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

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

MR. GORDON: Second.

CHAIRMAN BOGANY: Okay. Any discussion on it?

(No response.)

CHAIRMAN BOGANY: Do you have any thoughts on it?

MR. GORDON: No, it's satisfactory.

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

MR. GORDON: Aye.

CHAIRMAN BOGANY: Aye. It passes.

The reported items now that we're going to deal with is item 2. We're going to bring up David Gaines to talk about the statewide single audit report. David is
going to talk about the status of the prior audit issues, Section 8. Eddie Fariss is going to talk about the Section 8 family self-sufficient program, and David's going to come back to the status of the central database.

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

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

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

The auditors select the programs and agencies
for audit based on dollars, federal dollars, expended
during the audit period and based on risk. The program
selected at the department for audit included Section 8
Housing Choice Voucher program, the HOME Investment
Partnership program, and the Low Income Home Energy
Assistance program.

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

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

So I'd like to focus our discussion on those
two issues that are still considered open. Before I do,
I'd like to just emphasize that while these are considered implemented by management, the department's funding sources still have the responsibility to follow up and accept the department's efforts in clearing these findings. It's not unusual for there to be a year's time lapse. They have up to two years to begin their follow-up.

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

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

Of the two issues remaining open, one of them...
relates to the implementation of Family Self-Sufficiency Program. That's a separate agenda item. So we'll speak to that separately.

CHAIRMAN BOGANY: Okay.

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

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

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

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

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

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

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

MR. GAINES: Well, the definition you have there is the auditor's language. In summary, a material weakness is a condition that the auditors believe, if
there was an exception to rules, compliance exception laws
and regulations, that the exception would not be detected
by management during the normal course of business. So
that's a circumstance whereby something could go wrong and
we wouldn't be aware of it.

CHAIRMAN BOGANY: Okay.

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

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

MR. GORDON: Right.

MR. GAINES: -- to adjust Section 8 rents.

That needs to be done on an annual basis. For whatever
reason, we failed to update that, and the update, and the
failure to do so, at least in the auditor's mind, we were
not aware that that condition had come and gone. So
there's a circumstance whereby we had a problem and we
weren't aware of it.

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

MR. GAINES: I'm not real sure what's in place
in that respect. I do understand that we have contracting
relationship with the people that provided the rate. I
believe that changed. I would feel more comfortable if management actually spoke to that.

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

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

CHAIRMAN BOGANY: Okay.

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

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

MR. FARISS: We will continue to contract with
them and be aware of the period of time for which they
have provided that information to us.

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

MR. FARISS: Uh-huh.

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

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

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

MR. GAINES: These have already been
implemented. Of the eleven, there were those two
remaining ones. One, I just discussed on indirect cost
and Family Self-Sufficiency, which is a separate agenda
item.

CHAIRMAN BOGANY: Okay. Do you have any
questions?

MR. GORDON: No.

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

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

Shad Bogany, present.

Patrick Gordon?

MR. GORDON: Present.

CHAIRMAN BOGANY: Norberto Salinas, absent.

We have a total of two present, which is all we
need for a quorum and we are an official meeting. Okay.

I just wanted to get that on the record.

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

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

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

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

If you actually do the counting on those, you’re not going to get the same numbers I just spoke of. The reason being that two of the issues that I specifically need to speak to are issues 268 and 269, on pages 2 and 3, respectively.

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

Since that time, we’ve received a letter from HUD, recently dated 5/3/04, that these issues are still open. Because of that, implemented is not quite right, of course. So to resolve these issues, on 268, which relates
to the auditors noting a lack of supporting documentation for soft costs, HUD is asking the department to provide on or before July 1, 2004, the number of HOME contracts that included soft costs during the 1999, 2000, and 2001 program years, to establish a population for further consideration.

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

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

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

CHAIRMAN BOGANY: Okay. Now, it's been out there for a year and a half. So at this point in time, when do you see us wrapping this up? I mean, now, we're just sitting waiting on HUD, at this point?
MR. GAINES: Well, no, we have to provide HUD information by July 1, relating to how many is in those three years, that had soft costs, and providing documentation as to how we monitored it. So once we meet that, then HUD will have to get back to us for the resolution or action.

CHAIRMAN BOGANY: Well, I guess, one of the things that Beth talked to me about is that we, if it's due by July 1, let's not wait until July 1 to get it done. Let's get it done as quick as possible. So at least we can have some time in there. I guess we've got a month and a half to go forward on that, but I guess from my standpoint, it's been out there a year and a half. We need to wrap it up.

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

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

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

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

CHAIRMAN BOGANY: Okay.

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

CHAIRMAN BOGANY: Okay.

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

CHAIRMAN BOGANY: Okay.

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

CHAIRMAN BOGANY: Okay.

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

CHAIRMAN BOGANY: Here, we're saying we'll have
this fully implemented by March 2005. Why would it be so far out? Once again, is HUD holding us up before they can start to work on it?

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

CHAIRMAN BOGANY: Oh, okay.

MR. GAINES: Yes, so --

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

MR. GAINES: Yes, sir.

CHAIRMAN BOGANY: Thank you, David.

Do you have any questions?

MR. GORDON: No.

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

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

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

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

MR. FARISS: Yes?

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

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

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

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

MR. FARISS: It --

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

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

CHAIRMAN BOGANY: Okay.

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

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

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

We have the training of the FSS Coordinator as the next step. Cece [phonetic] is currently in Denver
attending a Nan McKay training session. She's a national trainer for many HUD programs, Section 8, and she's doing a family self-sufficiency training right now.

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

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

On down, we'll be working with the Department of Human Services to develop a survival skills course, which is one of the required case management services that must be included in the Family Self-Sufficiency Program. We have scheduled October 1 through December 31 to identify appropriate families that might be interested in voluntarily participating in this program. Of course -- this was really the end of my presentation -- we are targeting 42 families to ultimately participate and
graduate. Of those 603 voucher holders, we're targeting 42. We have 42 family self-sufficiency vouchers identified by HUD.

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

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

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

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

CHAIRMAN BOGANY: It will take that time, yes.
MR. FARISS: -- to get to work through all of those steps, to be able to do that.

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

MR. FARISS: Sure.

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

MR. FARISS: Oh, no.

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

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

CHAIRMAN BOGANY: Okay.

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

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

MR. GORDON: No, I read through it.
MR. FARISS: There is one thing that I think I need to mention to the committee. It's kind of a wrinkle that has occurred in our moving forward with this. Our plan, as submitted to HUD, was based on our cooperative participation with Brazoria County welfare department. Since that plan was approved by HUD, Brazoria County has been certified by HUD as a public housing agency. They have petitioned the department to release them from their local operator contract which we have with them and they have petitioned the department to relinquish the vouchers that they administer on our behalf in Brazoria County.

CHAIRMAN BOGANY: What does that mean?

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

Plus, if we decide, or, you know, if the board decides to submit a resolution to HUD to relinquish those vouchers, then we no longer would have an approved Family
Self-Sufficiency Program, because it specifically says that we would work with Brazoria County on the vouchers --

CHAIRMAN BOGANY: So it could all be for nought?

MS. CARRINGTON: Uh-huh.

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

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

CHAIRMAN BOGANY: Okay.

MR. FARISS: -- important wrinkle.

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

MR. FARISS: Okay.

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

MR. FARISS: Does anybody have any questions?

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

MR. FARISS: We would have to redo the -- well, there's a couple of alternatives, I think. One would be to resubmit a plan for approval from HUD or to ask for a
waiver in that area, which we've already received a waiver in the other parts of the state. We chose not to ask for a waiver in that area because of the high concentration of vouchers that we administered in the Houston area.

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

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

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

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

CHAIRMAN BOGANY: Okay.

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

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

CHAIRMAN BOGANY: Okay.
MR. FARISS: We will have to make a decision fairly quickly.

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

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

CHAIRMAN BOGANY: Okay.

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

CHAIRMAN BOGANY: Okay.

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

CHAIRMAN BOGANY: Okay.

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

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

MR. GORDON: No.

CHAIRMAN BOGANY: Okay.

MR. GORDON: Thank you.

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

MR. GAINES: Yes, sir. That's behind tab 5-D. If you will, just turn to the first page past that cover sheet.

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

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

You will note that the review has been completed and the results of the review have been incorporated into the project charter, which is basically a document that defines the governance, roles, and responsibilities of the project team and team members.
The highlights of the post-implementation review included both positive and not so positive results. On the positive side, the team began establishing and insisting on users' responsibility and establishing appropriate accountability with appropriate signoffs and approvals. Directors have been demonstrating an increased knowledge of the subject matter and issues management.

We changed the process. It has become more effective.

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

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

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

On the not so positive side, the department needs to do more work in clearly defining the project team with clearly defined roles and responsibilities, clearly defining data ownership in the business processes, and improving the management of each, establishing a communications plan to ensure that all parties are on the same page, the business community investing the necessary
time in the requirements definition up front, to make sure we're getting a system that satisfies their needs, and staying with the project throughout until the point of implementation, and establishing a director of management for sponsorship of the engagement, more involvement where there's more ownership from that perspective.

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

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

At the top of the page, you will notice under the first category, CMTS enhancements, contracted services. The line 2, the program monitoring specifications is complete and enhanced compliance testing is substantially complete at 95 percent. The program monitoring specifications relates to the delivery of the design work, relating to the single audit, the program
monitoring functions for HOME, contracts, and 8609 construction inspections.

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

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

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

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

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

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

If you'll move down to line 13, we start talking about the multifamily module. This is the major module that the project team has been recently working on.
This provides functionality for the Housing Tax Credit program, the multifamily properties of the HOME and Housing Trust Fund programs.

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

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

The purpose of the allocation is that acquisition, rehab, new construction, provide cost certification functionality, necessary information to issue the 8609s to the IRS, capture necessary information to effectively manage the cost certification process, track the credit from initial allocation to carryover to final issuance into the affordability period. Those are the highlights of the module.
You'll note on line 15 that the design phase of this module, actually on line 14, the design phase is completed. However, you also note, on line 15, that approval of this module, approval by the business community of the design specifications is not going to begin until August 13, after the current awards cycle. While this seems to be the best the department can do from a scheduling perspective, it's not really an ideal situation since the consultant who accumulated the requirements and built the design of the modules is not expected to still be under contract.

CHAIRMAN BOGANY: So what happens at that point?

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

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

MR. GAINES: Okay.

CHAIRMAN BOGANY: What's going to --
MR. GAINES: I've seen the list of to dos by the Information Services Division, but maybe Curtis Howe would be better able to speak to that, Director of Information Services.

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

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

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

I don't have a full number of all the change requests. All the change requests go in front of our central database steering committee for approval before we work on them. A change request is a needed enhancement to functionality of the system.
To give you an idea of how many we've been working on, we had, in March, 47 contract system work orders and two change requests that were completed. For CMTS, we've had ten different work orders that the staff worked on. Those range from anywhere from a few hours to several days to complete, depending on the complexity of those.

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

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

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

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

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

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

CHAIRMAN BOGANY: Okay.

MR. HOWE: It's a design spec. It's a written documentation --
CHAIRMAN BOGANY: Okay. All right.

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

CHAIRMAN BOGANY: Okay.

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

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

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

CHAIRMAN BOGANY: Okay.

MR. HOWE: -- documentation, training. As of right now, we don't have estimates as to how long the
development of the system will take, but we're hoping we can have, by the next Audit Committee meeting, an initial estimate based on our technical view with all the software development staff, with our consultant, before the consultant's contract is over.

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

MR. GORDON:  No.

CHAIRMAN BOGANY:  Okay. Thank you.

MR. HOWE:  Thank you.

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

That relates to this portion of the status report. The next one is labeled issues risk management.
You'll see that the first issue relates to 2001, 2003 multifamily data that has not been entered into the database. You may recall the --

Are you with me there, Mr. Gordon?

MR. GORDON: Where's that?

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

MS. CARRINGTON: Two pages before 6-A.

MR. GORDON: Page 10?

MR. GAINES: Yes, sir.

MR. GORDON: Okay.

MR. GAINES: It's three columns.

MR. GORDON: Okay.

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

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

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

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

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

MS. CARRINGTON: Uh-huh.

MR. GAINES: Yes, sir.

MS. CARRINGTON: In three different funding areas.

CHAIRMAN BOGANY: Oh.

MR. GAINES: Is that correct?

MS. CARRINGTON: Actually, four funding areas because under the Tax Credits, it probably includes the 9 percents and the 4 percents.
MR. GAINES: So a draft --

CHAIRMAN BOGANY: Will we ever finish this?

(No response.)

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

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

CHAIRMAN BOGANY: Okay.

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

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

MR. GAINES: I think we're all looking forward to the point where enough of the system is implemented where the board has comfort with the system and the
regular reporting may need to be backed off. There's multiple projects going on at any one time.

    CHAIRMAN BOGANY: Yes.

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

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

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

    Maybe it's something we have to live with in the meantime, but we have been working on this issue, trying to have a clearer vision materialize on how we can best accommodate this issue and address this issue.
That's something, as recently as yesterday, a team met to get a clearer understanding of the issues associated with this, trying to get an understanding of what is the impact on the department for this condition. It's a real challenge until we get the front end, the multifamily module, built.

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

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

MR. GAINES: Well, one of the things that came out of the post-implementation review was the need to really pay a lot of attention to those scrubbing efforts. To the extent that the legacy data has to come over, you certainly want to do that before you move it into production. We'll have a project plan to make sure that's a thorough process.

CHAIRMAN BOGANY: Okay.

MR. GAINES: That kind of touches upon the need to clean up duplicate records, the third issue. The
reason this has come about, in part, is that during the
scrubbing and cleanup of prior data, there was actually a
conscious decision, at one point, we had agreed what we
wanted migrated to the new system is the current HOME
contracts and all other HOME contracts since -- oh, it
seems like, I'm not sure I have the year right in front of
me here, but for the last three years, all HOME contracts
plus all current contracts. That was our original intent.
That data was scrubbed.

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

Another reason, we migrated legacy system data
from multiple systems. That's creating a lot of
duplicates. Well, both those can be addressed by thorough
scrubbing. It wasn't the best decision and now we're
having to pay the price. So that's a strategy that we're
currently working through and developing a plan to resolve
it.
CHAIRMAN BOGANY: Are we making any more decisions, David, that may cause us duplicate labor down the line?

MR. GAINES: Not at this point.

CHAIRMAN BOGANY: Okay.

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

CHAIRMAN BOGANY: Okay.

MR. GAINES: -- how painful it is.

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

And so in that respect we're discussing and planning on strategies such as aligning the business processes with automated systems, completing the user documentation in full, and making that an integral part of the training, involving more user input in the training,
and developing the plan; the intent being if we have the user involvement heavy throughout the development process, by the time training comes, they pretty much know the system and they will be the best people to facilitate that training.

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

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

Those were my planned comments for the database. There is one last page which is a status of funds, status of appropriations. There's a lot of numbers there. In summary, management's not currently concerned
with the status. Nothing unusual is happening with the
monies expended, planned to be used, remaining balances.
So we're okay in that respect.

  CHAIRMAN BOGANY: Okay.

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

  CHAIRMAN BOGANY: Anything?

  MR. GORDON: No.

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

  MR. GAINES: Yes, sir.

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

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

  CHAIRMAN BOGANY: The committee has completed
its executive session of the Audit Committee, of the board
of the Texas Department of Housing and Community Affairs,
May 12, 2004, at the time of 7:52. Action was taken --
none was taken. I thought we did something.

MS. CARRINGTON: Don't make me nervous.

CHAIRMAN BOGANY: Okay. No action was taken.

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

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

I now adjourn this meeting.

MS. CARRINGTON: Thank you.

(Pause.)

MS. CARRINGTON: Go.

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

CHAIRMAN BOGANY: No.

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

CHAIRMAN BOGANY: No.
MR. WITTMAYER: Okay.

CHAIRMAN BOGANY: Can I get a motion to adjourn?

MR. GORDON: You have a motion.

CHAIRMAN BOGANY: Second?

MR. GORDON: Second, sir.

CHAIRMAN BOGANY: All those in favor?

MR. GORDON: Aye.

CHAIRMAN BOGANY: Aye. The meeting is adjourned.

MR. GORDON: Good night.

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

MEETING OF: TDHCA Audit Committee
LOCATION: Austin, Texas
DATE: May 12, 2004

I do hereby certify that the foregoing pages, numbers 1 through 50, 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.

5/24/2004
(Transcriber) (Date)

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