TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

AUDIT COMMITTEE

Auditorium
Capitol Extension
1400 Congress
Austin, Texas

November 14, 2002
8:30 a.m.

COMMITTEE MEMBERS:

Vidal Gonzalez, Chair
Elizabeth Anderson
Shadrick Bogany

STAFF:

Edwina Carrington, Executive Director
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MR. GONZALEZ: We'll call the Audit Committee meeting to order. Start off with the roll call. Beth Anderson?

MS. ANDERSON: Here.

MR. GONZALEZ: Shad Bogany,

MR. BOGANY: Here.

MR. GONZALEZ: Vidal Gonzalez. All members are present. We'll go to Item Number I, the presentation, discussion, and possible approval of minutes of the Audit Committee meeting of October 10, 2002.

MS. ANDERSON: I move approval of the minutes.

MR. BOGANY: Second.

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

(A chorus of ayes.)

MR. GONZALEZ: All opposed?

(No response.)

MR. GONZALEZ: Motion carries. We'll go on Mr. David Gaines for Item II, presentation and discussion on status report.

MR. GAINES: Good morning, Chairman, members of the board --

MR. GONZALEZ: Good morning.
MR. GAINES: -- Ms. Carrington. And, if I may, did we want to open it for any possible public comment? Is that something you want to --

MR. GONZALEZ: Sure.

MR. GAINES: -- do?

MS. DELORES: We don't have any.

MR. GAINES: Okay. I'm sorry. I knew there was something you wanted to emphasize going forward. If you would, please -- if you'll turn to your first agenda item it's the status of the Central Database Project -- immediately following the minutes from the October meeting.

This meeting that's been provided is very similar to that provided to you in the September meeting. As mentioned at that meeting, our goal is to provide standardized information that facilitates your review and provides you the information you need to assess the status of the project.

If you will, the first page of the status report is just a cover page, if you will. And it's the overview, discusses the contents. It's going to include the overview, the summary plans, status, which is supported by a certain detail that we'll discuss, and then the status of funds.
Following that page is the overview page. And on the back side of that page is summary of the business goals and benefits with a brief description as to how the major milestones and targets are being established.

This is the same information that's been previously provided to you and continues to be as a convenience until that point in time when you all say, We've acknowledged that; don't give it to us anymore.

Immediately following that is the overview information, the summary plan status, with the current status of each module, a description of each module, and the associated capital cost to date.

And so on the back page of that cover sheet is the first page of the report. And the first two modules that are listed are the Compliance Monitoring and Tracking System, or CMTS module, and the Fund Allocation and Contract module. Detailed plans supporting most phases of these modules follow the summary plan, and I'd like to discuss those momentarily.

There's been no significant changes from that previously reported to you on the following modules, beginning with the Application module through the remaining modules on the summary page.

An asterisk has been added to these modules
that's explained at the bottom of the page. It basically is that the detailed plans identifying the tasks and resources for these modules is pending.

And the team's goal is to develop the detailed plans for each of these modules as the design specifications of the system are finalized and approved. So as the design's approved, then the detailed plans for the remaining portions of the project will be developed, which is really the first point in time you have a clear enough picture to do that.

So, accordingly, if there are asterisks those beginning start dates are very tentative and most likely will be changing in the future. They are based on what the project team believes may be reasonable goals to strive for.

We dropped one of the modules from that previously provided to you in the September meeting. That is the Low Income Housing Tax Credit Contact Log. And this was an application being developed for the logging and recording of communication of the information coming into the Low Income Housing Tax Credit Program. This was a 322 -- Senate Bill 322, or Sunset, requirement.

It was decided that this particular module is not really a component of the central database. It had
previously been included because it was an Oracle-based application. However, as we really started rolling up our sleeves and looking at it closer, the application's a standalone and it's not really appropriately classified as part of the Central Database Project.

If there's no questions so far I'll backtrack to the first two modules, the Compliance Monitoring Tracking System and Fund Allocation module and go into a little bit further detail on those. These modules are where the project team's currently spending their time. I'd like to discuss just -- and focus on significant changes from prior reports and the status updates.

So, since our last report, September 2002, on the Compliance Monitoring Tracking System module there's been changes in the planned finish dates. The end date for the development has extended from October 31, 2002, until November 19, 2002. And this is due to having a clear accounting of the remaining have-to enhancements and bug fixes to the Compliance System that were identified during acceptance testing and summarized -- and specifically identified since the September meeting. The work involved in addressing these enhancements and bug fixes were not previously considered in the September report.
The functional planning and development dates have extended from December 31, '02, to October 31, '03 -- 2003 -- which is an additional ten months. Now, this significant change was the result of a couple of things. We've reclassified the gathering and entry of program data -- that's not -- that has not been previously automated from the industry rollout phase, the next phase of the project to this phase. So we took it out of the next phase, put it in this phase, and that pushed back that phase ten months.

This entry -- gathering and entry of data includes gathering data for the HOME Program, the Housing Trust Fund, the Multifamily Bond, and the Low Income Housing Tax Credit Program.

Gathering and entering the data for the Housing Trust Fund, HOME, and Multifamily Bond Programs is expected to be completed by March 2003 -- the end of March 2003. It's gathering the data for the Tax Credit Program and getting that data entered that pushes this back another six months.

And this time estimate is based on 1,200 properties. We're taking one-half day per property to get this data entered, with six employees working 70 percent of the time. Now, while the staff is fairly confident
with these estimates and the time required, the resources or specific individuals necessary to perform this work have not been specifically identified or committed, of course.

Now, Ms. Carrington and I have generally discussed this issue, and it's hoped that the FTEs will be identified as the Department works through the reorganization. To stay on this current time line we would need to have those resources identified and ready to go by the first of April.

The industry rollout phase of this project, the third line on line 4 of your summary report, has changed from August 31, 2005, to November 3, 2003, which is approximately 22 months sooner than we had previously reported to you in the September meeting.

And this change has resulted because of reclassifying that data entry -- gathering and entry of data that I just spoke of and how the Department -- how the project team is defining completion of the industry rollout.

The August 31, 2005, date anticipated having all the multifamily business partners on the system and actually entering their tenant and unit information as required. The November 3, 2003, date relates to having a
proven tested system available for the business partners, instructions and tools available -- and that's sitting there waiting for them to get their data online.

Now, as they do that, most presumably during their regular reporting cycles they'll take efforts of the Department to make sure they're set up properly. This could easily extend into 2005 because of their reporting cycles and will be available -- the system will be available -- currently planned, November '03 to do that.

The detailed plans and tasks, resources necessary, the target dates at the detailed tasks level to accomplish this follows the summary report in your board materials.

Are there any questions relating to the Compliance module? (No response.)

Okay. In that case let's move on to the Fund Allocation Contract module. The development date's been extended a couple of months -- completion of the development has been extended a couple of months to January 15 -- from January 15, 2003, to March 28, 2003. And the functional planning and deployment date has extended two weeks until April 14, '03.

And these extensions relate primarily to the identification of additional have-to enhancements and bug
fixes for the compliance system that I just spoke of. To address those it kind of had the cascading effect and took the resources of the team pushing these areas back as well.

And the system design -- going into the details, taking approximately a month longer than last reported due to additional requirements that have been identified relating to compliance monitoring and single audit requirements that are part of this module.

Up until -- up through the last report the work had been at the individual program levels. And upon confirming those requirements and confirming that design work we started bringing in cross-cutting areas. And as that happened from the compliance division these additional considerations were brought to the table.

Additionally, there was some additional design work relating to the Community Affairs Programs that was not factored into the last time line. That has since been identified.

Generally, as I was speaking of earlier, a reasonable estimate of time is not possible until the design work's complete. And also all of the design work for this particular module is currently not complete. The technical team believes that it's substantially complete.
enough to have fairly good confidence in the reasonableness of these estimates for the development phase of the project.

And the detailed plans and specific tasks and resources -- target dates for the development portion of this phase of the project -- this module -- follow in your board book as well.

The second phase of this module, the function and planning -- the functional planning and deployment module probably should have been asterisked, meaning that the detailed plans identified and the necessary task and resources are still pending.

While the detailed plans for data scrubbing have been developed -- and the project team are working on data scrubbing as we speak -- and the detailed plans for the data scrubbing follow this summary report, the detailed plans for the other major functional milestones have not been developed, again, in large part because a dependency that's been defined for development of the detailed plans is completion of the design work.

And, again, while the design work is not fully completed at this point, the functional team, working with the technical team, feel like the design's far enough along to where they're currently underway in developing
those detailed plans for the remaining portions of the functional plan and anticipate they're going to be able to complete that by the end of November.

Having said that, I believe that the functional user team also needs to revisit their detailed plans for the data scrubbing that they're currently working on. The estimates provided for these detailed plans were based on the information provided by the program areas and assume they'll be gathering and entering data for various dates, depending on the program, and various conditions, such as year 2000 and unexpired contracts for the HOME Program, since 1998 for Energy Assistance Program, since 2000 plus all current contracts for the Community Services Programs.

Now, while these dates may be adequate for the particular programs, there's cross-cutting areas within the Department that does not believe it's adequate. Those -- these plans were based on those dates. As the cross-cutting areas have had more of an opportunity to review these dates they're saying, Now, wait a minute. We need to go back, in many instances it's believed, since inception of the program.

Well, so we're talking about possibly a significant cost doing that work. And so we're currently in the process of trying to assess what is the cost of
going back since inception of the programs, and what kind of benefit is -- are these cross-cutting areas going to actually derive from this. Why is this entirely necessary? That decision is still pending. And, to the extent we start pushing back on the historical data, that will affect that time line also for data scrubbing.

MS. ANDERSON: May I ask a question?

MR. GONZALEZ: Yes.

MR. GAINES: Yes, ma'am.

MS. ANDERSON: And I don't know if this is David or Edwina to answer this question. But, in sort of a commercial practice when you do a big system conversion frequently you do not convert all the history. And so I guess my question would be what are the uses of the historical data, and as part of this evaluation project are we considering how we might, you know, spit off a CD off the Legacy System or something so that you could -- I mean, how often do we need that historical data either for the Legislature or whatever.

MR. GAINES: And since I've kind of been working on that a little bit I might be the best person to respond. That is what we're working on. How often is this information requested? That's one of the common reasons we need it. Well, because Legislatures ask for
it. Well, how often do they ask for it? What's involved
to do it manually?

MS. ANDERSON: Right.

MR. GAINES: Is -- which Legislature maybe is a
relevant question.

MS. ANDERSON: Right.

MR. GAINES: So --

MR. CARRINGTON: How far do you go?

MR. GAINES: But probably not. But that's a
common response to why we need to go back. Another reason
being for any open properties that are currently in the
affordability period that maybe extend since the inception
of the program for a number of years, as you know. Any of
the properties that are under affordability period
compliance division feels like they need to go back and
get that data entered as far as the property owners, the
types of properties, the set aside requirements -- that
kind of information for their compliance testing going
forward.

In those instances maybe we can zero in on
particular fields to go all the way back for. We've
discussed -- as you were suggesting, Hey, this is what
we're entering, kind of where we're at today -- open
contracts -- going forward with that. And then as we need
this additional information on a particular project that we're doing a compliance review on -- as we need this information go back and pick it up.

Another circumstance is HOME is planning on addressing unexpired contracts. That doesn't necessarily mean closed contracts. So there's some closed contracts back in history. Well, maybe an answer and alternative is to, as we close a contract, enter that relevant data for that contract. So we're looking at all that.

MS. ANDERSON: As you look at cost benefit I think you have to consider not only the cost benefit -- you know, providing information to the Legislature or whoever needs it -- but also the costs associated with the distraction of putting all that historical data in and what impact does that have on other priorities at the agency, whether it's, you know, the future modules that we haven't started defining functional requirements for.

And I know you're faced with a dilemma, but I would -- and I trust your judgment and that of your colleagues to be -- to do what we need to do, but to be very practical in how we do it. Because if we devote a lot of resources to doing a lot of historical information that's only rarely used, for example, it's going to divert you from things that -- from completion of the rest of
this effort that's so important to our future.

MR. GAINES: Where I'm at right now is having the cross-cutting areas that want to go all the way back convince me, number one, it's necessary. And, number two, I'm not going to trust my judgment, because if they convince me then I'm going to bring it to the executive director and possibly go in and say, This is what it's going to take; here's the cost going all the way back -- and make sure we're all on the same page in that respect.

MR. GONZALEZ: Good point.

MR. GAINES: Okay. Any questions on the Fund Allocation Contract module? (No response.) The only other thing I wanted to point out was the Status of Funds Report. The only significant changes there are additional expenditures. Since the September report about $32,000 relating to the business analysts and contract programmers -- we've extended their contracts. That's reflected in that status report.

I'm on the verge of rushing through this because I recognize where I'm at. So please at this point -- that was a very rushed overview of the status report, and I'll continue to try to be brief. So please slow me down if you'd like to get into greater details as we go forward on this.
The next agenda item is the construction inspection fees after you get past all this detail I've referred to. And on the construction inspection fees project where we're currently at right now is I'd like to bring your attention to that $100,000 figure -- 100,126.

This is the net inspection fees paid by the Department in excess of amounts reimbursed to the Department, so a potential receivable of that amount. And the reason I say potential will become more obvious just as I go into the recap that's at the bottom of the page.

The $203,000 figure reflects inspection fees paid to -- by the Department in excess of the amounts reimbursed for 109 projects. We've gone through and identified that detail -- identified 109 projects where it looks like we paid inspection fees but we haven't been reimbursed.

The other side of that coin is the 103,000 figure, which is reimbursements to the Department in excess of inspection fees paid. And we have that again by project. We'll be real surprised if people have given us $103,000.

So what needs to happen is, for each of these projects, Department staff needs to go back and investigate the details supporting each of those. And I
suspect many of these overpayments that it currently
appears to be are merely instances where we misapplied the
funds and we need to apply it to those projects that look
like they've underpaid. Having said that, there may be a
net receivable balance that either is outstanding billings
or amounts still to be billed of right at $100,000.

In summary, the footnotes at the bottom of the
page is where I believe the Department staff needs to be
spending their time.

Okay. The next agenda item is the summary of
prior audit issues. The last three pages of this
represents five prior audit issues that were reported to
the board at the last meeting as being implemented. And I
just want to start bringing those to the attention of the
board. They kind of get lost in the monthly
presentations, so each month I'll kind of refer to those
that we resolved the previous month.

And then the first ten pages of the report
relates to the current outstanding issues. There's 20
issues being presented here. Four of these are being
reported as implemented; 16 are in the process of being
implemented.

Of the 16 issues being reported as in progress,
six of the issues relate to HUD/HOME monitoring visit --
the HUD/HOME monitoring visit in November '01. This begins with Issue 253 on page 3 of 10 and goes through the first issue of page 7 of 10, Issue 216.

Since the last board meeting management's provided HUD with a comprehensive response on the status of these issues. They've spent a significant effort in addressing those HUD issues, as well as the KPMG soft cost issue, which is Issue 268 on page 10 of 10, and a program income issue that HUD has brought to our attention that's not reflected in this report. It wasn't so much an audit, so I don't have it presented here.

But for each of these issues the Department reiterated and summarized all the formal communications to date between Department and HUD, has made reference to the documentation previously provided and considerations previously provided to HUD, provided the current status of each of these issues, and provided HUD the planned strategies that the Department has on resolving the remaining issues.

As you can see considerable documentation was provided supporting actions taken to date. The status update communicated that the Department was in general agreement with the findings and is proceeding with the proposed corrective actions except in one instance. And
that relates to issue reference 253 on page 3 of 10.

You will note that -- on your summary there that HUD commented with -- providing adequate monitoring and oversight of the processing and construction activities in accordance with the applicable HOME requirements and that the properties assisted by several of the HOME activities -- that those properties have insufficient or no documentation that they're in compliance with that standards and code requirements.

HUD's corrective action included reinspecting all units assisted since 1998 through present from the HOME funds with this subrecipient. The Department disagreed with this assessment and contends that HUD's monitoring and sampling techniques were faulty and not representative of the type and quality of the projects developed by the sub-recipient and that HUD did not review the complete files.

Based on the Department staff they went on site to this sub-recipient and conducted followup reviews of the same 23 files HUD looked at plus an additional 120 files. An inspection form -- the form that seems to be lacking was available for each file.

This documentation was provided by HUD by the Department -- provided to HUD by the Department in the
July 2002 letter. And we still have not had a response from HUD. This was reiterated again in the most current communique. We need to hear back from HUD on the acceptability of this.

But based on these results and conclusions the Department doesn't believe that the best use of the Department's resources is to reinspect all property since 1998. This represents approximately 1,400 units -- 1,426 -- and estimates the staff time and cost would be $386,000.

Additionally, given the lapse in time since a lot of these projects were worked on, if you will, depending on the activity, the Department contends that it's unrealistic to be able to even expect to be able to get into these units. And, of course, there's deterioration that may have occurred since the original inspections as well.

So, instead, the Department is proposing that it reinspect an additional 7.5 percent of the sample properties, where that would be another 108 properties, to provide additional assurance that the property standards have been met. And the Department expects that these reinspections will extend into June 2003. We'll see how HUD responds to that.
The balance of the issues the Department was in general agreement with. I'd intended on just commenting to that effect and touching on a couple of highlights, which I can still touch on if you'd like, or we can proceed. I'm not sure what we have going this morning, but -- let me -- I'll go ahead and proceed because this is just a moment.

Issue 256 on page 5 of 10 -- you'll notice that $45,000 has been returned in questioned costs relating to this issue. The project files reviewed by the Department staff on the remaining applicants were all determined to be eligible. The balance of the contract has been terminated in this case because of low activity relating to the -- to this HOME activity.

The Department's moving forward and amending the LURAs as discussed on 258, page 6 of 10 -- moving forward on amending those LURAs and the inappropriate provision that slipped into them.

They're also in the process of reviewing compliance with the Model Energy Code and accessibility requirements discussed in issue 260 on page 7 of 10.

And the reason I wanted to rush through this was because the soft cost issue discussed on reference -- at reference 268 on page 10 of 10 has been a difficult one
that we need to be spending probably more time with on this.

There's considerable disagreement about the very levels of documentation necessary to support soft costs. And the Department's trying to arrive at a conclusion regarding what is acceptable.

HUD's corrective action requires that we support all program costs incurred for 1999, 2000, 2001. And this could certainly be a significant effort trying to document that and possibly a significant liability to the extent the Department's not able to document it. I had no further comments on the HUD issues.

But Beth might though -- Ms. Anderson.

MS. ANDERSON: Mr. Chairman, let's talk about this one just a little bit more because of the, you know, large dollar amount and implications of that involved.

So we have done -- if I read this status correctly we've done some research and given that to HUD in that rather massive response there. Are we trying to give them a sample of the -- what we call research here, which I think is documentation, to see if they will accept that as sufficient before we try to go and provide similar documentation for all the -- for the rest of the -- are we trying to sort of see what they'll -- you know, what they
find acceptable so that we don't spend a lot of time churning up a bunch of research and then they throw it all out? Is that sort of the strategy?

MS. CARRINGTON: Yes.

MR. GAINES: We've provided documentation to HUD of different types of documentation we receive in support of soft costs.

MS. ANDERSON: Okay.

MR. GAINES: I believe that we may be a little bit short of saying, This is what we propose to you, HUD, as being an acceptable minimum level; do you agree? And I think we kind of need that so we'll know what level of documentation to pursue in documenting the remaining soft costs.

MS. CARRINGTON: We have been in discussions with them. We have not reached resolution.

MS. ANDERSON: Okay.

MS. CARRINGTON: And I think David is correct in that we have not gotten to the point where we've said, Okay, this is what we're going to give you; is this acceptable?

MS. ANDERSON: Okay.

MS. CARRINGTON: We do have some meetings coming up with HUD where this will be one of the issues. So we
will be continuing to address them.

        MR. GAINES: On the remaining issues the plans
and target dates have remained fairly consistent over the
last couple of reporting periods to you with just a couple
of exceptions.

        Issue reference 266 on page 9 of 10 -- related
to some need to develop policies and procedures for the
periodic review of the delinquent program loans, the
related collection efforts, and criterion to be met for
writing off loan balances.

        Apparently this has been a little difficult due
to the various need of the programs that loan
administration services loans for. I understand they're
working with the program areas to identify under what
conditions we'll take what actions. And this target date
has been extended to February 2003.

        Issue reference 277 on page 10 of 10 relates to
strengthening the USPS access controls. USPS is the
statewide payroll system used by the Department. And
while access has been restricted to provide greater
control, and, although it's not mentioned in your report
there, compensating controls are now being documented.
Compensating controls help mitigate the risk associated
with this.
They are now being documented and I believe are actually being conducted in a form during our review. There just wasn't documentation to hang our hat on. Those are now being documented. The target date for completion has been extended to the end of the calendar year to formalize these processes -- these procedures -- or these actions in formalized policies -- written policies and procedures.

So I had no other comments planned unless there's any other concerns you'd like to speak to.

MS. ANDERSON: I'd just like to make a comment about David's entire report. I just have to tell you I'm -- and I expect speak for the entire board -- that I'm just so pleasantly amazed and gratified by the obvious progress that's being made in all these areas.

You know, the report on the Central Database and the supporting documentation -- the detailed project plans that are in this board book really does give this board a level of detail to have -- and I hope gives the staff a level of detail to have confidence in the target dates that are presented.

So, you know, that's very, very fine work. Good work on the deployment plan and beginning to get that nailed down. I think your solution on the Low Tax Credit
Housing -- or the contract log -- you know, from what I've read about that -- makes sense and it gave you a solution to that, you know, in probably a more timely fashion and in a way that's workable for the people that use that log.

So I just want to applaud David. I know you, and the functional user team, and the technical team --

MR. GAINES: Of course, a lot of them are here today -- the leadership of the team -- of the team --

MS. ANDERSON: That's right.

MR. GAINES: -- the project team, our functional team sitting scattered throughout --

MS. ANDERSON: Right.

MR. GAINES: -- so they've all been --

MS. ANDERSON: You all have clearly made a tremendous amount of progress on a, you know, very complex undertaking that we're undertaking.

The only question I have in that area is, on the Low Income Tax Credit data input, which is this massive, you know, data input task, have we -- and, you know, have we given any thought to, even before April the first, trying to sort of pilot some entries so that we can validate the basis of estimate?

MR. GAINES: Actually, we have people working on it right now.
MS. ANDERSON: Okay.

MR. GAINES: Isn't that correct? Is that right. We have had -- I don't even know if it's called pilot. Once we find a person available for a day or two --

MS. ANDERSON: Right.

MR. GAINES: -- they're entering projects.

MS. ANDERSON: So that we can get a sense, does it take a half a day per development or --

MR. GAINES: And there's been -- depending on the file we were comfortable with half day. Since that someone has said, Gosh, you know, it's taking this person a day each on three files, you know. And then we're back -- you know, we're hoping with experience --

MS. ANDERSON: Right.

MR. GAINES: -- we'll get that at least within a half a day.

MS. ANDERSON: Well, anyway, just I think the redefinition of scope around the -- you know, what's external deployment in the compliance module, what's, you know, external deployment, you know, versus readiness.

MR. GAINES: Right.

MS. ANDERSON: Yes, I think those are good changes, too. And I just -- moving through, good report on the inspections fees -- obviously hard work by staff.
And I think a show of good faith on the part of the development community that our collections have been as successful as they've been.

And the audit issues -- of course, we love it when the outstanding list is going down and the resolved implemented items is moving up. So just --

MR. GAINES: Yes, ma'am.

MS. ANDERSON: -- I know it takes a lot of people to make all that happen. But it's just another indicator that the agency's on the right track.

MR. GAINES: And at the next meeting I'll have the pleasure of introducing my newest professional staff member that's coming on Monday.

MR. GONZALEZ: Good job.

MR. GAINES: Thank you.

MR. GONZALEZ: Any other issues? (No response.)

If not, I'll entertain a motion to adjourn.

MS. ANDERSON: So moved.

MR. BOGANY: Second.

MR. GONZALEZ: Second. The motion is seconded.

All those in favor?

(A chorus of ayes.)

MR. GONZALEZ: Audit Committee meeting is adjourned.
(Whereupon, at 9:15 a.m., the meeting was concluded.)
CERTIFICATE

MEETING OF: Texas Department of Housing and Community Affairs Audit Committee

LOCATION: Austin, Texas

DATE: November 14, 2002

I do hereby certify that the foregoing pages, numbers 1 through 32, inclusive, are the true, accurate, and complete transcript prepared from the verbal recording made by electronic recording by Sunny Peer before the Texas Department of Housing and Community Affairs.

11/24/2002

(Transcriber) (Date)

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