TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

AUDIT COMMITTEE MEETING

8:30 a.m.
Thursday,
October 10, 2002

City Hall
City Council Chambers
1201 Leopard Street
Corpus Christi, Texas

COMMITTEE MEMBERS:

VIDAL GONZALEZ, Chairman
SHADRICK BOGANY
ELIZABETH ANDERSON

STAFF PRESENT:

EDWINA CARRINGTON, Executive Director
DAVID GAINES
BILL DALLY
ROBERT ONION
RUTH CEDILLO
CHRIS WITTMAYER
AGENDA

CALL TO ORDER, ROLL CALL
CERTIFICATION OF QUORUM

PUBLIC COMMENT

ITEM

1. Presentation, Discussion and Possible Approval of Minutes of Audit Committee Meetings of August 8, 2002, and September 12, 2002

2. Presentation and Discussion on:
   a) Status of Prior Audit Issues
   b) Internal Audit Annual Report
   c) Status of Review of LIHTC Inspection Fees

ADJOURN
MR. GONZALEZ: We'll call the Audit Committee meeting to order and we'll start off with the roll call. Beth Anderson?

MS. ANDERSON: Here.

MR. GONZALEZ: Shad Bogany?

MR. BOGANY: Here.

MR. GONZALEZ: Vidal Gonzalez, here, so the committee is present. We'll go to item number 1, the presentation, discussion and possible approval of minutes of Audit Committee meeting of August 8, 2002, and September 12, 2002.

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

MR. BOGANY: Second.

MR. GONZALEZ: We have a motion and a second. All those in favor?

(A chorus of ayes.)

MR. GONZALEZ: All opposed?

(None.)

MR. GONZALEZ: Motion carries. We'll go to item number 2 and we'll call Mr. David Gaines to visit with us on the status of prior audit issues, internal audit annual report, and status of review of Low Income Housing Tax Credit Inspection Fees.
MR. GAINES: Good morning, Mr. Chairman.

MR. GONZALEZ: Good morning.

MR. GAINES: Members of the committee, Ms. Carrington. If you'll turn to Tab 2 in your board book, the agenda lists one order and your materials are in another order, so why don't we go in the order of the materials.

If you'll turn past the agenda to the first report item, which is the Annual Internal Auditing Report. This is an annual report required of the division, it's required under the Texas Internal Auditing Act; the format and content of the report is prescribed by the State Auditor's Office, and it's required to be distributed to the Office of the Governor, the Legislative Budget Board, the State Auditor's Office, and the Sunset Advisory Commission.

I'll just briefly walk you through the report just giving you an overview of the contents in this report. The first page is just a transmittal letter, table of contents follows, and the first piece of information on page 1 of 16, this is our annual audit plan for the 2002 fiscal year, August just ended, and if you'll note in the first column -- excuse me -- the second column to the right, that was the original plan and the date it was approved by the board. The plan was amended June 13
of '02 which is reflected in that final column, and this presents the plan, the amendment to the plan, and then any deviation or explanations for the amendment to the plan or deviations from the original plan. Those were all discussed in connection with the June '02 report with the exception of one item, and that particular item relates to the second project listed on page 1 of 16.

This is a project that has been on hold, delayed, pending completion due to several circumstances, the foremost being turnover in some staff that I've had, and talking with -- this particular project was a project of particular interest to one of the board members and I've discussed this with him and we've agreed that this can be a rollover project into the next year's plan and something that needs to be wrapped up, so that's kind of where we're at on that.

MS. CARRINGTON: David, for the record, would you read what that project is?

MR. GAINES: Yes, ma'am, I'm sorry. That's the review of controls over Tax Credit project deliverables, do we have controls in place to ensure what we're agreeing to do on Tax Credit property allocations come about.

Just walking through the report, that audit plan goes on through page 4 of 16, and then on page 5 of 16 this is a brief discussion about the Internal Auditing
Division's quality assurance review process. This is a required process pursuant to professional standards in the Texas Internal Auditing Act; we are required to go through an independent review of the internal audit function once every three years. The division is currently going through a review and anticipate a report coming out of that review within the next two to three weeks; I expect to be providing that to the board at the next board meeting, and then I had a brief discussion as to our last review, when that was conducted and the results of that review.

On page 6 of the report is a listing of audit findings and recommendations made during the year and the current status of each. While you realize there's a separate report that the division provides you on a periodic basis reporting the status of these prior audit issues, that report is for all prior audit issues going back prior to this last, most current year, but this will provide you a pretty good overview of what's transpired this year.

On page 13 of the report is a copy of the department's organizational chart -- which is soon to be outdated -- and the purpose of this chart is primarily that focus three boxes when you're looking at this: the Executive Director box, the Board of Directors, and then...
the Internal Auditing Division box, just to see what sort of reporting relationship has been established. It's established in such a manner to facilitate the independence of the Internal Audit function and compliance with the Texas Internal Auditing Act.

Page 14 of the report provides other activities of the Internal Auditing function during fiscal year 2002, and this would be activities that wouldn't typically be associated with straight audit activities, and the impact of those activities is summarized.

Finally on page 16 of the report is a discussion of the status of the Audit Plan for 2003. I wouldn't expect to have a plan ready for your review and approval until first calendar quarter of 2003. Until that plan is approved, a listing of our planned activities is provided. I believe the board and the committee are pretty familiar with these activities. And if there's any questions on the Audit Plan or the annual report, I'll be glad to speak to those.

MR. GONZALEZ: Any questions?

(None.)

MR. GONZALEZ: Okay.

MR. GAINES: If you'll just continue on in your board book, immediately following that we have the status of prior audit issues, and I have two reports here for
you: the first one is pages 1 of 11 through 11 of 11.
I'd like to just refer you to the one immediately
following that first and we'll start off with that. This
report is a little bit different. We spent a lot of time
discussing the outstanding audit issues -- which we
certainly need to -- this report, the seven-page report is
a report of the progress made over the last year. These
are audit issues that have been implemented during fiscal
year 2002, and during that time frame the department
implemented 21 issues, those that are listed there. If
you haven't had an opportunity yet, you might just scan
through that at some point to focus on some of the issues
that management has been dealing with over the last year.

Now I guess the important issues are those that
haven't been resolved, and so we'll turn back to the 11-
page report. There's 24 issues being presented to you;
five of those 24 have been reported as implemented, 18 are
in the process of implementation, and one is classified as
delayed, and that's pending further action from HUD at
this point.

I was planning on just a high-level overview.
If there's any particular issues you'd like to drill down
to, please let me know, but of the 19 issues being
reported, there are a couple that have significance from
one perspective or another I'd like to just point out.
Issue reference 271 on page 10 of 11, this is the sub-
recipient where embezzlement was detected and identified.
This sub-recipient has reimbursed the department $194,543
relating to Health and Human Services funds and Department
of Energy funds that the department funded through the
Energy Assistance and Weatherization Programs. Of course,
this is great news, and these funds will be used to
satisfy any claims from our funding sources.

That leaves 18 issues, and if you'll refer to
issue reference 237 on page 3 of 11, this was still in
progress when the report was compiled a week and a half
ago. Management was expecting to have that implemented by
last Friday; I haven't had an update since then but I
believe that's probably happened, so that would be six of
these issues implemented.

Of the remaining 17 issues, seven of them
relate to the HUD/HOME monitoring issues -- actually six
do and an associated or related finding in the KPMG audit
finding that HUD has picked up and having us respond to
relating to soft costs. And as you're well aware, these
issues have been the center of discussion over the last
several meetings. And the status of these issues, issue
reference 253 on page 4 of 11 through 260 on page 7 of 11,
the status of these issues as you see them have not
changed significantly as they're reported to you.
Management is in the process of drafting a letter to HUD that's planned for release no later than October 25. At that time the department plans to provide a comprehensive summary of where we're at on the outstanding HUD issues, the department's position regarding these issues, the department's strategies on how it's going about resolving the issues, obstacles that the department has run into, challenges that they'll be facing, and this letter, I believe, is going to be the summary or the update that will be of great interest.

MS. ANDERSON: I have a question for management on this issue. Ms. Carrington, on page 4 of 11, this item 253 that David referred us to, this indicates that the letter is just requesting HUD to tell us when they're going to respond to the July -- maybe I'm misreading this, but as I read this on page 4 of 11, it says: "We're drafting a follow-up letter requesting probable date of issue of response to our July 26 letter." But with what I'm hearing from David, that's not the only thing that's going to be in our letter.

MS. CARRINGTON: That's correct, Ms. Anderson. We have gotten a draft letter from HUD that I think was dated September 23 or 25 which was a draft that they did deliver to us in person, and they have outstanding items, basically culmination going back to 2000, that they're
asking us to respond to, but they admitted in that meeting that they had not finished reviewing the July response from us. So as we complete our responses -- and I believe that David told me the other day that we're looking at the responses back from our staff on the 20th of October so that we will easily meet their 30-day time frame -- we're also going to address and request an update, where are we on the information that we provided to you in the July letter.

MS. ANDERSON: Thank you.

MR. GAINES: That leaves a balance of ten issues, three of these relate to the all-program areas on the first page or two of the report that we've spoken of previously that are being addressed in connection with reorganization. The remaining seven issues: two of them relate to accounting that we intend to have resolved in connection with the current reporting process, the current reporting cycle that's going to be finalized in December; another two relate to the payroll activities or certain payroll activities that have recently been identified by the Internal Auditing Division in its payroll report, and it looks like management is making steady progress in resolving those issues -- the original target date is yet to elapse.

That leaves us a balance of three issues, one
of them relates to the Section 8 Family Self-Sufficiency Program -- this is page 1 of 11, issue 187. On this the program is conducting an analysis of the local capacity available to deliver this program and hopes to have the results of that analysis to HUD by the end of the calendar year.

Then the remaining two issues relate to controls over Single Family loans that were brought up in the Internal Auditing report earlier in the year. The first issue is issue reference 264 on page 9 of 11. The challenge that management faces in dealing with this issue is identifying the disbursements under the HOME Homebuyer Assistance Program that were loans, and then for those loans accumulating the necessary documentation to support the department's financial interests.

The final outstanding audit issue is 266 from the same project, and this issue relates to the need of the department to establish formal policy procedures for advanced collection efforts on delinquent loans and criteria for writing off loan balances. And the target date for addressing this issue is November 1.

MS. ANDERSON: And Mr. Gaines, this report indicates that July 31 was the sort of last update that you had from management. Right?

MR. GAINES: Yes, ma'am. And I realize one of
your requests at the last meeting was anything from July forward, you'd like a status update.

MS. ANDERSON: And you've done a sterling job of getting all these, pretty much everything here, an updated status, which I'm sure the rest of the committee, along with myself, appreciate.

MR. GAINES: I suspect that's the reason you brought up that date.

MS. ANDERSON: Well, I did have it circled.

MR. GAINES: Yes. And I'm also suspecting in this particular case, since the target date hadn't elapsed at that point, management does need to update that shortly with that November 1 date.

Are there any questions relating to the prior audit issues report?

(None.)

MR. GAINES: Okay, great.

MS. CARRINGTON: If I might make a comment to the committee on the data?

MR. GAINES: Yes, ma'am.

MS. CARRINGTON: Our goal is to get the number of pages on the audit issues resolved -- which now is seven and the audit issues not resolved, eleven -- the goal is to have more resolved audit issues than non-audit issues, but I do think we are making really tremendous
progress on this.

MR. GONZALEZ: Are you going to use smaller print?

MS. CARRINGTON: No, I'm not going to do any tricks like that, Mr. Chairman.

(General laughter.)

MR. GAINES: And then the next agenda item is the last page under Tab 2. This relates to the Construction/Inspection Fees project that we're involved with. What you have in front of you is a schedule of receipts and disbursements and this is from fiscal year 1999 through August 31 for disbursements and through September 30 for receipts. Now, ideally you'd like those the same day but due to using different systems for different information, we've got those at two different points in time right now. This is unaudited as presented to you. As we come to the final balances, of course, it will all be in sync on the same date.

These numbers being unaudited, management and staff continue to work on them and so I suspect there may be additional changes going forward. But just working from the top of the report down, you'll see that currently $810,700 has been paid out in the inspection fees since 1999. This includes -- well, let me continue going down the list -- $597,000 has been reimbursed to date, leaving
a balance of $213,000. Of that, there's approximately $60,000 in that $810,000 that relates to the first year of our consideration, 1999, and management at this point does not believe they're going to be pursuing collection on that or even if they have the authority pursuant to the QAP what was in effect at that time. So you can kind of reduce these numbers by that approximate $60,000 at this point. I've left them in there because until -- it's not over until it's over, and I wanted to fully account for the monies that we are finding out there.

Down below you have the inspection fees billed. Of that $810- we've actually billed $626- at this point, and reimbursements have been right at $597,000, and this appears to include some overpayments in there that will have to be refunded of about $35,000, and that would leave a remaining net balance of $28,000.

MR. GONZALEZ: So the net balance would increase due to the reimbursement. Is that correct?

MR. GAINES: The amount, the $597- will be decreased by about $35,000, which will increase that bottom number by the same amount, comparable amount. This is kind of history, or what management is doing in resolving that going back. Going forward, management has taken some corrective actions that should keep things in order going forward in that Financial Services began
processing the invoices for inspections paid in September of 2002, and in connection with that, assuming that role, a separate account has been established at the Texas State Treasury to account for all reimbursement receipts, and since the account has been created, effective September 1, over $326,000 have been deposited to that account.

I think the next most relevant bullet is probably the third one: an accounts receivable sub-ledger has been established in the accounting system, and this would be able to, of course, you would be able to invoice off of it, see your remaining balances, age outstanding balances. And then finally, they've documented this and processed flow charts, and are working on policies and procedures to finalize it.

And I'll be glad to address any questions in this respect.

MR. GONZALEZ: Just for clarification purposes, the inspection fees due would be approximately $63,600 or so. Is that correct?

MR. GAINES: The remaining balance.

MR. GONZALEZ: Once we return the overpayments, that's going to increase that amount and so what we're actually due is not $28,579 but approximately $28,579 plus $35,096.85. You might want to just footnote that at some point.
MR. GAINES: Based on the current billings. Now, there's other inspection fees that have been paid that need to be analyzed and looked at, assessed to determine which of those we need to bill.

MR. GONZALEZ: Okay.

MS. ANDERSON: And do we have any idea of the aggregate dollar amount of that set of agency payments?

MR. GAINES: Well, the aggregate amount would be the $810- less the approximate $60- we currently are not planning on billing.

MS. ANDERSON: Right.

MR. GAINES: Which would be $750-, less the $626- that has been billed.

MS. ANDERSON: And paid.

MR. GAINES: So another $125-, $124-.

MS. ANDERSON: Right, that's the same number I'm kind of coming up with. So the agency has not made a final determination yet whether to just sort of -- I guess there's nothing really to write off because it wasn't accounted for -- I guess it wasn't set up properly to begin with, but let's use the word "write-off" to describe -- or the $125,000 that is sort of what we've got left that was paid by the agency but not yet billed to developers, so that's what we're going to determine whether any of that additional $124- needs to be billed to
developers or not, and in the or not case that it has the practical effect of being like a write-off -- or just paid for by the agency and not reimbursed by a developer -- let me put it that way. Is that what we're analyzing?

MR. GAINES: I suspect within that amount there are some billings that will be written off for whatever purpose, but absent those unique circumstances, that $125-remains to be billed.

MS. ANDERSON: Okay.

MR. GAINES: Based on rough numbers and saying, well, the first year we aren't going to bill, so we're speaking in real broad terms right now, and we'll be working this down to the project level for better, more concise information.

MS. ANDERSON: And then I have just one other question about this account that was set up in the Texas State Treasury and we've got the $326- deposited to it, I'm guessing the other $217,000 that if you add those two numbers together you get the $597- in reimbursements, were those just prior to September 1 and so they went into some other account?

MR. GAINES: Yes, ma'am.

MS. ANDERSON: Okay. There's great progress on this.

MR. GAINES: For the amounts being billed, the
response has been very, very good, I'd say. Any other comments, questions?

MR. GONZALEZ: Okay, Shad, give him the list of questions you had.

MR. BOGANY: I'm fine, I understand.

MR. GAINES: Thank you very much.

MR. GONZALEZ: Thank you. That concludes all the business we have here. I'll entertain a motion to adjourn.

MR. BOGANY: So moved.

MS. ANDERSON: Second.

MR. GONZALEZ: Motion and second. All those in favor?

(A chorus of ayes.)

MR. GONZALEZ: All opposed?

(None.)

MR. GONZALEZ: Motion carries. This meeting is adjourned.

(Whereupon, at 9:00 a.m., the meeting was concluded.)
CERTIFICATE

MEETING OF:      TDHCA Audit Committee
LOCATION:      Corpus Christi, Texas
DATE:      October 10, 2002

I do hereby certify that the foregoing pages, numbers 1 through 20, 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.

10/22/02
(Transcriber)   (Date)

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