

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
AUDIT COMMITTEE MEETING

6:10 p.m.
Wednesday,
May 12, 2004

Waller Creek Office Building
Room 437
507 Sabine
Austin, Texas

COMMITTEE MEMBERS:

SHADRICK BOGANY, Chairman
PATRICK GORDON

STAFF PRESENT:

EDWINA CARRINGTON, Executive Director
DAVID GAINES, Director of Internal Audit
EDDIE FARISS, Director of Community Affairs
CURTIS HOWE, Director of Information Services
CHRIS WITTMAYER, General Counsel

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P R O C E E D I N G S

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2 CHAIRMAN BOGANY: On this day, May 13 [sic],
3 2004, at the regular meeting of the Audit Committee of the
4 governing board of the Texas Department of Housing and
5 Community Affairs, held in Austin, Texas, the committee
6 adjourned and had a closed session, as evidenced of the
7 following. Opening announcement, the committee will begin
8 executive session on May 13 [sic], 2004 at 6:11 today.

9 The first action item, we need approval of the
10 Audit Committee minutes from March 11. Can I get a
11 second?

12 MR. GORDON: Second.

13 CHAIRMAN BOGANY: Okay. Any discussion on it?

14 (No response.)

15 CHAIRMAN BOGANY: Do you have any thoughts on
16 it?

17 MR. GORDON: No, it's satisfactory.

18 CHAIRMAN BOGANY: Okay. All those in favor,
19 say, Aye.

20 MR. GORDON: Aye.

21 CHAIRMAN BOGANY: Aye. It passes.

22 The reported items now that we're going to deal
23 with is item 2. We're going to bring up David Gaines to
24 talk about the statewide single audit report. David is

1 going to talk about the status of the prior audit issues,
2 Section 8. Eddie Fariss is going to talk about the
3 Section 8 family self-sufficient program, and David's
4 going to come back to the status of the central database.

5 David, I'm going to turn everything over to
6 you.

7 MR. GAINES: Thank you, Chair. I'm David
8 Gaines, Director of Internal Audit. Good evening,
9 Chairman, members of the committee, Ms. Carrington. The
10 first agenda item behind approval of the prior minutes is
11 the results of the statewide federal single audit for the
12 fiscal year ended August 31, 2003. If you will, turn to
13 the first page behind the summary of the prior minutes.
14 There's a background and a results section related to that
15 report.

16 The statewide federal single audit is required
17 by federal regulations. Non-federal entities that expend
18 more than \$500,000 in federal funds are subject to the
19 audit. The non-federal entity for the state of Texas, as
20 defined for this audit, is the state of Texas. And so it
21 was an audit of the state conducted by KPMG that
22 contracted with the State Auditor's Office to perform the
23 audit.

24 The auditors select the programs and agencies

1 for audit based on dollars, federal dollars, expended
2 during the audit period and based on risk. The program
3 selected at the department for audit included Section 8
4 Housing Choice Voucher program, the HOME Investment
5 Partnership program, and the Low Income Home Energy
6 Assistance program.

7 While there was a handful of findings here,
8 there's not quite as many as it might appear in the right-
9 hand column of this summary. In this column, that
10 represents the finding numbers, a particular finding may
11 be listed more than one because it falls in multiple
12 categories of the findings. In that respect, the
13 reference number to the findings is following the summary
14 report, in a summary of the findings noted by the
15 auditors.

16 In summary, there were eleven findings
17 resulting from this audit. Seven were related to Section
18 8 program, one related to the HOME program, and three
19 related to multiple programs that involved the accounting
20 division and the allowable cost principles. Of those
21 eleven findings, management's reported that nine have been
22 fully resolved.

23 So I'd like to focus our discussion on those
24 two issues that are still considered open. Before I do,

1 I'd like to just emphasize that while these are considered
2 implemented by management, the department's funding
3 sources still have the responsibility to follow up and
4 accept the department's efforts in clearing these
5 findings. It's not unusual for there to be a year's time
6 lapse. They have up to two years to begin their
7 follow-up.

8 So, accordingly, we classify these as
9 implemented and I think that's reasonable. However, just
10 be aware that as the funding sources go through their
11 follow-up process, they may come back to life. As they
12 follow up, there may be dollar amounts that have to be
13 refunded, if during that follow-up, the funding sources
14 determine that costs are unallowable. The starting point
15 in that determination is the amount of cost questioned by
16 the auditors in their report.

17 For each finding listed, the amount of the
18 questionable costs are identified in the summary, as well
19 as, of course, in the overall report, which follows the
20 summary. What actually follows the summary findings is an
21 extract that I'm not going to go into. It's an extract
22 applicable just to the department. The report itself was
23 over 230 pages.

24 Of the two issues remaining open, one of them

1 relates to the implementation of Family Self-Sufficiency
2 Program. That's a separate agenda item. So we'll speak
3 to that separately.

4 CHAIRMAN BOGANY: Okay.

5 MR. GAINES: The other remaining issue is issue
6 referenced 342. So if you'll turn to the last page of the
7 summary of federal award findings and questioned costs,
8 it's issue referenced 342. This would be on page 5 of 5
9 of that summary.

10 This issue relates to the department's indirect
11 cost rate. It's used to charge federal programs for the
12 department's administrative and operating costs that are
13 not charged directly to the federal programs. These costs
14 are pooled and based on a percentage rate that's approved
15 by the federal government, those costs can be allocated to
16 the programs and the department can recover the respective
17 percentage.

18 This issue relates to the indirect cost rate
19 that was used during the 2003 period, the period subject
20 to audit, not being currently approved by the federal
21 government. This occurred due to Health and Human
22 Services, the department's federal cognitive agency that
23 approves these rates, ceased being the department's
24 contact, if you will, on August 31, 2000. A new rate was

1 not obtained or approved by the new cognitive agency,
2 which was HUD.

3 Effective November 1, or approximately 15
4 months after HHS ceased being the cognitive agency,
5 they're now again the cognitive agency. So the
6 department's cautiously optimistic that the funding rate
7 that had previously been approved by HHS, and now that
8 they're our cognitive agency again, will be accepted by
9 the funding agencies.

10 As you can see on the target date, we're hoping
11 to find out something on that in short order. By the end
12 of June, there's hopes that we'll start.

13 That's all I really had planned on the single
14 audit. Are there any questions relating to that?

15 CHAIRMAN BOGANY: Yes, I had a couple of
16 questions, David. I wanted to talk a little bit about the
17 material weakness and why did it happen. You know, it
18 involved the utility rate. You just finished giving us a
19 brief on the salary, but I'd like to just kind of get an
20 idea what is a material weakness. What do they mean by
21 that?

22 MR. GAINES: Well, the definition you have
23 there is the auditor's language. In summary, a material
24 weakness is a condition that the auditors believe, if

1 there was an exception to rules, compliance exception laws
2 and regulations, that the exception would not be detected
3 by management during the normal course of business. So
4 that's a circumstance whereby something could go wrong and
5 we wouldn't be aware of it.

6 CHAIRMAN BOGANY: Okay.

7 MR. GORDON: Could you give an example of what
8 that could be?

9 MR. GAINES: Well, the particular one that the
10 auditors concluded were material weaknesses is that
11 there's a utility rate schedule --

12 MR. GORDON: Right.

13 MR. GAINES: -- to adjust Section 8 rents.
14 That needs to be done on an annual basis. For whatever
15 reason, we failed to update that, and the update, and the
16 failure to do so, at least in the auditor's mind, we were
17 not aware that that condition had come and gone. So
18 there's a circumstance whereby we had a problem and we
19 weren't aware of it.

20 CHAIRMAN BOGANY: What do we put in place so
21 we'll remember to do it next time?

22 MR. GAINES: I'm not real sure what's in place
23 in that respect. I do understand that we have contracting
24 relationship with the people that provided the rate. I

1 believe that changed. I would feel more comfortable if
2 management actually spoke to that.

3 CHAIRMAN BOGANY: Okay. Well, maybe what we'll
4 do tomorrow is, maybe, just give us an idea of what we did
5 to put it in place.

6 MS. CARRINGTON: Eddie Fariss can address that.
7 Eddie's the Director of the Community Affairs area and
8 Section 8 is under his division.

9 CHAIRMAN BOGANY: Okay.

10 MR. FARISS: Good afternoon, Chairman Bogany,
11 and committee, and Ms. Carrington. On that particular
12 issue, the department had contracted with a subcontractor
13 called Nellrod, who does utility allowance reviews for
14 many PHAs. The contract that we had with them had
15 expired, unbeknownst to us, so that the period of time
16 that they had done the utility allowance review for us had
17 expired. When this was identified, we recontracted with
18 Nellrod and we are under contract with them now to do
19 those utility allowance reviews for the areas in which we
20 administer those vouchers.

21 CHAIRMAN BOGANY: So next year, when it comes
22 up, in our new negotiation, are they going to notify us
23 with a letter 60 days out before renewal?

24 MR. FARISS: We will continue to contract with

1 them and be aware of the period of time for which they
2 have provided that information to us.

3 CHAIRMAN BOGANY: Okay. All right. Thank you,
4 Mr. Fariss.

5 MR. FARISS: Uh-huh.

6 CHAIRMAN BOGANY: David, I had another
7 question. What, exactly, are reportable conditions?
8 Could you kind of explain what that is?

9 MR. GAINES: The reportable conditions are one
10 step down, significance-wise, from material weakness.
11 Those are conditions noted by the auditor where they do
12 believe we have a system in place to try to control the
13 issue, but either the design of the control or the actual
14 operation was not operating effectively to reduce that
15 risk to an acceptable level. And so here was something we
16 recognized we needed to do, and either our process that we
17 built was considered deficient, or the actual application,
18 the people using the process were not using it properly.

19 CHAIRMAN BOGANY: Okay. What's the timeframe?
20 Are all these already implemented now? These are not
21 things that are going to be implemented. You have already
22 completed these.

23 MR. GAINES: These have already been
24 implemented. Of the eleven, there were those two

1 remaining ones. One, I just discussed on indirect cost
2 and Family Self-Sufficiency, which is a separate agenda
3 item.

4 CHAIRMAN BOGANY: Okay. Do you have any
5 questions?

6 MR. GORDON: No.

7 CHAIRMAN BOGANY: Okay. Thank you, Mr. Gaines.

8 I would be remiss. I forgot to do the roll
9 call. So we're going to do the roll call so we have an
10 official quorum.

11 Shad Bogany, present.

12 Patrick Gordon?

13 MR. GORDON: Present.

14 CHAIRMAN BOGANY: Norberto Salinas, absent.

15 We have a total of two present, which is all we
16 need for a quorum and we are an official meeting. Okay.
17 I just wanted to get that on the record.

18 Now, at this time, David, I'd like to talk to
19 you about the status of the prior audit issues.

20 MR. GAINES: That's behind tab B. I wasn't
21 planning on spending a lot of time on this agenda item,
22 other than to point out work that management has done in
23 clearing substantially all of these issues. I believe
24 with the two outstanding and the remaining ones here, it's

1 probably the smallest number I've ever dealt with. So I
2 did want to point that out.

3 Of the seven issues listed here, three of them
4 are being reported by management as fully resolved or
5 implemented. Of the remaining four issues, one of them
6 relates to the Family Self-Sufficiency Program, which
7 again will be discussed separately.

8 If you actually do the counting on those,
9 you're not going to get the same numbers I just spoke of.

10 The reason being that two of the issues that I
11 specifically need to speak to are issues 268 and 269, on
12 pages 2 and 3, respectively.

13 As chance would have it, both these issues are
14 being reported to you as implemented -- that's why the
15 numbers won't add up as I spoke to it -- which is not
16 exactly the case. This is a circumstance whereby the
17 auditors did come in, after the audit, during a subsequent
18 year's review, cleared the issues. So they're actually
19 classified in the report as implemented per independent
20 assessment.

21 Since that time, we've received a letter from
22 HUD, recently dated 5/3/04, that these issues are still
23 open. Because of that, implemented is not quite right, of
24 course. So to resolve these issues, on 268, which relates

1 to the auditors noting a lack of supporting documentation
2 for soft costs, HUD is asking the department to provide on
3 or before July 1, 2004, the number of HOME contracts that
4 included soft costs during the 1999, 2000, and 2001
5 program years, to establish a population for further
6 consideration.

7 HUD's also asking for the number of projects
8 included in that population that include soft costs that
9 were monitored, from the respective years, from those
10 three years, that contain sufficient documentation to
11 support the soft costs charged to the contracts.

12 So what's the population? Let us see the
13 monitoring files and review that support cost. Upon
14 receipt of this information, HUD has informed us they'll
15 make a determination as to whether additional action is
16 necessary. We'll have to wait to hear back from them once
17 that information is provided.

18 So, accordingly, this issue needs to be
19 reclassified. I would suggest back in-process, until HUD
20 goes through that process.

21 CHAIRMAN BOGANY: Okay. Now, it's been out
22 there for a year and a half. So at this point in time,
23 when do you see us wrapping this up? I mean, now, we're
24 just sitting waiting on HUD, at this point?

1 MR. GAINES: Well, no, we have to provide HUD
2 information by July 1, relating to how many is in those
3 three years, that had soft costs, and providing
4 documentation as to how we monitored it. So once we meet
5 that, then HUD will have to get back to us for the
6 resolution or action.

7 CHAIRMAN BOGANY: Well, I guess, one of the
8 things that Beth talked to me about is that we, if it's
9 due by July 1, let's not wait until July 1 to get it done.

10 Let's get it done as quick as possible. So at least we
11 can have some time in there. I guess we've got a month
12 and a half to go forward on that, but I guess from my
13 standpoint, it's been out there a year and a half. We
14 need to wrap it up.

15 MR. GAINES: I certainly appreciate that and
16 I'm sure management does, too. On this particular
17 instance, as I was talking earlier, the funding sources
18 have up to two years to follow up on an issue. KPMG
19 actually cleared this issue last year. It wasn't real --

20 CHAIRMAN BOGANY: Okay. So the staff thought
21 it was cleared?

22 MR. GAINES: Yes. It wasn't real high on
23 management's radar list, if you will.

24 CHAIRMAN BOGANY: Okay.

1 MR. GAINES: During the course of my career,
2 there's been instances where the funding source never did
3 come back and follow up within two years.

4 CHAIRMAN BOGANY: Okay.

5 MR. GAINES: So, you know, you kind of do what
6 you can and then you wait to hear from the boss.

7 CHAIRMAN BOGANY: Okay.

8 MS. CARRINGTON: If I might, Mr. Chairman. We
9 are real clear as to what HUD wants to be able to get this
10 finding cleared. Indeed, staff is beginning to work on
11 it.

12 CHAIRMAN BOGANY: Okay.

13 MR. GAINES: The next issue is in that same
14 category, issue referenced 269. It was cleared last year
15 by KPMG during the subsequent year audit. The recent
16 letter from HUD has informed us, this issue relating to
17 the monitoring sub-recipients on the HOME program. HUD
18 has informed us, again by July 1, of some additional
19 documentation supporting the files in question. Once that
20 information is received, HUD will proceed accordingly --

21 CHAIRMAN BOGANY: Okay.

22 MR. GAINES: -- depending on their satisfaction
23 with that information.

24 CHAIRMAN BOGANY: Here, we're saying we'll have

1 this fully implemented by March 2005. Why would it be so
2 far out? Once again, is HUD holding us up before they can
3 start to work on it?

4 MR. GAINES: What you're looking at there is
5 the Family Self-Sufficiency Program.

6 CHAIRMAN BOGANY: Oh, okay.

7 MR. GAINES: Yes, so --

8 CHAIRMAN BOGANY: Okay. We'll talk to Mr.
9 Fariss about that.

10 MR. GAINES: Yes, sir.

11 CHAIRMAN BOGANY: Thank you, David.

12 Do you have any questions?

13 MR. GORDON: No.

14 MR. GAINES: That's prior audit issues. Okay.

15 Let's see. The next agenda item is the Family
16 Self-Sufficiency Program. So I'll turn that over to the
17 Director of Community Affairs, Eddie Fariss.

18 MR. FARISS: Good afternoon, again. Thanks for
19 the opportunity to talk about Family Self-Sufficiency
20 Program.

21 CHAIRMAN BOGANY: I guess one of the questions,
22 Mr. Fariss, I had --

23 MR. FARISS: Yes?

24 CHAIRMAN BOGANY: -- and I was ahead of

1 myself -- why you were projecting March 2005 to get this
2 program? I did read through the program. It seemed to be
3 a great program. Why would it take, in a county like
4 Brazoria that really needs as much help as they can get
5 down there, why would it take so long to get this thing up
6 and running? What do you see are the hazards?

7 MR. FARISS: Well, let's take the opportunity
8 to look at it. You all have a copy of the family
9 self-sufficiency plan that was approved by HUD. Section
10 10 of that provides a time table for program
11 implementation.

12 While March 2005 may sound like a long time,
13 there are a number of things that have to be developed and
14 agreed upon as we work with service providers, as well as
15 Brazoria County welfare department, to be able to actually
16 get clients enrolled in the Family Self-Sufficiency
17 Program and graduated from that.

18 CHAIRMAN BOGANY: Does it normally take a year
19 for a program like this to get off the ground --

20 MR. FARISS: It --

21 CHAIRMAN BOGANY: -- working with the county
22 and coming back and forth?

23 MR. FARISS: You know, I couldn't tell you if
24 it normally takes that because this is the first time

1 we've done this --

2 CHAIRMAN BOGANY: Okay.

3 MR. FARISS: -- but there are a number of steps
4 that we have to take which are sort of sequential in being
5 able to reach that point where we can graduate participant
6 families. We have begun this time table.

7 The approved time table in the plan talks about
8 April 1 through June 30 for developing a position of the
9 Family Self-Sufficiency Coordinator. We have done that.
10 We did have to realign some of the responsibilities within
11 the Section 8 area to free up time for somebody to assume
12 the role of Family Self-Sufficiency Coordinator because
13 that will require a lot of their time negotiating with
14 service providers and Brazoria County welfare department.

15 That person has been designated. Cecilia
16 Arvallo has been designated as that FSS Coordinator. The
17 beginning of this process has occurred. Cecilia and the
18 manager of Section 8, Willie Hurd, have been to Brazoria
19 County to meet with the representative from the welfare
20 department, as well as the Community Action agency that
21 provides services and assistance to low income persons in
22 that county, to begin this process.

23 We have the training of the FSS Coordinator as
24 the next step. Cece [phonetic] is currently in Denver

1 attending a Nan McKay training session. She's a national
2 trainer for many HUD programs, Section 8, and she's doing
3 a family self-sufficiency training right now.

4 We have scheduled May 28 to develop our
5 marketing materials, which will go out to all of the
6 voucher holders in Brazoria County, some 603 vouchers
7 currently under contract or obligated. We mail out to
8 Section 8 participants in Brazoria County the final
9 version of that marketing material on June 11.

10 July 1 through September 30, we'll establish
11 the program coordinating committee. We will be working
12 with Section 8 voucher recipient families. That's what
13 that coordinating committee with consist of. So we will
14 have to go into the area, have meetings with the different
15 families that hold those vouchers.

16 On down, we'll be working with the Department
17 of Human Services to develop a survival skills course,
18 which is one of the required case management services that
19 must be included in the Family Self-Sufficiency Program.
20 We have scheduled October 1 through December 31 to
21 identify appropriate families that might be interested in
22 voluntarily participating in this program. Of course --
23 this was really the end of my presentation -- we are
24 targeting 42 families to ultimately participate and

1 graduate. Of those 603 voucher holders, we're targeting
2 42. We have 42 family self-sufficiency vouchers
3 identified by HUD.

4 Also, during that period of time, we would
5 provide mandatory orientation training to those families
6 that have voluntarily decided to participate in the
7 program, complete the application package. And then
8 beginning in January, those participating families would
9 actually begin the required process of participating in
10 the self-sufficiency program, which would begin with the
11 survival skills course combined with case management
12 enhanced services that we hope to be able to provide in
13 coordination with Brazoria County welfare agency, as well
14 as the Community Action agency in that area, and other
15 service providers.

16 So there's a series of things that we have to
17 develop and put into place, including marketing materials,
18 development of the service courses, recruiting families,
19 enrolling families, and getting them through the beginning
20 part of the training.

21 CHAIRMAN BOGANY: So I think we can kind of --

22 MR. FARISS: So I wish it could go faster, but
23 I think it will take that time --

24 CHAIRMAN BOGANY: It will take that time, yes.

1 MR. FARISS: -- to get to work through all of
2 those steps, to be able to do that.

3 CHAIRMAN BOGANY: Well, it looks as though
4 you're moving, you know, looking at the first quarter, it
5 looks like you're moving pretty good on that end. There
6 may be something that you have implemented before June 30.
7 I just have a brief question.

8 MR. FARISS: Sure.

9 CHAIRMAN BOGANY: If you get ahead of yourself,
10 do you stop and then wait until July 1 again?

11 MR. FARISS: Oh, no.

12 CHAIRMAN BOGANY: Or do you just keep on
13 rolling it on out?

14 MR. FARISS: Oh, no. What I hope that we have
15 done here is to provide us the maximum amount of time to
16 get this implemented correctly, but, as with anything, if
17 we are able to do it faster, we will certainly do that.

18 CHAIRMAN BOGANY: Okay.

19 MR. FARISS: Would you like to hear any more
20 about the substance of the Family Self-Sufficiency
21 Program?

22 CHAIRMAN BOGANY: I read through it. Patrick,
23 do you have any questions?

24 MR. GORDON: No, I read through it.

1 MR. FARISS: There is one thing that I think I
2 need to mention to the committee. It's kind of a wrinkle
3 that has occurred in our moving forward with this. Our
4 plan, as submitted to HUD, was based on our cooperative
5 participation with Brazoria County welfare department.
6 Since that plan was approved by HUD, Brazoria County has
7 been certified by HUD as a public housing agency. They
8 have petitioned the department to release them from their
9 local operator contract which we have with them and they
10 have petitioned the department to relinquish the vouchers
11 that they administer on our behalf in Brazoria County.

12 CHAIRMAN BOGANY: What does that mean?

13 MR. FARISS: Well, part of what that means is
14 we are doing an impact study to see how that will impact
15 the department and the division will provide that
16 information to Ms. Carrington. We will meet and we will
17 decide how we will respond to their request for us to
18 release them from their contract and to relinquish those
19 vouchers. I will tell you that they administer 603 of our
20 total 2,100 vouchers. So that's a substantial number of
21 vouchers that we will be deciding how we'll proceed.

22 Plus, if we decide, or, you know, if the board
23 decides to submit a resolution to HUD to relinquish those
24 vouchers, then we no longer would have an approved Family

1 Self-Sufficiency Program, because it specifically says
2 that we would work with Brazoria County on the vouchers --

3 CHAIRMAN BOGANY: So it could all be for
4 nought?

5 MS. CARRINGTON: Uh-huh.

6 CHAIRMAN BOGANY: All the training, everything,
7 could just --

8 MR. FARISS: As with many federal programs, we
9 have to proceed as if everything is going to work, while
10 we're also, you know, dealing with this --

11 CHAIRMAN BOGANY: Okay.

12 MR. FARISS: -- important wrinkle.

13 CHAIRMAN BOGANY: Well, I think we've spent
14 enough time on that.

15 MR. FARISS: Okay.

16 CHAIRMAN BOGANY: I mean, Patrick, do you have
17 any questions?

18 MR. FARISS: Does anybody have any questions?

19 MR. GORDON: Would you have any alternatives to
20 use anybody else? I guess, you'd have to go back and redo
21 the whole program.

22 MR. FARISS: We would have to redo the -- well,
23 there's a couple of alternatives, I think. One would be
24 to resubmit a plan for approval from HUD or to ask for a

1 waiver in that area, which we've already received a waiver
2 in the other parts of the state. We chose not to ask for
3 a waiver in that area because of the high concentration of
4 vouchers that we administered in the Houston area.

5 CHAIRMAN BOGANY: I have a question. I guess
6 it's towards Ms. Carrington. What's the timeframe, do you
7 think, that we'll know whether or not we're going to ask
8 for a waiver, his alternative plan, plan a, b, or c?

9 MS. CARRINGTON: As Mr. Fariss has said, we are
10 looking at the impact to the agency, from a financial
11 standpoint of transferring these vouchers. We're working
12 on that now.

13 CHAIRMAN BOGANY: Would that be something, off
14 the top of your head, that you would think that we would
15 do? Or have we done that in the past, tried to work with
16 the locals?

17 MS. CARRINGTON: As far as I know, we've not
18 had this kind of request before --

19 CHAIRMAN BOGANY: Okay.

20 MS. CARRINGTON: -- I don't believe.

21 MR. FARISS: Not to this magnitude. Certainly,
22 to follow up with what Ms. Carrington said, we will have
23 to move on this fairly quickly.

24 CHAIRMAN BOGANY: Okay.

1 MR. FARISS: We will have to make a decision
2 fairly quickly.

3 CHAIRMAN BOGANY: Is it their thoughts that
4 they could do it better than we could? Is that the
5 reason?

6 MR. FARISS: I'm not sure if that's what their
7 thought is and I don't know that HUD's thought is --

8 CHAIRMAN BOGANY: Okay.

9 MR. FARISS: -- because HUD would have to
10 approve of our relinquishment of the vouchers.

11 CHAIRMAN BOGANY: Okay.

12 MR. FARISS: The letter from HUD, certifying
13 them as a PHA, did not direct us or request for us to
14 relinquish those vouchers.

15 CHAIRMAN BOGANY: Okay.

16 MR. FARISS: You know, we will have to respond
17 in some way fairly quickly.

18 CHAIRMAN BOGANY: Okay. Mr. Gordon, do you
19 have any other questions of Mr. Fariss?

20 MR. GORDON: No.

21 CHAIRMAN BOGANY: Okay.

22 MR. GORDON: Thank you.

23 CHAIRMAN BOGANY: We're going to now bring
24 David Gaines back up to give us a status of the central

1 database.

2 MR. GAINES: Yes, sir. That's behind tab 5-D.

3 If you will, just turn to the first page past that cover
4 sheet.

5 Since your last status report on the database,
6 you'll notice that your compliance monitoring and tracking
7 system and the contract system that have been moved into
8 production have been moved down to the second page of the
9 report, underneath completed and accomplished. So the
10 format's a little bit different from what you've seen in
11 the past, as far as which issues you're addressing first.

12 On page 1, I'd like to direct your attention
13 over to lines 7 through 11. This is the
14 post-implementation review that was recently completed.
15 This review is conducted by the project team to assess how
16 well it's performed on the development of a contract
17 system that was implemented in December 2003 and to
18 identify opportunities for improvement in the development
19 process going forward.

20 You will note that the review has been
21 completed and the results of the review have been
22 incorporated into the project charter, which is basically
23 a document that defines the governance, roles, and
24 responsibilities of the project team and team members.

1 The highlights of the post-implementation
2 review included both positive and not so positive results.

3 On the positive side, the team began establishing and
4 insisting on users' responsibility and establishing
5 appropriate accountability with appropriate signoffs and
6 approvals. Directors have been demonstrating an increased
7 knowledge of the subject matter and issues management.

8 We changed the process. It has become more
9 effective.

10 The IS staff received good marks on its output
11 and its patience.

12 Let's see. External users of CMTS, our
13 business partners, have been generally receptive to the
14 CMTS contract management tracking system.

15 A closer working relationship between the
16 business team and the IT team has been recognized and is
17 being appreciated.

18 On the not so positive side, the department
19 needs to do more work in clearly defining the project team
20 with clearly defined roles and responsibilities, clearly
21 defining data ownership in the business processes, and
22 improving the management of each, establishing a
23 communications plan to ensure that all parties are on the
24 same page, the business community investing the necessary

1 time in the requirements definition up front, to make sure
2 we're getting a system that satisfies their needs, and
3 staying with the project throughout until the point of
4 implementation, and establishing a director of management
5 for sponsorship of the engagement, more involvement where
6 there's more ownership from that perspective.

7 Again, the responsibilities have been, in our
8 mind, clearly established in the project charter. We've
9 addressed these issues and areas that the project team
10 needs to improve upon.

11 While the charter has been approved by the
12 steering committee, there were portions of the charter
13 where there were disagreements of opinion, differences of
14 opinion, and those portions were not approved. Plans are
15 to work through those differences in short order. We need
16 to work through those and resolve them. The balance of
17 the charter is in place.

18 At the top of the page, you will notice under
19 the first category, CMTS enhancements, contracted
20 services. The line 2, the program monitoring
21 specifications is complete and enhanced compliance testing
22 is substantially complete at 95 percent. The program
23 monitoring specifications relates to the delivery of the
24 design work, relating to the single audit, the program

1 monitoring functions for HOME, contracts, and 8609
2 construction inspections.

3 While the design specs have been complete,
4 development of a module by the IT team is still pending
5 prioritization by the steering committee. It's been since
6 last August since the major modules of the system have
7 been prioritized and this is something that, again, needs
8 to happen in short order. They need to sit back down and
9 reprioritize where we're at on our numerous tasks here.

10 The enhanced compliance testing relates to the
11 Affordable Housing Disposition program, the HOME program,
12 Housing Tax Credit program, Housing Trust Fund, and the
13 bond program. The primary functionality will allow CMTS
14 to perform automated compliance testing of these five
15 programs and generate findings based on individual program
16 requirements.

17 The planned work also includes the 8823
18 automated reporting requirements, but that portion of the
19 plan has been removed due to remaining time left on the
20 consultant's contract that's helping us with this. The
21 8823 is the form that the department uses to report
22 non-compliance to the IRS. While CMTS is currently able
23 to generate an 8823, it's not an automated process. We
24 figured that was something we could live without,

1 considering the resource constraints.

2 On that particular piece, you'll notice it's 95
3 percent, while overall it's 95 percent complete. We're
4 currently in the testing phase, testing the system to see
5 if it's operating as intended, and that phase is 75
6 percent.

7 Line 4 of the status report relates to analysis
8 of reporting requirements for in-house management reports,
9 for CMTS and risk assessment reports for management
10 tracking, and to implement an expanded risk assessment
11 program pursuant to Senate Bill 322, passed last
12 legislative session. From the requirements, the process
13 consultant will be writing specifications to create
14 reporting views. That will be built by the department's
15 IT division, our Information Systems division.

16 The process consultant will be spending the
17 majority of his remaining time on these reporting reviews
18 and working with the Information Systems division in a
19 knowledge transfer project. So they'll be fully up to
20 gear and staffed with all the information he's come by
21 during his engagement.

22 If you'll move down to line 13, we start
23 talking about the multifamily module. This is the major
24 module that the project team has been recently working on.

1 This provides functionality for the Housing Tax Credit
2 program, the multifamily properties of the HOME and
3 Housing Trust Fund programs.

4 The business sponsors of this module include
5 the directors of the Multifamily Finance Production
6 Division, the Real Estate Analysis Division, and the
7 Portfolio Management and Compliance Division. This
8 component will provide the ability to provide post-award
9 information. It is post-award so we won't be, at this
10 time, incorporating the design and development of the
11 application and scoring aspects of the module.

12 Once post-award, we'll be able to track the
13 post-award information, track credit allotments to the
14 state, the allotments to individual set-asides, and
15 subsequent allocations for projects in their respective
16 buildings, identify equitable fractions for each building.

17 The purpose of the allocation is that
18 acquisition, rehab, new construction, provide cost
19 certification functionality, necessary information to
20 issue the 8609s to the IRS, capture necessary information
21 to effectively manage the cost certification process,
22 track the credit from initial allocation to carryover to
23 final issuance into the affordability period. Those are
24 the highlights of the module.

1 You'll note on line 15 that the design phase of
2 this module, actually on line 14, the design phase is
3 completed. However, you also note, on line 15, that
4 approval of this module, approval by the business
5 community of the design specifications is not going to
6 begin until August 13, after the current awards cycle.
7 While this seems to be the best the department can do from
8 a scheduling perspective, it's not really an ideal
9 situation since the consultant who accumulated the
10 requirements and built the design of the modules is not
11 expected to still be under contract.

12 CHAIRMAN BOGANY: So what happens at that
13 point?

14 MR. GAINES: Well, management has taken the
15 precautions to minimize the risk by having the IT staff
16 work with the consultant in accumulating the requirements
17 and the design of the system. I believe, for the most
18 part, there have been two people from IT partnering
19 throughout that process.

20 CHAIRMAN BOGANY: What's going to be happening
21 up here, since it's already designed, and we're waiting
22 until August 13?

23 MR. GAINES: Okay.

24 CHAIRMAN BOGANY: What's going to --

1 MR. GAINES: I've seen the list of to dos by
2 the Information Services Division, but maybe Curtis Howe
3 would be better able to speak to that, Director of
4 Information Services.

5 MR. HOWE: Chairman Bogany, members of the
6 Audit Committee, Ms. Carrington, I'm Curtis Howe, Director
7 of Information Systems.

8 I'll give you a brief rundown of what we will
9 be doing in the interim. This is not the total. I'm not
10 going to go over the total activities of the division, but
11 just of the software development staff that are working on
12 the central database project.

13 As David mentioned earlier, we have two single
14 database modules that are in production for a good amount
15 of time. We have received a number of work orders and
16 change requests on those systems. Our primary
17 responsibility are the developers and there are three
18 developers that work on the central database. We'll be
19 managing those.

20 I don't have a full number of all the change
21 requests. All the change requests go in front of our
22 central database steering committee for approval before we
23 work on them. A change request is a needed enhancement to
24 functionality of the system.

1 To give you an idea of how many we've been
2 working on, we had, in March, 47 contract system work
3 orders and two change requests that were completed. For
4 CMTS, we've had ten different work orders that the staff
5 worked on. Those range from anywhere from a few hours to
6 several days to complete, depending on the complexity of
7 those.

8 So I expect, based on the numbers from March
9 and from April, I expect a good amount of work orders to
10 continue to come in. Development staff will be working on
11 those in maintenance mode for those systems. In addition
12 to that, those same staff will be working on reporting
13 requests and reporting requirements that are ongoing.

14 Outside of that, we have the technical review
15 that David mentioned, that's going to be occurring in
16 June, with the consultant. So that I will be prepared and
17 our database administrator and our software development
18 manager will be prepared to do the functional review,
19 along with staff, since, we'll be conducting instead of
20 the consultant in August.

21 One last note is there is a single audit system
22 enhancement that is going to be going in front of the
23 steering committee this Friday. If that's approved, that
24 will be a substantial amount of work. We estimate 240

1 hours of work on that.

2 CHAIRMAN BOGANY: Let me ask you a question.
3 Unless Patrick has one, I'll be very brief. With the
4 implementation really September 2004, I have a concern
5 that the people who designed this will no longer be under
6 contract. Even though you're working closely with them
7 when you get a bug or a problem, the people who put it
8 together are always quicker to find it and fix it than
9 what your staff could do.

10 It just seems like we may have another push
11 back, because whenever you implement something like this,
12 you're going to have problems, you're going to have bugs,
13 and a learning curve there. It looks like it would be
14 better for us to extend them on a contract until this
15 thing is totally implemented. I just think it's a lot of
16 work on you guys' part and you didn't design it. I mean,
17 you're going in trying to fix things that you didn't
18 design. I'm just curious why we're not extending.

19 MR. HOWE: Well, to clarify one point, the
20 deliverable from the consultant for the multifamily
21 product is not actually a software.

22 CHAIRMAN BOGANY: Okay.

23 MR. HOWE: It's a design spec. It's a written
24 documentation --

1 CHAIRMAN BOGANY: Okay. All right.

2 MR. HOWE: -- which our staff is going to take
3 and code afterwards.

4 CHAIRMAN BOGANY: Okay.

5 MR. HOWE: So what we have to do is confirm
6 with real estate analysis, with the multifamily division,
7 and with the compliance division, that the requirements
8 are absolutely what they need built in the system, before
9 we begin building it. It's much more costly if, as we
10 learned in the past, if begin building the system and
11 there are a large amount of changes that occur after the
12 design that was originally put forth.

13 CHAIRMAN BOGANY: The timeframe that you guys
14 are looking to make this all come together, you feel you
15 can meet those goals at that point?

16 MR. HOWE: I do. We're looking at having
17 the -- we won't begin building the system until after
18 formal signoff in September. Assuming there are no major
19 changes, we will begin the development phase and what will
20 follow is the deployment of the system to the users.
21 Included in that will be testing --

22 CHAIRMAN BOGANY: Okay.

23 MR. HOWE: -- documentation, training. As of
24 right now, we don't have estimates as to how long the

1 development of the system will take, but we're hoping we
2 can have, by the next Audit Committee meeting, an initial
3 estimate based on our technical view with all the software
4 development staff, with our consultant, before the
5 consultant's contract is over.

6 CHAIRMAN BOGANY: Okay. Patrick, do you have a
7 question?

8 MR. GORDON: No.

9 CHAIRMAN BOGANY: Okay. Thank you.

10 MR. HOWE: Thank you.

11 MR. GAINES: You'll note that the remaining
12 modules and work have not been scheduled. While it's very
13 difficult to schedule work that far in the future, and you
14 really don't have a basis for costing out the work until
15 after the design work is confirmed by the users, at that
16 point you have a good basis for estimation, while those
17 are the challenges in budgeting that far out, the project
18 team is going to try to provide a general timeframe when
19 these modules will be occurring. Of course, that
20 timeframe will have to be adjusted as additional
21 information materializes. I just wanted to point that out
22 to explain the asterisk on the remaining modules.

23 That relates to this portion of the status
24 report. The next one is labeled issues risk management.

1 You'll see that the first issue relates to 2001, 2003
2 multifamily data that has not been entered into the
3 database. You may recall the --

4 Are you with me there, Mr. Gordon?

5 MR. GORDON: Where's that?

6 MR. GAINES: That follows page 10 of that
7 summary report.

8 MS. CARRINGTON: Two pages before 6-A.

9 MR. GORDON: Page 10?

10 MR. GAINES: Yes, sir.

11 MR. GORDON: Okay.

12 MR. GAINES: It's three columns.

13 MR. GORDON: Okay.

14 CHAIRMAN BOGANY: The first row, the first
15 issue, relates to entering the 2001 to 2003 multifamily
16 data that has not been entered in the database. You
17 probably recall, not you, Mr. Gordon, but the others, the
18 previous entry effort, which was the Tax Credit data that
19 either resided in the legacy Tax Credit system, AOD, or
20 other Tax Credit data that hadn't been previously captured
21 in an automated fashion. This effort picks up where that
22 one left off.

23 The Compliance Division has taken the lead in
24 developing this plan, to resolve the issue, to get the

1 data entered. While a draft plan has been developed at
2 this point, I believe the Compliance Division would like
3 some input into the plan. That still needs to happen.
4 Currently, the plan calls for ten compliance staff to be
5 entering a file a week, which is approximately five hours,
6 ten people spending over 10 percent of their time per
7 week. With those resources, it extends getting this data
8 into February '05. That's something --

9 CHAIRMAN BOGANY: How much data do we have to
10 put in?

11 MR. GAINES: Well, I'm not sure how many files
12 that is. There might be someone that could speak to that.
13 It is three years worth of data.

14 CHAIRMAN BOGANY: Okay. Then we're going in,
15 three years of data is what's going in here?

16 MS. CARRINGTON: Uh-huh.

17 MR. GAINES: Yes, sir.

18 MS. CARRINGTON: In three different funding
19 areas.

20 CHAIRMAN BOGANY: Oh.

21 MR. GAINES: Is that correct?

22 MS. CARRINGTON: Actually, four funding areas
23 because under the Tax Credits, it probably includes the 9
24 percents and the 4 percents.

1 MR. GAINES: So a draft --

2 CHAIRMAN BOGANY: Will we ever finish this?

3 (No response.)

4 CHAIRMAN BOGANY: I mean, I know since I've
5 been on this board, the central database thing has been a
6 major issue. I don't know if you can tell me if there's a
7 finish to this.

8 MR. GAINES: Well, this is not the answer, but
9 I would suggest that you're probably never through with
10 your standard operating procedures or your systems
11 development.

12 CHAIRMAN BOGANY: Okay.

13 MR. GAINES: You're always finding a better way
14 of doing business.

15 CHAIRMAN BOGANY: Okay. It just seems like,
16 you know, it's a lot of work that's going in. I'm
17 wondering -- is it going to tax staff from other jobs that
18 they're doing, to get this in? I know, from a board side,
19 this is probably one of the most important things to us,
20 is this central database. They need to get this thing up
21 and running.

22 MR. GAINES: I think we're all looking forward
23 to the point where enough of the system is implemented
24 where the board has comfort with the system and the

1 regular reporting may need to be backed off. There's
2 multiple projects going on at any one time.

3 CHAIRMAN BOGANY: Yes.

4 MR. GAINES: This happens to be the one of
5 highest profile. And so we report the status pursuant to
6 the request of the board to get this done.

7 The second issue relates to the need to develop
8 policies and procedures for the entry of multifamily data
9 into the database. Currently, production and real estate
10 have standalone systems that suffice in getting them
11 through their production cycles.

12 The issue comes into play in a downstream
13 division, such as the compliance division and the
14 accounting division that doesn't have easy access to these
15 systems. Much of the data that's needed downstream is
16 either not readily available or it's necessary to enter it
17 into multiple systems, spreadsheets, in order for them to
18 proceed with their responsibilities, which, of course, is
19 not the most effective route, efficient route, I should
20 say.

21 Maybe it's something we have to live with in
22 the meantime, but we have been working on this issue,
23 trying to have a clearer vision materialize on how we can
24 best accommodate this issue and address this issue.

1 That's something, as recently as yesterday, a team met to
2 get a clearer understanding of the issues associated with
3 this, trying to get an understanding of what is the impact
4 on the department for this condition. It's a real
5 challenge until we get the front end, the multifamily
6 module, built.

7 In the meantime, production will be using their
8 systems. To get it into the central database, you're
9 talking about double entry. I guess the other half of the
10 story is we already are double entering it somewhere. It
11 might be further downstream for that to happen.

12 CHAIRMAN BOGANY: Are we going to do any
13 scrubbing of the data, or anything like that, to cut that
14 out?

15 MR. GAINES: Well, one of the things that came
16 out of the post-implementation review was the need to
17 really pay a lot of attention to those scrubbing efforts.

18 To the extent that the legacy data has to come over, you
19 certainly want to do that before you move it into
20 production. We'll have a project plan to make sure that's
21 a thorough process.

22 CHAIRMAN BOGANY: Okay.

23 MR. GAINES: That kind of touches upon the need
24 to clean up duplicate records, the third issue. The

1 reason this has come about, in part, is that during the
2 scrubbing and cleanup of prior data, there was actually a
3 conscious decision, at one point, we had agreed what we
4 wanted migrated to the new system is the current HOME
5 contracts and all other HOME contracts since -- oh, it
6 seems like, I'm not sure I have the year right in front of
7 me here, but for the last three years, all HOME contracts
8 plus all current contracts. That was our original intent.
9 That data was scrubbed.

10 At some point, a decision was made. No, let's
11 go back and pick up all that data. It will facilitate us
12 with our reporting. It will facilitate with this
13 reconciliation to identify deobligated funds. The
14 decision was made to go ahead and move that over, knowing
15 it wasn't previously scrubbed, recognizing when you use
16 and work with that data, that you've got to be on guard
17 and be cautious.

18 Another reason, we migrated legacy system data
19 from multiple systems. That's creating a lot of
20 duplicates. Well, both those can be addressed by thorough
21 scrubbing. It wasn't the best decision and now we're
22 having to pay the price. So that's a strategy that we're
23 currently working through and developing a plan to resolve
24 it.

1 CHAIRMAN BOGANY: Are we making any more
2 decisions, David, that may cause us duplicate labor down
3 the line?

4 MR. GAINES: Not at this point.

5 CHAIRMAN BOGANY: Okay.

6 MR. GAINES: I think we're real in tune with
7 how painful that might be --

8 CHAIRMAN BOGANY: Okay.

9 MR. GAINES: -- how painful it is.

10 The next two issues, just real quick, they
11 relate to training for the contract system and internal
12 documentation. These two are kind of being packaged as a
13 training issue. While training has previously occurred on
14 several different occasions, at least three formal
15 training sessions, the user community feels the need for
16 additional training. In that respect, we need to assess
17 our strategy that we've been using, because to the extent
18 the users feel the need for additional training, they
19 haven't been that effective.

20 And so in that respect we're discussing and
21 planning on strategies such as aligning the business
22 processes with automated systems, completing the user
23 documentation in full, and making that an integral part of
24 the training, involving more user input in the training,

1 and developing the plan; the intent being if we have the
2 user involvement heavy throughout the development process,
3 by the time training comes, they pretty much know the
4 system and they will be the best people to facilitate that
5 training.

6 For the contract system, we kind of have to
7 backtrack a little bit to incorporate it and align it with
8 the business processes. If you use it as you would at
9 your desk, doing your day to day business, it's more
10 likely to sink in. And so that's a strategy we're
11 currently pursuing.

12 The last issue is basically a change request.
13 In further assessing it, these issues are issues that have
14 not been resolved otherwise and they're being elevated.
15 This particular issue goes through the change request
16 process, a formal process that assesses the impact of the
17 issue. It's a formal process that goes through the
18 steering committee for approval or not. In that respect,
19 I'll be taking this issue off the issues list and we'll
20 treat that as we do any other change request.

21 Those were my planned comments for the
22 database. There is one last page which is a status of
23 funds, status of appropriations. There's a lot of numbers
24 there. In summary, management's not currently concerned

1 with the status. Nothing unusual is happening with the
2 monies expended, planned to be used, remaining balances.
3 So we're okay in that respect.

4 CHAIRMAN BOGANY: Okay.

5 MR. GAINES: I'll be glad to entertain any
6 questions on any subject at this point.

7 CHAIRMAN BOGANY: Anything?

8 MR. GORDON: No.

9 CHAIRMAN BOGANY: Okay. David, thank you very
10 much.

11 MR. GAINES: Yes, sir.

12 CHAIRMAN BOGANY: We're going to follow our
13 agenda now. We're going to go into executive session, as
14 permitted by law. The committee will discuss some
15 executive matters in regards to personnel matters
16 discussion under Section 55.1074. We'll go into executive
17 session.

18 (Whereupon, at 7:10 p.m., the meeting was
19 adjourned, to reconvene this same day, Wednesday, May 12,
20 2004, at 7:52 p.m.)

21 CHAIRMAN BOGANY: The committee has completed
22 its executive session of the Audit Committee, of the board
23 of the Texas Department of Housing and Community Affairs,
24 May 12, 2004, at the time of 7:52. Action was taken --

1 none was taken. I thought we did something.

2 MS. CARRINGTON: Don't make me nervous.

3 CHAIRMAN BOGANY: Okay. No action was taken.

4 I hereby certify that this agenda of the executive session
5 of the Audit Committee of the governing board of the Texas
6 Department of Housing was properly authorized, pursuant to
7 551.103 of the Texas Government Code.

8 The agenda was posted at the Secretary of
9 State's office seven days prior to the meeting, pursuant
10 to 551.044 of the Texas Government Code, that all the
11 members of the committee were present with the exception
12 of Mr. Salinas, and this is a true and correct record of
13 the proceeding pursuant to the Texas Open Meetings Act,
14 Chapter 551, Texas Government Code.

15 I now adjourn this meeting.

16 MS. CARRINGTON: Thank you.

17 (Pause.)

18 MS. CARRINGTON: Go.

19 MR. WITTMAYER: Did we want to take action on
20 the thing that was discussed in executive session?

21 CHAIRMAN BOGANY: No.

22 MR. WITTMAYER: I didn't know if you needed to
23 take action on it.

24 CHAIRMAN BOGANY: No.

1 MR. WITTMAYER: Okay.

2 CHAIRMAN BOGANY: Can I get a motion to
3 adjourn?

4 MR. GORDON: You have a motion.

5 CHAIRMAN BOGANY: Second?

6 MR. GORDON: Second, sir.

7 CHAIRMAN BOGANY: All those in favor?

8 MR. GORDON: Aye.

9 CHAIRMAN BOGANY: Aye. The meeting is
10 adjourned.

11 MR. GORDON: Good night.

12 (Whereupon, at 7:55 p.m., the meeting was
13 adjourned.)

C E R T I F I C A T E

1
2
3 MEETING OF: TDHCA Audit Committee

4 LOCATION: Austin, Texas

5 DATE: May 12, 2004

6 I do hereby certify that the foregoing pages,
7 numbers 1 through 50, inclusive, are the true, accurate,
8 and complete transcript prepared from the verbal recording
9 made by electronic recording by Penny Bynum before the
10 Texas Department of Housing and Community Affairs.

(Transcriber) 5/24/2004
(Date)

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