday.

Right. The 29th was a Friday.

MS. ANDERSON: Okay. And so we have separate request for payment letters -- is that in the plan, that -- not -- where it's not been collected?

MS. CARRINGTON: The letters just went out on
the 22nd of August. We gave them actually a very short
time frame to respond.

MS. ANDERSON: Okay.

MS. CARRINGTON: And staff has been getting
calls indicating a willingness to pay --

MS. ANDERSON: Okay.

MS. CARRINGTON: -- but could they have a
little more time? So I would think that we would want to
wait, at least for 30 days from the date of the August 22
letter, and then do a second billing after about the 22nd
or so of September.

MR. GAINES: The information provided to
Internal Audit has -- the program area believes it's
complete. During the course of this review, the -- our
review, the objectives are to determine completeness and
accuracy surrounding this report.

Upon completion of the report, Ms. Carrington
has also requested that the division review other fees
collected by the department, just to ensure that adequate
controls are in place to provide reasonable assurance that
all fees that should be collected are being collected,
properly recorded and processed.

That will be either a series of little mini-
reports going forward, or one big report. I hadn't quite
thought through that. Maybe for timeliness' sake, it
might just be a series of short reports relating to each
of the different fees we're considering. And of course,
you'll be kept apprised as when they forward in that
respect.

MR. GONZALEZ: Excuse me. When we go, do we
normally expect payment within the 30 days period? Or
what --

MR. GAINES: I haven't looked at the actual
billing, but I suspect that's the case. I'm not real sure
on that.

MS. CARRINGTON: Actually, the billing that
went out in August -- the letter was dated the 22nd, and
we asked them to pay us by the 29th. So we didn't give
them 30 days. So we will be evaluating that, and
determining what period of time seems to be reasonable.

MS. ANDERSON: Of the 703,000 that was billed,
how does that number compare to the department's payment
of inspection fee prior to that? Because I understood
that in some cases, staff would make an adjustment and not
bill the developer for the full amount of the inspection
fees. Do you have a gross amount of inspection fees paid
by the department that we then turned around and billed
703 of that?

MR. GAINES: That will be addressed in our
review in determining completeness. I do know that at one
time frame we were billing on a sliding scale. It was called a pro rata scale, which was a flat fee, plus so much per unit. That did not necessarily recover all the costs relating to a particular inspection.

So when we get to those will be the question of are we standing by our original billings? Are we changing and going and trying to recover that full cost? And I think that's something we can work through with Executive and come to the right decision on that.

Any further questions on this or any other subjects we discussed this morning? Thank you very much.

MR. GONZALEZ: Thank you. Very good report.

MR. GAINES: Thank you.

MR. GONZALEZ: I'll entertain a motion to adjourn.

MS. ANDERSON: So moved.

MR. GONZALEZ: Second. The audit committee meeting is adjourned.

(Whereupon, at 10:30 a.m., the meeting was concluded.)
CERTIFICATE

MEETING OF: TDHCA Audit Committee
LOCATION: Austin, Texas
DATE: September 12, 2002

I do hereby certify that the foregoing pages, numbers 1 through 40, 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.

09/16/02
(Transcriber) (Date)

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