TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

AUDIT COMMITTEE MEETING

8:30 a.m.
Thursday,
October 9, 2003

Waller Creek Office Building
Room 437
507 Sabine
Austin, Texas

COMMITTEE MEMBERS:
VIDAL GONZALEZ, Chairman
ELIZABETH ANDERSON
KENT CONINE

STAFF PRESENT:
EDWINA CARRINGTON, Executive Director
DAVID GAINES, Director, Audit of Internal Audit
SUZANNE PHILLIPS
EDDIE FARISS
TIM GOURIS
CURTIS HOWE
DELORES GRONECK
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MR. GONZALEZ: I'll call the Texas Department of Housing and Community Affairs audit committee to order. And the first order of business is the roll call. Vidal Gonzalez is present. Beth Anderson?

MS. ANDERSON: Here.

MR. GONZALEZ: Shad Bogany is absent. And Mr. Mike Conine?

MR. CONINE: Kent. Mike Gowans.


Okay.

MS. ANDERSON: You can call me Ray.

MR. GONZALEZ: Mike. Kent. Whatever. Okay, David. I hope I get you right. We do have a quorum.

MR. CONINE: You're right, Vidal Sassoon.

MR. GONZALEZ: We'll go to the approval of minutes, dated May 29 of 2003.

MS. ANDERSON: I move approval.

MR. GONZALEZ: We have a motion. Do we have a second?

MR. CONINE: Okay.

MR. GONZALEZ: All those in favor?

(Chorus of ayes.)

MR. GONZALEZ: All opposed?
MR. GONZALEZ: The motion carries. The minutes are approved. Now we go to Mr. David Gaines for item number two, presentation, discussion and possible approval of fiscal year 2004 annual audit plan.

MR. GAINES: Mr. Chair, committee members, and Ms. Carrington. We have a couple of people -- or several people from the information services division that are here to hear the status of the central database project.

So I'd like to, if I may, turn you to the last agenda item. If I'm not mistaken, I think these guys have other things going on as well. And so I might just want to address that, and get on to what -- their real work, I guess.

So I appreciate you being here, and a couple of -- people back in the back. If you will, just the last agenda item which is -- get my material laid out -- last tab in the sixth series. Six B-7.

First off, I'd just like to mention -- first again, I'd like to, before we get started, mention a status meeting we had yesterday with Ms. Anderson, and Curtis Howe, Walt Vega, Bill Dally and Ruth Cedillo and I, we met, went into great length on this project, spent most of the afternoon doing so.
And I believe it was a very worthwhile and productive meeting, and most beneficial for us. And I just want to express our appreciation to Ms. Anderson for her interest and support in this project, and taking the time to do that with us.

For this reason and the fact that the contract system is substantially complete, I don't have a whole lot to report. And you can look at the percentages there in the summary event chart.

We expect full implementation of the module in November. And with this implementation of the contract system module, the department will be able to account for the HOME funds from HUD, the original source, to individual funds, to individual draws, as the funds are disbursed, including the accounting of allocations to regions, activities, set-asides, to the contract level.

And tracking will be by program and state year with expiration dates associated with those funds. Subgrantees will be submitting their draw requests online via a web based interface and will be able to create and maintain their own budget information on that budget line detail; balances for each of the contracts will be maintained.

The department, in summary, is just real
excited about this milestone. With the contract system in place and the compliance monitoring tracking system in place, a substantial portion of the department's central database will be in production.

Speaking of the compliance and production module, excuse me, compliance and monitoring tracking system module, one thing I wanted to do was just to reiterate that the department is in the process of bringing property managers out in the field, onto the system to enter tenant data online.

So they'll be entering the tenant data from the field, and the portfolio management and compliance division is using the system for automated compliance checks. And I mention this because it continues to comes to my attention periodically that there are even people within the department here that are not fully aware of that.

And that's a great success. And I wanted to point that out, specifically point that out.

MR. CONINE: Can I stop you?

MR. GAINES: Yes, sir.

MR. CONINE: Just to bring my own self up to date here? When you say tenant data, are you talking about all the from this point forward, future projects

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that we put into inventory or are we going back and doing all the bond deals and tax credit deals and rehab deals that we've got on the books.

MR. GAINES: If I'm not mistaken, that was the product of this major data collection and data entry effort we just went through.

MR. CONINE: All the historical stuff.

MR. GAINES: We've loaded that historical data in connection with that department line project.

MR. CONINE: Okay. Thanks.

MR. GAINES: And once the contract system is in production, departments can take a short break to assess where we're at to date. It's going to conduct a very serious post-mortem with the intent of identifying opportunities of how we can even be more effective going forward, and reassess its strategies to ensure that the information system development is in alignment with the user needs and the business goals of the department.

And with those summary comments, I'd just like to open it up for discussion, or any questions. I might be able to answer them, and if I'm not, we'll certainly have people here in the audience that can.

MS. ANDERSON: Mr. Chairman. I want to commend people on the IS steering committee that have been
providing support for this project now during the development phase and also commend Curtis and Walt and their team in the IS department.

    I think one of the significant things I learned yesterday that I did not know is that Walt and his team designed and wrote this contract module without using really the help of the contractor who had been involved before. I mean, this team of internal developers really did the design and the development work and we think we got all the bugs, knock on wood, out of it.

    And it's ready to go into production. And that's quite a contrast from the initial release of the compliance system that was built under the leadership of a contractor that was very buggy when released.

    And a lot of this effort over the last year has been to get the bugs out of the compliance system that was built by the contractor. And do some additional things so that the two systems, the contract system and the compliance system would work together.

    And now that that good work is about to be implemented and taken live, then the remaining modules, you know, ought -- because we'll have a consistent architecture -- ought to go a little faster and certainly be more reliable when they're implemented. So I just
really want to commend Curtis and Walt and the steering committee.

We had quite a discussion yesterday and I think David summarized for you the challenges of governance of a large IT project like this, and it's very important. And I would sort of like to go on the record that it's very important that all of the business users stay really engaged with this.

Because IT doesn't make the decisions for the department. IT's role is to get aligned with the business, and that means the business has to participate in developing the requirements, signing off on the requirements, and being accountable for that sign-off, and as Suzanne's and other people have done, participate in the acceptance testing of the product.

So the business really has -- this is not an IT project. This is an information solution to help move this agency forward. And so the sustained commitment and involvement of the business users is critical to the success of this. Thanks.

MR. GAINES: I would like to clarify a couple of comments just made. And actually, I would like Mr. Howe to clarify those comments.

MR. HOWE: Good morning, Chairman, members of
the committee. I am Curtis Howe, information systems
director. I did just want to make one clarification on
the design of the contract system. Our contractor did
participate in the design of the contract system, but we
developed the system from the ground up.

MS. ANDERSON: Okay, fine. I misspoke.

MR. HOWE: Thank you.

MS. ANDERSON: It's still a very great job you
have done that with our internal team.

MR. CONINE: You have to be very leery of those
software systems people. You know, they are a little
suspect sometimes.

MR. GAINES: Okay, let's turn back to the first
agenda item behind Tab Six A.

MR. GONZALEZ: By the way, that was item 3 (g)
on our agenda.

MR. HOWE: Okay. I didn't realize we had two
different sets of numbers here.

MS. GRONECK: You must have your audit -

MR. GAINES: Okay. I must have the wrong book.

But we'll work through this.

MR. GONZALEZ: Do you want mine?

MS. GRONECK: It's ten six -- for you, David.

MR. GAINES: Okay, here's an agenda. I think I
can do this. The same information, different references. So I'll move very slowly as I fumble through the information in that.

MS. ANDERSON: You don't have to do that.

MS. CARRINGTON: Oh no, David. Not slowly.

MR. GAINES: Very deliberately. Item 3 (a) in your materials. Three -- that's the 2004 annual internal audit plan. And no, excuse me. Let's go to action item number one. Number two.

MS. ANDERSON: Number two.

MR. GAINES: Yes. We're going to the first action item after the last minutes. Which is discussion and possible approval of the internal audit plan for fiscal year 2004.

And the Texas Internal Auditing act requires that an annual plan be developed based upon risk assessment processes. And the division uses nine different risk factors, applies each one of those factors to the auditable unit.

So the department, we've tried to align those auditable units with the recent reorganization, including the multifamily financing, the family financing and portfolio management compliance divisions, as well as significant functions of the department and operations.
including activity such as support services, data services, human resources, facilities and support, payroll disbursements, purchasing, grant accounting, cash receiving processes, the legislative strategies, the community affairs division. These are all auditable units.

For each of those auditing units, the internal auditing division scores different risk factors based on the division's historical knowledge of the agency, information solicited from management and the board, as well as from the external auditors, including the state auditor's office, KPMG and Deloitte and Touche.

With this input, and the risk assessment process we're proposing in this plan to you, you'll notice the first two projects are carry over projects from last year. The objectives that first to review, is the review of the draw processes.

How to determine the draws are properly accounted for, adequately supported, and in compliance with the department standards. The project was originally selected because of the inherent risks associated with the cash disbursements, as well as risk factors relating to the reorganization, such as the complexity of the operations, new management taking on responsibilities, the
adequacy of controls, i.e. policy and procedures needing to be developed.

All that would come about as a result of the reorganization and consolidation of that function. The reasons that this project is being carried over is that last year more time was expended than anticipated in developing and understanding of the processes, I believe. In part, this was a function to speak; at times, was a moving target because of trying to -- the division trying to come up with standardized policies and procedures on this. There's been significant changes resulting from the reorganization and with it being -- I believe that moving target is somewhat stabilizing at this point.

Additionally, a staff person in the internal auditing division was assigned to the project, and the challenges she had in a new environment the people to talk to, the people with information. And the challenges associated with a new staff person getting orientation towards our policies -- internal policies and procedures has been the challenge that I probably should have better expected that I didn't.

And the remaining tasks at this point include selecting the sample, testing that sample and evaluating.
the results and generating the report. The next project relates to an internal auditing division fulfilling its obligations under the state agency internal audit forum.

You might recall that we had a peer review of our division in the latter part of 2002. The report was released to January, February of this year. It's now our turn to reciprocate, or it's been our turn to reciprocate those services.

I included budgeted amounts in last year's plan. The Association of State Internal Auditors didn't call on those services last year. I'm quite confident that they will this year.

We've been getting requests for information such as when is the last time you contributed and they're looking for people. Again, the original 100 hours allocated to that project were consumed by various activities, including in no small part, I underbudgeted the time involved with the Board by approximately 200 hours last year.

And so a lot of that was consumed -- I look at it very globally. A lot more time was spent with the Board than originally anticipated.

The next proposed project is review of the department subrecipient monitoring function. To date, the
internal auditing division has requested and received from management questionnaires relating to their program monitoring responsibilities.

And based on a review of these responses to the questionnaires and a review of the related policies and procedures, we will continue to further assess the risk associated with particular monitoring responsibilities and of particular programs.

And based on that assessment, we intend to conduct a review to determine whether adequate monitoring procedures are in place that will add some reassurance that the subrecipients of the high risk programs are complying with the high risk requirements. High risk requirements of the federal regulations program rules and contract terms.

And the final audit project plan planned for this year is follow up on prior audit issues. And all of you are aware the division has always tried to report the status of audit issues, and we've independently followed up on them as they related to the audit objectives of projects approved in our annual audit plan.

This project is a little bit different in that we'll be independently following up on those prior audit issues that have previously been reported by management as
implemented that have not had that independent follow-up by either internal or external audit. In that case, as we do most of our work, we'll risk-strength [phonetic] those issues.

And we'll start at the top of the list, and work our way down, until we feel like we've addressed the most significant ones. The remainder of the proposed audit plan are the ongoing activities of the division, and I'll let you just scan over those.

And open it up to any questions you might have relating to the plan. And if the board will want to approve the plan, adjust it or not.

MR. CONINE: I move for acceptance of the plan.

MS. ANDERSON: Second.

MR. GONZALEZ: We have a motion to second. All those in favor say aye.

(Chorus of ayes.)

MR. GONZALEZ: All opposed?

(No response.)

MR. GONZALEZ: The motion carries.

MR. CONINE: And we have some discussion.

MS. ANDERSON: I just want to -- let me just ask a clarifying question. I certainly support approval of this plan. On the subrecipient monitoring, one of the
things that -- I don't remember which audit it was, the community affairs audit.

The SAO audit. You know, one of the things, and I think you and I talked about this -- I'm curious if this is in scope, you know, sometimes the -- at times -- I don't know how to word this.

The audits that are -- the A133 audits for the programs that meet that $500,000 threshold, or when they're not subject to an A133 audit, whatever kind of annual audits that these agencies have done for them sometimes can give us some early warning of things that we want to be paying particular attention to, with respect to their administration of our funds.

And so I wonder if the scope of that audit involves looking at, as part of our monitoring function, how do we monitor these grantees. The audits, the A133 audits coming in, as I recollect, the audits would, you know, the process was that the audits would come in.

They'd kind of get passed off either into a file or sent to Suzanne, and I was not comfortable at the time when we had the initial review, and this may have been remedied since then, that we were taking advantage of the audits that were coming in, and properly reviewing those for any immediate follow-up we ought to be doing.
with the grantees. So I would just ask that we consider putting that in scope of this.

MR. GAINES: I'd consider that an integral part of the monitoring function, including the draws. In fact the draw project, there may be some dovetail going on with subrecipient monitoring. But between single audits and draws, field visits, desk reviews, technical assistance, those would be considerations within the audit.

MS. ANDERSON: Thank you.

MR. GAINES: Behind Tab 3 (b) is the annual internal auditing report of the internal auditing division. And this is a required report of the division. The format and content is prescribed by the state auditors office and is required to be distributed to the Governor's office, the legislative budget board, the state auditor's office, and the Sunset Advisory Commission.

MR. CONINE: Are you on 3 (a)?

MS. ANDERSON: 3 (a).

MR. GAINES: 3 (a). I'm sorry.

MR. CONINE: Thank you.

MR. GAINES: The report is currently marked as draft and is pending the final approval of the plan you all just approved. With that approval, we can finalize
this letter and distribute it by the end of the month when it's due. I'll just walk you briefly through the report, highlighting the content.

The first couple of pages are the transmittal and contents pages, then on page 1 of the report, the internal auditing plan for the last year, ending August 31, with explanations for deviations from the plan, which I have discussed with you in connection with the current plan. Most of the deviations, there's one additional one that is not rolling over to the current plan.

The additional deviation relates to the review of the department's fees for the second project you see listed there on page 1. This plan has been cancelled, based on our assessment of the risk.

The primary reasons for this project related to controlling as is identified in the construction and inspection fees and billing collection processes. While these weaknesses have since been resolved, relating to those concerns, they related to the department extending credit by paying for inspection fees, and the risk associated with seeking reimbursement from those development owners, the accounting and reimbursement of that.

These risks with associating -- with extending
credit and then seeking payment or reimbursement for credit were not identified as they relate to other significant fees for the department. All other such fees are collected prior to or at the time of service.

Additionally, in connection with it, the manufactured housing division fee review, which we'll discuss momentarily, we determined that adequate processing controls are in place once received by the department's accounting division. Accordingly, we didn't feel it was of value to continue with this project, and we did not include it this year's plan as a carryover project.

And that's something that I want you all to be aware of. Possibly I should have mentioned during approval of the plan, in case you wanted to include it. But at this point I don't see the value of it.

Beginning on page 3 of the report, it's a brief discussion about the internal auditing division's most recent quality assurance review, which was in August 2002. And that review resulted in fully complies. Fully complies, which is the highest rating that can be assigned to reviews such as that.

Beginning on page 4 of the report is a listing of audit findings and recommendations for the current year.
and the status of each. While you realize there is separate reports of the internal auditing condition that provides you with periodic updates on the status of these issues, this will give you a good overview of the issues issued this last year.

MS. ANDERSON: I have a question about this section of the report. And this is on page 7 of 23, relating to the housing tax credit program.

MR. GAINES: Housing tax credit?

MS. ANDERSON: Yes, it's on page 7. My question is about the current status column, second paragraph, where there is a discussion about building an interface between I guess it's an interface between the multi-family access database and CMTS. Is this the interface we were talking about yesterday that's in the three step scope of work that's been put out for competition?

MR. GAINES: Yes, ma'am, it is and as we discussed yesterday, that's up for discussion and consideration of options.

MS. ANDERSON: I just want to be on the record that I think we ought to be very cautious about building point to point interfaces between systems. And I hope that we can, rather as part of building the housing tax
credit module, build the data into the database that
compliance needs and not write a special purpose
interface. I really think that that is something we ought
to think real hard before we embark on that.

MR. GAINES: I realize you interest and we'll
keep you apprised of the status of that. The balance of
these issues are issues we discussed in the normal course
during prior audit issues, so I don't see any need in
going into them.

On page 20 of the report is a copy of the
department's organization chart and what they're looking
for here is, where the internal auditor is located within
the division. They're looking to see that our report to
the governing board, and you'll see the dotted line
represented my administrative relationships with Ms.
Carrington and the agency.

Page 21 provides information on other
activities of the internal auditing division this last
year, and the impact we believe those activities had.
I'll just refer you to that information.

And finally, on page 23 of the report, is the
plan just approved. Okay. The next report item, if
there's no further discussion on that --

MR. CONINE: Do we need to move for approval on

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that?

MR. GAINES: No, that's a report item.

MR. CONINE: Okay.

MR. GAINES: The next agenda item 3 (b) is the internal auditing report relating to controls over fee collections of the manufactured housing division. And I just wanted you to be aware of this report. I'll refer you to the executive summary.

Generally, we found that fees are properly authorized, supported and collected. Management has established controls to ensure its cash receiving processes effective in safeguarding cash receipts from the point of receipt until they're submitted to the department's accounting division for deposit.

And that the cash receiving process is operating efficiently, resulting in timely processing and deposit to the state treasury. We did notice some opportunities for improvement, and that relates to the timeliness of clearing amounts posted to a suspense account.

Upon initial receipts were posted in a suspense account pending processing, further documentation. As of the end of March 2003, there was over $350,000 in the suspense account, residing in this account, between 160
and 180 days old. And until that's cleared, we don't know what the revenues are.

It's actually reported on financial statements as a deferred-type revenue found on the balance sheet. The program also needs to improve its quality control procedures to reduce errors and improve timeliness in the processing of titles and license applications.

We found several exceptions to that. Overall, considering the volume of transactions, I don't believe it's a real significant error, and that's why we're concluding overall, generally, controls are adequate. They have the processes in place.

There needs to be some improvement on its quality control reviews to ensure those processes are happening as intended by management. And finally, updating their standard operating procedures to reflect the existing system processes in place relating to the use of their automated systems, division's organizational structure, job responsibilities and titles.

This report will be carried to the Manufactured Housing Board which, I believe, is later this month. October 20, if I'm not mistaken. Management was receptive to the recommendations and are in the process of taking corrective actions on those.
The next agenda item, 3 (c), is another internal auditing report that has been recently released and this relates to controls over the construction of housing tax credit developments or HTC developments. Controls to provide reasonable assurance that developments actually delivered under the program conform to the construction specifications relied on by management and department's governing boards in its award decisions.

I want to point out that the period of this audit was prior to the reorganization and some of these issues have been addressed and are maybe in the process of being addressed as a result of that reorganization.

The report is being presented to you in management recognizing this condition, but also as a source of information to act on, if it's not done so in connection with the reorganization.

Notice found that improvements are necessary in the design of the control systems during the construction phase of HTC developments. Including the need to expand the independent construction inspectors' contract performance statements to include consideration and verification of development.

Brick and mortar-type specifications such as number of units being constructed, unit sizes, number of
bedrooms, bathrooms, development amenities. Really, other scoring criteria that's considered in the approval of these projects.

Additionally, the oversight of these contract inspectors needs to be formalized, how that's going to work and how we're going to ensure they're performing as we intend for them to.

And you can see that on several issues, management has taken corrective action already. On others, they are in the process of doing so. We'd be glad to open that agenda item up for further discussion.

MR. CONINE: Now, on the contracting inspectors, are these our own, or are these the ones that are currently being used by the financing source?

MR. GAINES: During this time period, it was our own. Since then, of course, the strategy is, whenever possible to use the inspectors of the first lienholder's primary lender.

MR. CONINE: So we're trying to communicate to those people we're interested in seeing that the project simulates what was submitted on the original proposal from each one of them. Is that correct?

MR. GAINES: I would say extending these considerations to this strategy, what would relate would
be that we're satisfied that those first lienholder inspectors are accomplishing the inspection functions we're trying to accomplish. And of course, there's going to be additional criteria than we typically look for. And that being program specific criteria that they may not necessarily be interested in.

MR. CONINE: Where's the demarcation between as we go through the construction process and as we get into compliance? How do we make sure we pick up, other than just bricks and mortar, how do we make sure pick up, say, social services as a for instance on the compliance side?

MR. GAINES: The special needs type of services?

MR. CONINE: Yes. Again, in an application, generally they say that so and so is going to provide such and such service.

MR. GAINES: And that would be during the affordability period and that is the responsibility of the compliance portfolio management.

MR. CONINE: But compliance has the little box on the form to check and make sure that's there?

MR. GAINES: That is not within the scope of this item, but I understand they do verify those services are being provided.
MR. CONINE: Okay. Thank you.

MR. GAINES: Yes, sir.

MR. GONZALEZ: Did Tom have a comment, or you looked like you --

MR. GAINES: Would someone like to elaborate on that?

MR. GOURIS: We also required that at cost certification that we have a contract, for a services contract in place.

MS. PHILLIPS: And to also clarify, Suzanne Phillips. We in the compliance shop under Sarah Newsom, we perform the very first official inspection of the affordability period before we issue the 8609.

And that includes a review of the accessibility, the lease up criteria. Whether they're complying with the Section 8 guidelines that we've set forth.

Whether they've officially met their first year minimum set-aside. So we do a full screen of the occupancy requirements and generally, the construction requirements that they have attested to in that final validation.

MR. CONINE: So what do you do when there are supposed to be 72 units and you go out and count 64?
MS. PHILLIPS: We would toss that back and make a determination, passing it back through the department, whether or not they got the official okay to do it. And then make the determination whether we release 8609s.

MR. CONINE: Okay.

MS. PHILLIPS: Generally, it's things other than fewer number of units. Like the units not being accessible, or if it's a rehab, not meeting health and safety codes.

MS. CARRINGTON: The ultimate penalty, of course, is that we would reduce the amount of credit allocation.

MR. CONINE: Or -- forget about the penalty. We don't want to get into that right now.

MS. CARRINGTON: And we will do that, Mr. Conine. If they told us one thing, and delivered something else, we'd take that obviously, very seriously.

MR. CONINE: Okay.

MR. GAINES: Closely related to that, in the report we mentioned, at that time there wasn't a definition of material deviations in number of units. And management --

MR. CONINE: One. One would be material in my mind.
MR. GAINES: Well, the last QAP says all material and I think your guidance is certainly warranted in the recommendations. We need to quantify what we mean by material. And that's in the report as well.

MS. ANDERSON: Well, I would like to -- I don't know how we'd define it, but Mr. Conine's far more qualified to assist in definitional elements. But I think it would be important for this board to know if we have developers who are trying to operate in our state that are having trouble keeping their commitments to us.

MR. GAINES: Behind Tab 3 (d) -- we'll move on, if there's no further discussion there -- is the report recently released by HUD. And this report's called a rental integrity monitoring review, or RIM of the Section 8 program.

The review is described as a focused and detailed assessment of the department's income and tenant determinations. And before I touch on a summary of the issues noted during the review, I would just like to note a concluding comment in the transmittal letter.

And HUD commends the staff's knowledge of the program and their efforts in maintaining well-organized tenant files and just communicating an appreciation for the openness to the suggestions and recommendations.

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And if you will, on the first page are the bulleted issues. And I'll briefly touch on the issues surrounding those. If you'll turn to page 3.

And before I get to page 3, on the first page, it discusses systemic issues and HUD defines those as there are corrective actions required of the department that the recalls be resolved and all related files be corrected. So having said that, the first four issues we're talking about are systemic issues.

The first one relates to a lack of verification of public assistance and other income. There's various types of verification that you can use, but you need to apply them in a priority order. The order of priority is third party written verification, third party oral verification, a document review, and then a family declaration.

And so as you proceed to each threshold, you need to thoroughly document why the previous one wouldn't suffice. And there are several exceptions noted. And HUD's corrective action, as you might guess, is to properly verifying documental income sources, assets and deductions in determining eligibility.

The next two issues relate to data problems and would not necessarily affect the eligibility. In one
instance, the application used by the Section 8 improperly displays the lesser of the payment standard of gross rent in a particular field that HUD captures.

    And in the second instance, the department is not reporting food stamp income or excluding it in a particular field, which causes the total amount of income to be improperly reported. In both these cases, the department needs to take corrective action and ensure that entry reporting requirements are properly satisfied.

    The next issues, as you go on to page 5 of the report, relates to the department not verifying, properly verifying immigration eligibility. And HUD's requiring the department to of course, do that for all non-INS citizens.

    The fifth issue relates to the concern that the department's doing a strong criminal background check to certify that they put those in a locked file, I understand. And since the report, those have been destroyed and will be, once their useful purpose has been served.

    Now, on page 6 of the report, HUD reports various file documentations and the need for increased quality control relating to file documentation, and provided the department with the summary of each file
noted with exceptions described, and discrepancies or inconsistencies in the file.

And it's asked that the department take corrective action with those files. And I understand that the department is in agreement with those issues and is in the process of resolving them.

MS. ANDERSON: Has the agency written its response letter to HUD?

MR. GAINES: I believe it's been extended until tomorrow, and it's the intent to release that.

MR. FARISS: We have a letter ready for signature.

MS. ANDERSON: I would like to have a copy of that letter. Electronic is fine. As it goes out.

MR. FARISS: And just for your information, all of those, we have implemented corrective action on all of those, all of the findings, including having access to the INS system so we can clarify alien status and correcting the 500.58 Form and implementing a new procedure to ensure that we are able to get for you income verification.

MR. GONZALEZ: Excuse me, could you come up to the microphone so that Penny can get it?

MR. FARISS: I'm Eddie Fariss, Community Affairs Division Director. And I was just mentioning that
we have implemented corrective action on all of the items, all of the findings in this RIM review, including the implementing a new procedure to gather third party income verification.

We corrected the 500.58, so that we would be able to gather the information that they were talking about. The food stamp income, we now have access directly to, I'm sorry, the food stamp issue was a matter of including the food stamp income and then backing it out. So we have begun doing that.

And then the fourth one was the INS issue, which we now have access to, which we didn't have before. So we're verifying that in-house and as David mentioned, all of the criminal background files have been destroyed. And so as soon as income is verified, income eligibility is verified, that file is destroyed. So we do have a letter that's ready for signature to go out to them.

MS. ANDERSON: May I ask a question.

MR. GONZALEZ: Yes, you may.

MS. ANDERSON: On page 6 of the report, they're talking about developing an internal quality control system and supervisory review system. They're offering it as a suggestion, most frequently implemented quality control to have a supervisor or the most knowledgeable
occupancy person rework a sample of cases performed by other staff.

MR. FARISS: Right.

MS. ANDERSON: Is that recommendation something that you all think was a good idea?

MR. FARISS: Right. And yes, we've revised the SEMAP quality control checklist. This is how we responded.

In August 2003, the department expanded and began using the SEMAP quality control checklist to include a more detailed review of the contract package. The regional coordinator will review and sign off on each section. The program coordinator or section manager will review the same sections, and sign off. So a double check.

MS. ANDERSON: Okay. Great.

MR. FARISS: Thank you.

MS. CARRINGTON: Mr. Chairman, if I might. We will provide a copy of that response to all of the board members.

MR. GAINES: Thank you, Eddie. Okay, the next agenda item, 3 (e), is another HUD monitoring report on the emergency shelter grant program. And I'd just like to refer you to the final paragraph, on the transmittal
letter, for this agenda item.

HUD reports that the results of the review is no findings or concerns. The paragraph goes on to state:

Overall, our conclusion is that the state of Texas' performance in implementing the emergency shelter grant program is excellent.

And I'm sure management will be glad to discuss that in great length, if you all would like to go further.

MS. ANDERSON: Great report.

MR. GAINES: Okay. The next four tabs relate to prior audit issues. And I thought it would be of some value to recap these issues by the reports that generated them.

Additionally, there's been several questions by you and executive as well, relating to the HUD Section 8 report, August 2000 -- excuse me, September 2000, where we had reported those issues as implemented; however, with the SAO report released in June 2003, there were several referred to as the department needing to take further corrective action.

So I thought it would be worthwhile just to generate the entire set of issues relating to this report to highlight where we're at on those. And so behind the first tab relating to the prior audit issues, just see
that there was 17 issues reported there.

I guess you'd see it if you counted each one. But if you'll just scan through the current status, you'll see that they are reported as implemented except for the last one on page 8 of A, which we'll discuss momentarily. And these issues have been considered by management as implemented for some time, now.

In the June 2003 report, the SAO reported that continued corrective actions needed to be taking place on six of the seven issues being followed up on, due to various exceptions noted, relating to their issues in their final review. And our management believes that it's established -- well, I mean, it's believed that it has established adequate proposed systems for these issues prior to SAO review.

It's also agreed to enhance its quality and control review procedures to provide further assurance in minimizing the related areas. The remaining issue relates to the department establishing a family self sufficiency program which is on page 8 of that series of issuance. HUD has approved the department's request for an extension for the FSS program outside of Houston area and the department continues to work with HUD on an action plan for within the Houston area.
MS. ANDERSON: Mr. Chairman, I had a couple of questions about this one. When, you know, I've heard about this family self-sufficiency plan over and over and over and over again, every few months for the last couple of years. When do we expect to have some real progress on this?

MR. GAINES: I'd have to turn that over to management?

MS. ANDERSON: When is the action plan? I guess, more specific, when is the action for the Houston area going to HUD for approval? Perhaps somebody ought to give me some background on why it takes so long.

MS. CARRINGTON: As Eddie Fariss is coming to help me out here, I can tell you that for several years, the department's approach to this has been to request a waiver from HUD for the implementation of the family self sufficiency program.

And we have been successful in receiving those waivers from HUD but have taken a look at our operations around Houston and Brazoria County and made a determination that there were sufficient vouchers in that area, and the local operator with substantial capacity to be able to develop a family self sufficiency program in that area.
I think the biggest challenge for the department is that some of these local operators may administer six or eight vouchers. So they are very scattered. It's very fragmented.

And so it's been difficult for us to require them to develop such a program. Now, to address Brazoria County and the time frame on that. Eddie, do we have a time frame?

MR. FARISS: Well, no we don't. But we, you know, the Section 8 staff is working directly with the HUD staff to develop a plan that will be acceptable to them. They didn't establish a deadline for us to submit that plan.

MS. ANDERSON: Well, we ought establish our own deadline. And I understand that we used to ask for waivers, and I would say, why are we running a Section 8 program without a family self -- I mean that's -- I think a family self sufficiency program is an important part of being a PHA.

And if we don't have the capacity to develop one, then maybe we shouldn't be administering the vouchers in that area. And the Houston housing ought to prevail upon the Houston Housing Authority to take those vouchers from us.
But I mean, this thing has been sitting out here as a finding since September of 2000. And I'm also distressed when I see on David's reports where target date and it's NR NR NR, which is, according to his legend, is no response to status update request was received.

So when do we think that staff and HUD will have this plan in shape, in the shape that HUD would approve it?

MR. FARISS: I don't know, but I certainly –

MS. ANDERSON: A month? A year?

MR. FARISS: I think it will be less than a year. My guess is within the next 30 days. I haven't been directly involved in the discussions between staff and HUD.

So I'm not sure what they have expected us to do. It's only recently that they provided the exceptions statewide, excepting the Houston area. So it's fairly recently that we have begun discussing that plan with the Fort Worth HUD staff.

MS. CARRINGTON: We believe that within 30 days that we can get this submitted and approved by HUD.

MS. ANDERSON: That would be -- that's great.

MS. CARRINGTON: We will report to you at the November meeting.
MS. ANDERSON: Okay. Thank you.

MR. GAINES: Next tab, 3 (f), relates to the outstanding HOME issuance. I believe you're pretty much familiar with these issues since the last report to the board.

The department continues to work on resolving the remaining outstanding issues. The most significant event since the last update to the board has been a letter to TSAHC, providing direction for resolving these issues with reference to the amounts of cost that will be questioned and that must be returned to the department if the issues are not resolved.

The response was received to that letter from TSAHC last week, and if I'm not mistaken, the department's not thoroughly satisfied with that response and is in the process of providing a follow up letter to that.

I wasn't really planning on going into any great detail on this, unless you'd care to on a particular issue or issues.

MS. ANDERSON: I would like to have a copy of the correspondence that TSAHC, sort of the chain of correspondence, maybe after you, if you say you're writing another letter back to them.

MR. CONINE: I'd like that as well.
MS. CARRINGTON: We will provide that to all the board members.

MS. ANDERSON: Including their letter back to us.

MS. CARRINGTON: Our deadline, the department's deadline for response back to HUD, I believe, is December 31 of this year. So what we have been doing is we have been working with TSAHC is giving them some dates that are obviously prior to our December 31 date, so that we can include all of their responses.

And clear as many of these findings for HUD, to HUD's satisfaction, as possible, in our response due to HUD on December 31.

MR. GAINES: The same tab, 3 (f)(c), relates to the current status of the issues that resulted from the recent SAO report, the community affairs programs of the department. And since this was a fairly recently released report, I wasn't planning on spending much time here, other than saying that management appears to be addressing the issues.

Five of twelve of the issues have been reported as implemented. Brief status updates are provided there, with your information. And I'd also like to point out that several of the target dates have moved up.
As management works on these issues, and as they further considered the dates, I think there might be a couple that after due consideration, were pushed back a month or two as well. But it looks like a conscious determination on what's reasonable.

And the issues behind the final tab there, on the prior audit issues are four miscellaneous issues from three different reports. Three of these have been reported as implemented and the remaining issues is issue reference 266 on page 1 of 2. Are you all with me on that? Behind 3 (f)(d)?

MR. CONINE: I got you.

MR. GAINES: Okay. This issue relates to the need for the department to implement the policies relating to and procedures relating to review of delinquent loans, advanced collection efforts.

The criteria for writing off loan balances. Loan admin -- the loan administration has been working with the admin [phonetic] staff to generate the necessary management reports, and I understand there's a draft SOP on how this will operate, floating around the department for input and comment.

MR. CONINE: Are we getting cooperation from our manager service there on this issue?
MR. GAINES: This is primarily single family loans on the HOME homebuyer assistance program, is what this is directly relating to. The same issue probably extends to other types of loans and activities. I'm not sure to what extent there's been work with our services on that.

MR. CONINE: Well, I think that my view of the world, and this is a global statement and so not necessarily specific to this. But we should be actively involved in monitoring all single family loans, whether they are mortgage revenue bond programs, down payment assistance programs, et cetera.

Because there's a synergism between the work that we do here. And if some counseling needs to take place, or some assistance needs to take place, to those first time homebuyers, then we should be able to catch it as quickly as possible, obviously before a house goes into foreclosure. And I would endeavor management to try to see that we can attain, get to that status or to that level as quick as possible.

MR. GAINES: The next and final tab. And that's assess the central database. I don't think there's any further discussion.

MR. CONINE: We just talked about that.
MS. CARRINGTON: Mr. Chairman, I would like to go back to something that David really kind of glossed over. I think it's worth noted saying again, in that the quality assurance review that was performed at our internal audit department last summer and the report came out, I think in December, January, February of this year where our internal audit division is quote highly regarded and received the highest out of three possible ratings, in this fully complies. And I would like to commend David Gaines and the internal audit division of this department in this very commendable rating.

MR. GAINES: Thank you, Ms. Carrington. The support from you and the board has allowed me to get to this point. Thank you very much.

MS. CARRINGTON: Thank you, David.

MR. GONZALEZ: I don't believe there's a need for executive session. So we'll entertain a motion.

MR. CONINE: Mr. Chairman?

MR. GONZALEZ: Yes.

MR. CONINE: I don't see this on the agenda, but I thought you might want to discuss the football game that was held out in Lubbock on Saturday night?

MR. GONZALEZ: No, we do not want to discuss that. It's not an agenda item.
MS. CARRINGTON: And our general counsel is sitting out there.

MR. CONINE: Gee. I can't talk about it.

MS. CARRINGTON: In just a minute, you can.

MR. GONZALEZ: Do we have a motion?

MR. CONINE: Move to adjourn.

MR. GONZALEZ: Do we have a second?

MS. ANDERSON: Second.

MR. GONZALEZ: All those in favor say aye.

(Chorus of ayes.)

MR. GONZALEZ: The motion carries. The audit committee meeting is adjourned.

(Whereupon, at 9:50 a.m., the meeting was concluded.)
CERTIFICATE

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

LOCATION: Austin, Texas

DATE: October 9, 2003

I do hereby certify that the foregoing pages, numbers 1 through 47, 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.

10/23/2003
(Transcriber) (Date)

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