TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

AUDIT COMMITTEE

8:00 a.m.
Thursday,
December 11, 2003

Waller Creek Office Building
Room 437
507 Sabine
Austin, Texas

COMMITTEE MEMBERS:
VIDAL GONZALEZ, Chairman
SHADRICK BOGANY
BETH ANDERSON
SHADRICK BOGANY

STAFF PRESENT:
Edwina Carrington, Executive Director
David Gaines
Eddie Fariss
# A G E N D A

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## ACTION ITEMS

**Item 1** - Presentation, Discussion and Possible Approval of Minutes of Audit Committee Meeting of October 9, 2003  

**Item 2** - Presentation and Discussion of:

- (a) HUD Section 8 Rental Integrity Monitory Review  
  
- (b) Status of Prior Audit Issues  
  
- (c) Status of Central Database  

## EXECUTIVE SESSION

## OPEN SESSION

## ADJOURN
MR. GONZALEZ: Call the meeting to order.

We'll start off with the roll call. Beth Anderson?

MS. ANDERSON: Here.

MR. GONZALEZ: Shad Bogany?

MR. BOGANY: Here.

MR. GONZALEZ: And Vidal Gonzalez. All three members are present. And then we will solicit public comment at the beginning of the meeting, and we'll provide for public comment on each agenda item made after the presentation by Department staff, and motions by the Committee. Any public comment?

(No response.)

MR. GONZALEZ: Okay. If not, then we'll go to Item number 1, which is the presentation, discussion and approval of minutes of the Audit Committee meeting of October 9, 2003.

MS. ANDERSON: I move approval of the minutes.

MR. BOGANY: Second.

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

(A chorus of ayes.)

MR. GONZALEZ: All opposed? Motion carries.

We'll go and call on Mr. David Gaines for report items and
Item 2. Let's start off with the HUD Section 8 Rental Integrity Monitoring Review.

MR. GAINES: David Gaines, Director of Internal Audit, for the record. Good morning, Chair, members of the Committee, Ms. Carrington.

If I may, I think I'll turn us to the last agenda item, Status of the Central Database. We have, I believe, several people in the audience that are here specifically for that, and that way they won't have to sit through the rest of us. That's behind -- well, it's the last tab in the 8 series. It'd be behind Tab 8(c).

Now, I hope as an auditor, I'm not too dry this morning. I went over for water and ended up with coffee out of that pitcher, so we'll see how that goes.

Note the first report in that section is the Summary Status, and you'll note that Compliance Monitoring and Tracking System is reporting as complete. The last report to the Committee was indicated at 99 percent. This remaining percentage related to completing the industry rollout. And since the last report to the Committee a final deployment letter has been issued to the Department's third party business partners discussing the Department's expectations on the use of the CMTS. And with that letter, the system is considered fully deployed
and implemented. Any questions relating to the CMTS sponsor?

MS. ANDERSON: It's a great milestone.

MR. GAINES: It's a great milestone. We're excited about that, and we're excited about the next one as well. You'll see that the contract system is being reported as 98 percent complete. That was as of the November 20 status report. Since that time, this module has moved into production. That was December 3 it was moved into production.

This module basically allows the Home and Housing Trust Fund programs to distribute and track funds from the original funding source to HUD, General Revenue Funds, to the program’s region activities, identifying specific set-asides. The tracking of the funds by source also includes expiration dates of those funds, when they’re no longer available for use and no longer available for --

A history of all transactions against any of the funds will be maintained, and includes the top transaction date amount, the typical -- by whom, comments, any associated comments. The module provides stability for the program areas to set up contracts in the system associating the contracts with organizations and persons
involved in the development and execution of those contracts. It tracks the leveraging and use of funds for individual contracts, ability to create activities within the contract, maintain budgets, including balances as funds get strong, deobligated funds, refunded funds, program income.

Over all the system is the accounting of the monies. It allows the subrecipients to create their own budgets online and maintain those.

And the work completed within this module included the design work relating to the energy assistance and community services programs. That was the design work, the actual development of those modules, that's not anticipated until subsequent releases, at which time, of course, we'll confirm the goals, ensure they are in alignment with the business needs of those programs.

Additionally, any functionality offered by the module relating to the tax credit program, the -- program and bond programs, will be fully designed and developed in connection with those modules. The basic architecture and foundation for those are in place.

There were considerable challenges associated with the development of this module, relating primarily to changes in turnover and functional staff, partially as a
function of just normal turnover, and partially as a
function of the reorganization. And this turnover caused
some questions of and adjustments to the original
strategies and the requirements; however, the module is
now in production, and we're all real happy about, and
excited about that.

Any questions relating to contract system
monitor? There are a few in the back here, functional
users and technical team that did a lot of work.

MR. GONZALEZ: Yes?

MS. ANDERSON: Mr. Chairman, as someone who has
been both a supporter and an irritant in this process, I
want to thank the many people in IS and throughout the
divisions of the agency that have made this possible.
This is a huge step forward. And I'm also very pleased to
see that there's a post-implementation review plan.

This is really best practice in the information
systems industry to then take a step back, look at what we
did well that we want to do in the future, and continue to
do, and what we might do better, so that we have the
benefit of the lessons learned. So I think that's a sign
of a very mature IS and user organization to undertake a
post-implementation review like that.

So congratulations on going live, and
congratulations on implementing best practices in our IS division.

MR. GAINES: And I would like to just compliment that. I don't think the involvement by the functional users can be underappreciated. Those that stepped up to the line spent considerable time working on the project with ISD. And those that stepped up created voids, if you will, that other people had to fill -- not directly on the database, but contributing to the overall effort.

So it was a great effort. We're all really pleased to do that post-mortem, and since you spoke to that, I'm going to skip that portion of my speaking points.

You'll next notice a series of activities relating to contracted services. And these services are from the design work relating to the Department's single audit function, program monitoring, 8609, and construction inspections, and screening report enhancements to the central database.

Further deliverables include a multifamily needs analysis, a business process improvement analysis, and design specifications for entering and maintaining the multifamily post-award data. And you'll note that the
contract services relating to the program monitoring is 90 percent complete, as of the date of this report. And since then, I understand that's fully complete in management's review. These services relate to developing and documenting the specifications relating to single audit program monitoring 8609 in Construction Inspections, building that functionality into the database.

The next line on Contracted Services relates to enhanced compliance testing. It's being reported as 30 percent complete. These services relate to the design work applicable to performance improvements of automated testing functionality of multifamily properties during the affordability period. And this has come about in part from regulatory changes and in part from enhancements identified since CMTS went into production.

These were funds that were appropriated for the buying in, for the CM test modules, pursuant to our buying or operating plan that we tried to forecast a year and a half, two years into the future. And so we're now working through that, have funds available for those purposes.

Contract services identified as housing tax credits/CMT process improvements relate to analysis work on the housing tax credit Microsoft access database that's currently in use. That's to determine the best
recommended process for transferring the application and award information from that access database to the CMTS, and to provide any associated design specifications as necessary. It's to evaluate options.

These services also include analysis of the business processes for the purpose of designing business rules, and for handling and processing the housing tax credit records from production to CMTS, both manual and electronic records.

The work is expected to be performed between now and the end of February 2004. The TDHCA business and technical leaders are working together with the staff and contracted services to ensure that the deliverables align with the business goals of the project -- are within scope and receive complete review and approval.

The contract services relating to CMTS reports is for the purpose of completing and analyzing design work of in-house management reports and risk assessment reports from the central database. Other reports are for management tracking information purposes, and to implement an expanded risk assessment program pursuant to Senate Bill 322, and will offer comprehensive information from CMTS and the contract systems.

Contract will be collecting the reporting
requirements from department staff, define the specifications reviews, which will be provided to the information services division for further consideration and development, as considered appropriate.

Any questions on contracted services?
(No response.)

MR. GAINES: Just briefly, the next item is the post-implementation review. We'll thoroughly look at what went well over the life of the contract system, what did not go so well. And I think there's quite a few items in both those categories. We'll assess the risk up front, have mitigating controls in place to ensure that we don't repeat our same mistakes; we learn from them. And we're excited about that.

Right now we're in the process of looking at the project charter, refining that with special emphasis on the composition, roles and responsibilities of the key players, including the steering committee, the project sponsor, the project manager and project team leaders and team members on both the technical and the functional teams. Accountability will be established in the project charter, and each of the key players will acknowledge that by agreement.

The remainder of the summary plan is just a
very high-level overview of the remaining modules to be
developed and a lot of those brief descriptions there for
the goals of each of these modules. Those goals will need
to be confirmed with the business users as we approach the
factual development of those modules.

At that time, the detailed plans identifying
the goals, the purpose, resources, milestones and time
lines will be developed and be brought back to you, and
you'll be briefed on an ongoing basis going forward as we
approach things.

The balance of that summary report is just
overview descriptions of each of the areas we're working
on, and the last two pages in that section relate to
status of funds reports. One relates to the status of
funds for the central database project, which is one
appropriation, and the other is status of funds relating
to capital outlay for CMTS.

On the central database portion, you'll notice
at the top of the page the funds appropriated for the
current biennium. No funds have been obligated as of date
and will not be, until we've gone through the
functionality requirements and design of the multifamily
program module.

The bottom half of that page is the historical,
and it's just merely for informational purposes. At some point we may drop that from teacher reports. It's pretty much water under the bridge at this point.

The status of funds for the CMTS reports funds appropriated for the contracted services I just spoke of. You can see by note 2 the amounts that have been obligated to date for those services. And you'll be provided regular updates going forward relating to status of funds.

Any further questions on the status of the central database?

(No response.)

MR. GAINES: Well, great. I'll take that as a good sign.

Let's move back to Tab 8(a). This is a copy of the HUD Section 8 Rental Integrity Monitoring Review, and management's responses. This report was actually included in the October 2003 board book, and we briefly discussed the related issues. It's being brought back to you at this time because, at that time, we did not have management responses with the report. And of course now you have both the report and the responses.

Management is in general agreement with all the recommendations. They're currently in process of
implementing the recommendations. Some of them have been implemented. I would be glad to provide you a summary of each of those, or we can touch on them in connection with the status of prior audit issues. It's the pleasure of the Committee. We will be touching on that prior audit issues, so that would be my suggestion.

Which is the next agenda item, behind Tab B. And if it pleases the Committee, I'll just kind of walk through these, try to group them where reasonable, touch on the highlights. Even though I am planning on touching on just about all of them, some of them will be in a grouped fashion.

The first issue relates to Issues 187 on the first page. And this is the remaining issue identified by HUD in their September 2000 monitoring report. It relates to the family self-sufficiency plan. A plan has been developed for the Houston area. It was submitted to HUD in November, and the Department is waiting on HUD's response. Accordingly, this issue is classified as action to delay, and that's delayed pending response from HUD.

An exception -- a correlated or related issue was a family self-sufficiency plan the area outside of Houston, which the Department has obtained an exemption on.
MS. ANDERSON: Mr. Chairman, I have one question about that.

MR. GONZALEZ: Yes.

MS. ANDERSON: Does the plan -- or, in the plan, are we contracting with one of our existing local community providers that we have a relationship with? Is that sort of the general approach?

MR. GAINES: I think I'll let someone from management speak to this. Eddie Fariss is in the audience, Director of Community Affairs.

MS. ANDERSON: Curiosity has always got me, Eddie.

MR. FARISS: Good morning. Eddie Fariss, Director of Community Affairs division.

The plan is to use available services in the area, including our primary local operator. They have a family self-sufficiency program, and we will be coordinating with them, as well as those service providers in the Houston area. There's a lot of available services. Our plan is not that specific. It is a general plan in which we say we will do that kind of coordination. Once they approve that plan, we will work on those kind of specific details.

MR. GAINES: Thank you, sir.
The next four issues, beginning with 253 on page 2 relate to the HUD monitoring review of the home program.

In summary, these issues relate primarily to properties of beneficiaries served under an agreement with Texas State Affordable Housing Corporation that have been identified as substandard. These properties were identified as substandard by HUD on their inspections, or by the Department as a follow-up to their report.

And for each of the properties identified as substandard, they were to be brought up to standard or the HUD home funds were to be refunded from non-federal funds. TSAHC, or Texas State Affordable Housing Corporation, has refunded $155,474.27 to the Department on December 3, which represents the amount of the home funds that were refunded from no-federal sources for those properties identified as substandard, and for those properties that had not been brought up to standard.

This relates to 19 home beneficiaries, and the amount may increase through December 15. And this is to allow additional time for these beneficiaries to notify TSAHC or the Department that their properties are substandard, or that there's ongoing deficiencies that need to be corrected.
My understanding is that this amount is to be refunded to HUD by the end of the month. I just in the last few minutes saw a letter from the Department to HUD indicating such. And so by the end of the month, we're hopeful that this refund, with some additional documentation that's been requested by HUD relating to the program monitoring function and the construction and inspection, will fully resolve these issues. We are very hopeful of that.

This amount just recently refunded is in addition to over $1,000,000 that's also been refunded, relating primarily to the program income, and other subsidies provides to beneficiaries that were not fully correct.

MS. ANDERSON: Mr. Chairman, if I might a comment.

MR. GONZALEZ: Yes, please.

MS. ANDERSON: I would like to thank and acknowledge several of our staff that have worked with TSAHC over the last six or seven months. I mean, as David has said, we've collected a little over $1.1 million over the last six or seven months. And basically, that group has been headed by Ruth Cedillo and Suzanne Phillips and Sandy Mauro, and have worked long and hard with the TSAHC
folks to resolve these issues and either get the money, or
to get the other issues resolved. So I want to
acknowledge staff.

MR. GONZALEZ: Great.

MR. GAINES: Yes, ma'am.

The next issue, 266 -- this is on page 9 --
relates to the need for the Department to develop and
implement policy and procedures for the periodic review of
delinquent program lines and related collection and write-
off efforts. And this issue has been reported as
implemented.

We next have a series of issues beginning on
page 10 -- issue 306 -- and these issues relate to the
remaining open findings resulting from the State Auditor's
review of the Department's Community Affairs program. And
I'll briefly touch on those issues, primarily focusing on
any of those that have had an extension of their target
date for completion.

Issue 306 relates to the need for the
Department to determine eligibility of weatherization on
its multifamily properties. While procedures have been
developed to ensure eligibility going forward, the target
date has been extended to February -- the end of
February -- to allow additional time to assess eligibility
for existing properties. And this delay has come about primarily resulting from the Department's waiting on response from information from four of the subrecipients. And at this point I'm not sure if that's come in, but as that comes in, the assessment of the existing properties will be completed.

Issue 307 was extended, as you can see, to January '04, the first of January. And that's to align with the implementation date of a new policy issuance that is requiring the subgrantees to determine annual income based on a 90-day period, rather than the formerly acceptable 30-day period that the Department's been using.

Issue 313 on page 12 is the Family Self-Sufficiency Issue we previously discussed. You might think we have too many auditors when they're reporting each other's issues, but we'll go to the next one.

Issue 314 relates to the Department conducting a thorough cost-benefit analysis to determine whether Easy Auditor Alternative Software -- that's also available as the way to go for the weatherization program -- and if the Department was to decide to continue its use of Easy Audit to enhance the software it incorporates some control measures that the State Auditor's Office was recommending.
And management -- the energy assistant is satisfied with the cost benefit and the value of using Easy Audit, and is in the process of enhancing that software. The target date was extended to 2/29 due to different bugs that were detected during the testing of the enhancements, and this additional time will allow time to fix the enhancements, test the corrections, and to provide training on the use of the software.

Issue 315 on page 14 is a three-part issue relating to missing electronic signatures on the electronic contracts. The need to obtain an alternative site agreement for information processing in the event of a disaster, and the need to ensure the accuracy of the information entered into both Genesis and then again separately into the accounting system.

And I wanted to bring your attention to the Department's intentions relating to the SIL [phonetic] recommendations on obtaining written signatures for all our contracts. And the Department intends to obtain those signed contracts for the open contracts, however, believes that the risks associates with closed contracts is minimal. It's very small, and therefore doesn't --

(Pause.)

MR. GAINES: And so we are not planning on

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obtaining those for the closed contracts. Otherwise the
Department is on track to meet the 1/31 target date last
reported to you, with the exception to obtaining an
alternative data processing site.

So really, that 1/31/04 date should be
reflected the end of February, which allows the
information systems division additional time to consider
its options relating to the alternative site agreement.
And they hope to -- plan to have that fully resolved by
the end of February. I think they maybe have been busy
with some other things lately.

Issue 316 on page 15 relates to the
Department's need to provide technical assistance on the
IT system controls, and to monitor subrecipients to ensure
that they have adequate controls in place. So this is the
recommendation. What are we doing to ensure that our subs
have adequate IT controls in place to ensure the integrity
and availability of the data?

And the target date has been extended to
1/16/03 on this, and this is to allow additional time for
the community affairs division to issue a policy issuance,
and for the information systems division to provide
training to the monitoring staff and to prepare them for
the monitoring of IT controls.
Issue 317 relates to ensuring priority populations are being adequately served, and this issue is being recorded as implemented.

And the next six issues, beginning through 20 there on page 16, relate to the RIM, or Rental Integrity Monitoring review I spoke of a little bit earlier. The first of those relates to the need for the Department to obtain third party verification to verify income levels.

The Department is taking corrective action and is in the process of updating its administrative plan. And the target date is to allow completion of that administrative plan [indiscernible] corrective actions have been taken.

The next two issues relate to data entry problems. And while there were some data entry problems, they did not affect the eligibility of the Section 8 beneficiaries. The Department has taken corrective action to ensure accuracy going forward. However, we're classifying that status as action delayed, since the Department is waiting on a response from HUD regarding its request that the existing files be corrected as they come up for their annual re-certification, as opposed to correcting those files immediately. We'll wait to hear what HUD has to say about that proposal.
The next three issues on page 18 are being reported as implemented, which is the balance of the Rental Integrity Monitoring review monitoring issuance. So we're making good progress on that.

And then the last two issues beginning on page 19 related to controls over the construction phase of tax credit projects. And the first issue is being reported as implemented. And this is basically an issue relating to having controls in place for the construction monitoring function during the construction period. And then as projects move into development, those controls will be applied.

The second issue relates to that, except the management information systems. And it will be considered in the development of the central database. The 3/1/04 target date you see there for that issue is the expected completion date of the requirements gathering phase of the multifamily module.

Any questions on the status of priority issuance?

MS. ANDERSON: I have a couple of questions.

MR. GAINS: Yes, ma'am.

MS. ANDERSON: On issue 315, the third part of it, which is about ensuring accurate information, the
automated interface between CSAS [phonetic] and Genesis, et cetera -- there's a comment that ISD is going to develop some reports to assist with the reconciliation process. And it sounds like they're clearly dependent on accounting and community affairs to provide those requirements.

So I guess my question is, do we have a reasonable level of confidence that we're going to get detailed requirements in time for ISD to have the time to be able to hit the proposed resolution date? I mean, it requires teamwork with two divisions.

MR. GAINES: Right. I know the areas have been working together on that, and I would assume so. But if anyone would like to specifically speak to that --

MS. ANDERSON: I would just encourage our user community to make sure that they work effectively with ISD so that we give ISD the amount of time it needs to make the changes so we can get this into production. Takes two to tango.

MR. GAINES: It looks like our information systems director is nodding, and I know he's been working with the community affairs program. Yes, ma'am.

MS. ANDERSON: That's it. Thanks.

MR. GAINES: Okay. Great.
MR. GONZALEZ: Any other questions?

MR. GAINES: That's my planned speaking points for the day, and I'm at the pleasure of the Committee.

MR. GONZALEZ: Any other comments?

MR. GAINES: Thank you.

MR. GONZALEZ: If there's not any other business to come before the Board, then we'll entertain a motion to adjourn.

MR. BOGANY: I move.

MS. ANDERSON: Second.

MS. ANDERSON: Motion, second. All those in favor?

The motion carries.

(Whereupon, at 8:40 a.m., the meeting was adjourned.)
CERTIFICATE

MEETING OF:   TDHCA Audit Committee Meeting
LOCATION:    Austin, Texas
DATE:        December 11, 2003

I do hereby certify that the foregoing pages, numbers 1 through 26, 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.

12/22/03
(Transcriber) (Date)

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