

AUDIT COMMITTEE MEETING OF THE
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Room 437
Waller Creek Office Building
507 Sabine
Austin, Texas

9:00 a.m.
Friday,
January 26, 2001

COMMITTEE MEMBERS:

C. KENT CONINE, presiding
JAMES DAROSS
MARSHA WILLIAMS

ALSO PRESENT:

DAISY STINER, Executive Director
DELORES GRONECK, Administrative Assistant

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P R O C E E D I N G S

1
2 MR. CONINE: Good morning. We'll call to order
3 the Texas Department of Housing and Community Affairs
4 Audit Committee meeting on January 26, 2001.

5 A roll call right quick. Kent Conine is here
6 for the chair.

7 Jim Daross?

8 MR. DAROSS: Here.

9 MR. CONINE: Marsha Williams?

10 MS. WILLIAMS: Here.

11 MR. CONINE: We've got a quorum. All right.

12 Is there any public comment this morning to the
13 Audit Committee? If there is, I think there's probably
14 some public comment forms to fill out down here.

15 Any public comment?

16 (Pause.)

17 MR. CONINE: Seeing none, we'll close the
18 public comment section and go to the action items. Number
19 1: Discussion and approval of the minutes from our Audit
20 Committee meeting of October 13.

21 MR. DAROSS: We didn't do those yet?

22 MR. CONINE: Well, I -- that's what's sitting
23 in front of me. I don't know if that's the right one or
24 not. Wait a minute.

25 MR. DAROSS: Well, I move they be approved as

1 written.

2 MS. GRONECK: Ms. Stiner had a couple of
3 changes from the ones of --

4 MS. WILLIAMS: December 8.

5 MS. GRONECK: Yes.

6 MR. DAROSS: Yes, the December.

7 MR. CONINE: Is this the 8th, or the 13th?

8 MS. WILLIAMS: December 8.

9 MS. GRONECK: The 8th.

10 MR. DAROSS: With December 8, there were a
11 couple of changes.

12 MR. CONINE: Okay.

13 MS. GRONECK: She had a couple of changes right
14 here. I faxed these out yesterday.

15 MR. CONINE: Okay.

16 MS. GRONECK: So that's why we're --

17 MR. CONINE: Well, this says the 13th, and
18 I'm -- that's why I messed up. I'm sorry. I'm reading
19 off the agenda for the last one.

20 MR. DAROSS: Oh.

21 MR. CONINE: How about the minutes for December
22 8, 2000? How is that?

23 MR. DAROSS: I move that they be approved with
24 the corrections that were faxed to us and, I believe, were
25 noted on the summary of the minutes that you have in front

1 of you.

2 MR. CONINE: Okay. I also have some other
3 suggested changes, I think, on page 4. Let me make sure.

4 (Perusing document.)

5 (Pause.)

6 MR. CONINE: Well, the type's a little
7 different. Okay. The next-to-last paragraph on page 4,
8 the last sentence to that paragraph, where it says, "They
9 worked on these, and there were seven issues over two
10 years old. Management has furnished the information to
11 Mr. Gaines, and these are finished and/or," and then,
12 right here, I want to insert the words, "in the process of
13 being implemented." It's fairly simple.

14 And then, in the very next paragraph: "Mr.
15 Gaines stated no further action is intended," and then
16 insert the words, "on these issues identified as partially
17 implemented." And then, "And he believes," and then go on
18 with the rest of that.

19 MS. GRONECK: Yes.

20 MR. DAROSS: I'll accept that.

21 MR. CONINE: If you can add those to your
22 minute motion?

23 MR. DAROSS: I'll accept that amendment to my
24 motion.

25 MS. GRONECK: As identified?

1 MR. CONINE: As implemented --

2 MS. GRONECK: Implemented?

3 MR. CONINE: Partially implemented.

4 MS. GRONECK: Okay.

5 MR. CONINE: Okay. All those in -- we have an
6 amendment on the minutes.

7 Good morning, Ms. Stiner.

8 MS. STINER: Good morning.

9 MR. CONINE: A motion has been made to
10 approve -- and seconded -- the amended minutes. All those
11 in favor say aye.

12 (A chorus of ayes.)

13 MR. CONINE: All in favor say -- all against
14 say no.

15 (Pause.)

16 MR. CONINE: All right. The next is report
17 items.

18 Mr. Gaines, are you ready?

19 MR. GAINES: I'll be trying something a little
20 new today.

21 MR. CONINE: You're going to sit down today,
22 huh?

23 MR. GAINES: And I'm going to sit while I do
24 this.

25 MR. CONINE: All right.

1 MR. GAINES: For the record, my name is David
2 Gaines, Director of Internal Audit. Good morning,
3 chairman and members of the committee and Ms. Stiner.

4 MS. STINER: Good morning.

5 MR. GAINES: Before we begin today, the first
6 thing I'd like to do is introduce the newest member to the
7 Internal Audit Division, Theresa Cruz. Theresa --

8 MR. CONINE: Good morning. Welcome aboard.

9 MR. GAINES: -- is a CPA. She has been -- had
10 over 13 years of experience. She has had over four years
11 experience here with the Department in the compliance
12 division. She also has experience with the Controller of
13 Public Accounts, the Texas Department of Health community
14 action agency, two different independent CPA firms, two
15 different savings and loan institutions and a commercial
16 bank. And all this experience has been in audit and
17 financial-related areas.

18 I know that Theresa is going to be a real
19 complement to the Department and especially to the
20 Internal Audit Division. So we'd like to welcome Theresa.

21 MR. CONINE: Welcome aboard.

22 MR. DAROSS: Yes, welcome.

23 MR. GAINES: If you will, please -- the first
24 report item is the status of prior audit issues. So if
25 you will, turn to that report in your Board book.

1 (Pause.)

2 MR. GAINES: These are issues that have been
3 outstanding for greater than one year but less than two
4 years. You'll recall, last meeting, we discussed those
5 outstanding greater than two years. We'll also be
6 discussing the status of prior audit issues that have
7 recently been identified in the HUD Section 8 review, the
8 management review, and the State Auditor's office's audit
9 of the Department's HOME Housing Trust Fund and Low Income
10 Housing Tax Credit programs.

11 Are you all ready for me to proceed? It looks
12 like you're scrambling for information.

13 MR. CONINE: I think we've got it all now.

14 MR. GAINES: Okay.

15 MR. CONINE: Okay.

16 MR. GAINES: The first three issues on page 1
17 of the summary resulted from an internal audit that was
18 released in June of '99. Management continues to report
19 these issues as in progress.

20 Two of the issues will probably sound a little
21 familiar to you. The first issue, Reference 136, relates
22 to the need for management information systems to enable
23 and facilitate the monitoring and performance evaluations
24 of the Department subrecipients. Management has basically
25 responded that the issue remains in progress pending the

1 departmentwide database. In this respect, I'll just
2 repeat some previous comments that I've made.

3 These information systems are important
4 regardless of how the information is captured. While the
5 Internal Audit Division believes a departmentwide database
6 is needed and a desirable goal, this issue relates
7 primarily to identifying and capturing and monitoring
8 related information. This information should be available
9 for monitoring and risk-assessment purposes and for making
10 award decisions.

11 In order to make the information available,
12 management needs to specifically identify what information
13 is needed, and executive management needs to establish a
14 departmentwide standard operating procedure that requires
15 the program areas to accumulate this information in a
16 usable form and make it available for those that need it
17 to perform their jobs.

18 The second issue, Reference 118, relates the
19 need for the Department to use a risk-assessment process
20 for identifying subrecipients for monitoring purposes and
21 for determining the extent of monitoring procedures to be
22 applied. Management has reported that HOME and CDBG is
23 using a risk-assessment process. The issue is classified
24 as in progress since Energy Assistance, the Community
25 Service Block Grant programs and Housing Trust Fund are

1 all in various phases of implementing a risk-assessment
2 process.

3 The third issue, Reference 119, relates to the
4 recommendation that the Department's programs conduct
5 joint-monitoring visits in those instances where a
6 subrecipient is administering more than one of the
7 Department's programs. The original intent of this
8 recommendation was to promote efficiency and effectiveness
9 of the monitoring function.

10 Additionally, since the recommendation, there
11 is the Senate Bill 177 of the last legislative session
12 that was passed that requires agencies to design and
13 implement procedures to detect and report double-billing
14 by contractors. Monitoring multiple programs or
15 contractors administered by a single contractor or a
16 single subrecipient would allow for the Department to
17 implement some effective procedures to accomplish the
18 intent of this legislation.

19 Management reports that this issue is in
20 process. A departmentwide standard operating procedure
21 has been developed and is in the process of being
22 reviewed.

23 Reference 149 on Page 2 of 12 is the next issue
24 I'd like to discuss. And this relates primarily to a
25 legislative requirement that the Department conduct a bi-

1 annual software audit primarily for the purposes of
2 identifying unnecessary license and maintenance costs
3 associated with software that's not being used. Since
4 this issue was -- since this report was prepared,
5 management has reported to me that this audit has been
6 completed.

7 Please interrupt at any time if I'm going too
8 fast of if you might have questions.

9 MR. CONINE: No. Go ahead. I was going to let
10 you finish, and then there may be some questions.

11 MR. GAINES: Okay. The next two issues on Page
12 2 of 12 relate to the HUD OIG audit of HOME administrative
13 expenditures. These are the same issues that we've
14 discussed in prior committee meetings.

15 The first issue, Issue 145, relates to the
16 administrative expenditures of the Department. Management
17 reports --

18 I'm sorry?

19 (Pause.)

20 MR. GAINES: Oh, okay. I -- management reports
21 that HUD has accepted \$1 million -- approximately \$1
22 million of the \$1,262,000 questioned. The balance of
23 \$261,000 has been returned to HUD from non-Federal funds.

24 That warrant was issued or -- the paper work was
25 processed December 14. And in management's mind, this

1 issue's now closed. The second issue --

2 MR. CONINE: Can you read that number off one
3 more time? 200 and how much?

4 MR. DAROSS: 261-.

5 MR. GAINES: The balance returned was 261,398.

6 MR. CONINE: Okay. Thank you.

7 MR. GAINES: The second issue, 146, relates to
8 the administrative expenditures of the Department's
9 subrecipients. Management reports that HUD has accepted
10 support for all but \$80,000 of the 408,000 originally
11 questioned. Management also reports that HUD has provided
12 the Department an interpretation of the OIG report
13 recommendation that the Department review all
14 subrecipients of the Department.

15 MR. DAROSS: Well, will that 80,000 also be
16 returned to HUD?

17 MR. GAINES: The way I understand it based on
18 the discussions with the director this morning is that
19 they believe they've exhausted their efforts on that
20 \$80,000 and that it will need to be returned.

21 Management has also reported that HUD has
22 provided an interpretation of the OIG report
23 recommendation that we review all administrative draw-down
24 requests of all subrecipients. HUD has interpreted this
25 to mean the additional 40 or so files that were included

1 in the original OIG sample that were not tested during
2 their field work.

3 And so that's the piece of good news we've been
4 looking for. HUD is allowing the Department until April 1
5 to provide support for these files

6 The next issue, 153, Page 2 of 12, has two
7 primary recommendations. The first relates to the HOME
8 Program establishing procedures to monitor and evaluate
9 contract performance statements and time tables during the
10 contract period. And the second portion relates to
11 including a remedy or graduated sanction schedules for
12 breach of contract or substandard performance in HOME
13 contracts.

14 Regarding the first portion of the
15 recommendations, management has reported that HOME has
16 developed a draft checklist for the regional coordinators
17 to monitor contract performance during the contract
18 periods and that performance statements and time tables
19 have been established in the HOME 2000 contracts which
20 will be tracked and monitored for those contracts.

21 Plans are still pending to include in the HOME
22 contracts the remedy or graduated sanction schedules for
23 breach of contract or substandard performance.

24 MR. DAROSS: Is this -- the additional
25 contractual remedies that we're building into the

1 contracts -- is that going to be subject to the request
2 that we made for additional funding for additional FTEs to
3 be able to monitor this, or is this something that can be
4 monitored with existing personnel?

5 MR. GAINES: I have my opinions, but I believe
6 management needs to respond to that.

7 MR. DAROSS: Okay.

8 MR. GAINES: To monitor -- this is basically --

9 MS. STINER: David, excuse me.

10 MR. CONINE: We'll let Ms. Stiner --

11 MS. STINER: Excuse me. Exceptional
12 requests -- that's a part of our riders for four
13 additional monitors.

14 Suzanne, you can come forward. But across the
15 board -- but the monitoring checklists that we're putting
16 in place now -- we currently have how many HOME monitors
17 in place?

18 MS. PHILLIPS: We have three HOME monitors in
19 place. And the exceptional items that we put in
20 specifically relates to our multi-family portion -- the
21 tax credits in HOME, and not programmatic monitoring. The
22 programmatic monitoring is -- it's a -- we do the specific
23 federal and state requirements. And I think that the --
24 so there's not really a connection between those two.

25 But at this point, we've set a goal of a

1 certain number of monitoring that we're going to do based
2 on our existing resources.

3 MR. CONINE: Thank you.

4 MS. STINER: Thank you.

5 MR. GAINES: This issue also -- while it
6 started out as not a recommendation, I'm quite
7 confident -- included in the Senate Bill 177 that I
8 referred to earlier, there's also provisions requiring
9 graduated sanctions for non-performing contractors. So
10 this is something now required of us, as well.

11 Issues 154 and 157 on Page 3 of 12: Management
12 has reported that these issues have been implemented.
13 Issue 157 relates to a material weakness finding relating
14 to the HOME monitoring function. The State Auditor's
15 office issued this finding in connection with our Fiscal
16 Year 1999 statewide single audit.

17 While management indicates that it has
18 addressed this issues identified by this finding, the SAO
19 is re-issuing an updated version of this finding for the
20 Fiscal Year 2000 single audit. And this is because a
21 significant portion of the Fiscal Year 2000 had expired
22 before management was able to take corrective action on
23 this issue.

24 The next series of audit issues are those
25 relating to the recent Section 8 management review. Of

1 the 17 findings originally reported, management has
2 indicated that it has implemented eight, eight are in
3 progress, and one has been delayed. Of the eight that are
4 in progress, the planned target dates for completion have
5 not expired for six of those issues. The planned target
6 date for Issue 173 is today, and a target date has not
7 been established for Issue 186.

8 Finally, Issue Reference 187 has been delayed.

9 And I've asked management to be available if you'd like
10 further information on any of those that have been delayed
11 or not implemented at this point. If you'd like a
12 paraphrase of any of the particular issues that are --

13 MR. CONINE: Well, the one with the target date
14 that was today -- is it done?

15 MR. GAINES: I understand that it has been done
16 and it's pending --

17 MR. BURRELL: It's pending final approval, but
18 it has been done.

19 MR. CONINE: Okay.

20 And the one that we're -- the last one I think
21 you said was indefinitely delayed. Let me see.

22 MR. GAINES: Issue 187, relating to the self-
23 sufficiency program.

24 MR. CONINE: Yes.

25 MR. GAINES: Can you speak to that, David?

1 This is David Burrell, Director of Housing
2 Programs.

3 MR. BURRELL: Mr. Chairman and members of the
4 committee and Ms. Stiner, on that particular one, we have
5 been talking to the County of Montgomery through the
6 Montgomery County Housing Authority to get them to work
7 with us under a contract where they would handle some of
8 our certificates and vouchers and would also provide the
9 self-sufficiency plan. We've worked out a deal with them,
10 but it's now awaiting HUD's approval of that particular
11 contract.

12 MR. CONINE: Now I know why it's indefinite.
13 You're awaiting HUD's approval.

14 MR. BURRELL: We're hoping to be able to hear
15 from them sometime fairly soon.

16 MR. CONINE: Okay. Thank you.

17 MR. BURRELL: Thank you.

18 MR. GAINES: Okay. The next series of audit
19 issues are those relating to the recent SAO audit on the
20 HOME, Housing Trust Fund and Low Income Housing Tax Credit
21 programs. Of the 12 issues identified by the audit,
22 management has reported that three have been implemented
23 and nine are in progress.

24 And if you will, please -- on your summary
25 report, Page 12 of 12, the last, Issue Reference 199, I

1 failed to get the status code in there. There needs to be
2 a "PX" indicated there, which indicates, "In progress per
3 management." And if you'll just insert "PX" on your
4 summary report, that will make that complete.

5 Of the nine issues in progress, the target date
6 for one of the sub-issues within Issue Reference 188 has
7 expired. Management's original response indicated that
8 the genesis reconciliation of unexpended balances would be
9 completed by January 1. The most recent status update
10 indicates that an initial draft of the reconciliation has
11 been completed, and so I've characterized this on your
12 summary as substantially complete. At this point, no
13 other target dates for completion have expired that are
14 indicated in progress.

15 Due to the nature and uncertainty of a couple
16 of the issues, target dates have not been established.
17 These are Audit Issues 197 and 199 on Page 12 of 12.
18 Issue 197 relates to recommendations regarding the
19 statewide needs assessment, and Issue 199 relates to data
20 quality problems noted with the program's information
21 systems.

22 And if there's no further questions requiring
23 the status of the prior audit issues, we can go to the
24 next report item.

25 MR. CONINE: Let me back up to the first two or

1 three, on 136 and 118 and so forth. And maybe this is a
2 question for Ms. Stiner.

3 Have we got people assigned in each of the
4 various Departments on completing these tasks, or are
5 we -- do we have like an ombudsman that's kind of cutting
6 across -- a swath across all Departments to gather
7 information and bring it back?

8 MS. STINER: The method that we had used was to
9 handle it at the Department level; each Department was
10 working on their own piece. So that's how we've handled
11 it.

12 MR. CONINE: It just seems like the target
13 dates keep shifting under that scenario. And I guess we,
14 hopefully, stress that we -- now we've stuck it way out
15 here in July, of course. And that's quite a long time
16 after the FY '99 audit. I'd like your response as to
17 whether you think we can accelerate that process or not.

18 MS. STINER: Of course, we can. What we have
19 had delay us, too, is the hope that it would be part of
20 our centralized database. I think you heard Mr. Gaines'
21 opinion that we need an interim measure, so we'll work on
22 an interim measure.

23 But -- the July date reflects our optimism that
24 we'll get funding approval by a waiver to at least start
25 the Phase One of our centralized database, but, certainly,

1 we'll look at an interim measure, rather than leaving that
2 out there until July.

3 As we all know -- I think the latest projection
4 I heard for the statewide budget is \$300 million. So I
5 don't know if I can remain optimistic that we're going to
6 have any funds to move forward on the other phases of our
7 centralized database. So, certainly, an interim step is
8 something that we'll work to put in place here at the
9 Department.

10 MR. CONINE: Is -- are some of these issues
11 restrained by resources that -- and maybe other
12 Departments would have the resources? And I'm just
13 thinking of the Compliance Division as a for-instance
14 where they might have some resources to help out in some
15 of these efforts. Or --

16 MS. STINER: Of course, Compliance would
17 ultimately be the division that's responsible for the
18 administration of monitoring. Suzanne's looking at me.
19 Certainly, we can borrow from Suzanne's resources and make
20 this an assignment to the monitoring division. But yes,
21 we'll work on a way to make sure.

22 I -- it doesn't have as much to do with the
23 human resource aspect as it does that we were depending on
24 the centralized database. But as David has indicated to
25 you this morning and I think I've conceded -- my optimism

1 is steadily fading -- we may not get all of the funding
2 that we are anticipating for our centralized database. So
3 that cannot be our default position, so we'll look at
4 getting Suzanne busy on helping us do some of this.

5 You don't need to respond now, Suzanne.

6 MS. PHILLIPS: Oh, okay.

7 MS. STINER: You'll need to turn it down now.

8 But we will find a way, whether it's Suzanne or
9 whether it's someone else in the Department, to make this
10 a high-level assignment so that we can come up with some
11 interim strategy rather than waiting for funding of our
12 centralized database.

13 MR. CONINE: Any other questions by the
14 committee members on this particular report?

15 (Pause.)

16 MR. CONINE: Proceed, Mr. Gaines.

17 MR. GAINES: The next report item is the status
18 of audits, which is probably the last page of your book,
19 and you can see that several have been completed recently.

20 Specifically, on KPMG, they've completed their annual
21 financial audits, and we're planning on having them at the
22 next Audit Committee to present their audit results.

23 On the opinion audits and the balance of the
24 audits, we have -- with the Controller of Public Accounts,
25 I believe that's beyond planning at this point. They're

1 supposed to be releasing a report in February. So
2 that's -- I believe they've already completed their field
3 work. That's probably incorrect, and that needs to be,
4 "Reporting stage."

5 The State Auditor's Office is in the process of
6 wrapping up their review of the 2002/2003 legislative
7 appropriations request budgeting process review, and that
8 was a legislative request. I believe, in the last day or
9 two, I've heard that has been extended for --

10 VOICE: It will be out in one more week.

11 MR. GAINES: So it will be released by the time
12 we have our next Audit Committee, I presume.

13 The HHS audit's still in question as to when it
14 will -- we'll receive a report on that. That was actually
15 completed and finalized in June.

16 And one of the new items that you haven't had
17 on your reports previously is an internal audit, the last
18 report on your summary there, being a review of the
19 monitoring function of poverty-related funds of the
20 Community Services Block Grant, which we've just recently
21 started. Theresa will be the project manager on this
22 project. And between now and August, in the interim,
23 she'll be taking off about three months to have a baby.
24 So --

25 MS. CRUZ: I'm seven months pregnant, for the

1 record.

2 MR. GAINES: Any particular items you'd like to
3 discuss further?

4 MR. CONINE: Yes. I was in receipt of a letter
5 from the State Auditor's Office to Ms. Stiner on our ISAS
6 situation. Is that reflected in this software audit here
7 or one of the others?

8 MS. STINER: Uh-huh.

9 MR. GAINES: That is the second bullet under
10 the State Auditor's Office.

11 MR. CONINE: Okay.

12 MS. STINER: They came over -- pardon me, Mr.
13 Chair.

14 MR. CONINE: Go ahead.

15 MS. STINER: They came over --
16 Was it last month --

17 MR. GAINES: Yes.

18 MS. STINER: -- when they made the
19 presentation?

20 MR. GAINES: They provided a briefing --

21 MS. STINER: A briefing last month. And --

22 MR. GAINES: -- or summary of that report
23 during the last Audit Committee's meeting.

24 MS. STINER: -- this is the final report.

25 MR. CONINE: And it recommended that we update

1 our bi-annual operating plan. Has that been accomplished?

2 MS. STINER: I'm --

3 MR. GAINES: I believe --

4 MS. STINER: -- looking for it.

5 MR. GAINES: -- it has, but --

6 MS. STINER: See it -- a bill?

7 MR. CONINE: Okay.

8 MS. STINER: Okay.

9 MR. CONINE: All right. Any other questions
10 from the committee members on the stuff we've got going
11 forward?

12 (Pause.)

13 MR. CONINE: Any other reports from you, Mr.
14 Gaines?

15 MR. GAINES: That's all from me.

16 MR. CONINE: Thank you for your update. As
17 always --

18 MR. GAINES: Yes, sir.

19 MR. CONINE: -- we appreciate that.

20 We'll go back to Tab 2 now and let Ms. Stiner
21 do a presentation of a resolution, I believe.

22 MS. STINER: Thank you. I'll ask Mr. Burrell
23 to come forward and make the presentation for the
24 resolution to have the Board establish maximum
25 administrative fees. If you'll remember --

1 You may not have to come forward.

2 If you'll remember, this was an item on last
3 month's agenda. When there was a discussion on Section 8,
4 the committee instructed the Department to bring back to
5 it an action item to approve the establishment of a
6 maximum administrative fee related to the Section 8
7 program. You have a write-up in your books.

8 But, David, you might just want to comment and
9 talk about the maximum limit and what you anticipate that
10 will be.

11 MR. BURRELL: Yes. We have an action item
12 which would cover the administrative fee reserve
13 regulations. HUD recommended during the audit that we
14 establish some limits as to how the funds could be spent
15 and how the authorizations could be authorized.

16 What we are recommending is that Ms. Stiner be
17 authorized to make expenditures or -- approve expenditures
18 up to 100,000 from our reserve administrative fee account
19 and that the Board be established as the authority for any
20 expenditures over 100,000 from that account.

21 MR. CONINE: Any questions from the Audit
22 Committee?

23 MR. DAROSS: No. I think we talked about this
24 at some length at the last meeting; we just needed to
25 bring it forward for an action item.

1 MR. CONINE: A little clarification on my
2 behalf: Is this a cumulative \$100,000 for a fiscal year?

3 Is that what we're talking about --

4 MR. BURRELL: Before the --

5 MR. CONINE: -- for the executive director, and
6 then, when we go to 101,000, that -- the one dollar comes
7 to the Board --

8 MR. BURRELL: Yes. That's --

9 MR. CONINE: -- for the Board's approval?

10 MR. BURRELL: 100,000 for the --

11 MS. STINER: No. The 101,000 --

12 MR. CONINE: The whole thing?

13 MS. STINER: The 101 --

14 Pardon me, David.

15 The \$101,000 would come to the Board.

16 MR. CONINE: Okay.

17 MS. STINER: Okay.

18 MR. CONINE: Is this a once-a-year event, or
19 does it kind of happen --

20 MS. STINER: It's --

21 MR. CONINE: -- through the course of the year?

22 MS. STINER: -- an ongoing -- the expenses are
23 paid out of this account on an ongoing basis.

24 MR. CONINE: Okay. And our reserve fund -- is
25 there a specific Section 8 reserve fund that we draw down

1 out of there? Do we have a specific set-aside reserve on
2 our general reserves, or just --

3 MS. STINER: I --

4 MR. CONINE: Is it just general reserve?

5 MS. STINER: I don't know how that -- the
6 mechanics of that.

7 Bill, do you want to come and help us out on
8 how that actually works?

9 MR. DALLY: The -- my name is Bill Dally, the
10 chief financial officer for the Department. Good morning,
11 Board members.

12 MR. CONINE: Good morning.

13 MR. DALLY: What happens is that we -- these
14 are federal funds. These are federal funds, and we earn
15 approximately -- about 67 percent of our current
16 contracts. And what has happened over the years is that
17 we have actually spent less than that in administrative
18 costs. And this is administrative costs for both the
19 Department and for our local operators. So what has
20 happened is that we have gotten an accumulated balance of
21 about \$700,000 that has accumulated over the years.

22 MR. CONINE: Okay.

23 MR. DALLY: What we're creating now is that --
24 looking back at that, we would have an account of \$100,000
25 that would go over and above a particular operating budget

1 or year that Ms. Stiner could approve. And then, if we go
2 beyond that, it would come to you for approval.

3 MR. CONINE: Okay.

4 MR. DALLY: But they are federal funds.

5 MR. CONINE: And these would be like
6 expenditures we felt like either were warranted or, for
7 some reason, HUD disallowed during some sort of review, or
8 something like that. Is that right?

9 MR. DALLY: No. They --

10 MS. STINER: Housing-related --

11 MR. DALLY: -- could not be used for
12 disallowed --

13 MS. STINER: Only housing-related --

14 MR. DALLY: -- purposes, no.

15 MR. CONINE: Just housing-related stuff?

16 MR. DALLY: Right, and for our particular admin
17 costs related to that program.

18 MR. CONINE: Okay.

19 MR. DALLY: So it would be an unusual event of
20 some sort of cost related to the administration of that
21 program that went over and above a particular year's
22 budget.

23 MS. STINER: Vis-a-vis, paying for the
24 inspectors -- inspection contracts for site visits and to
25 clean up some of the stuff that we're now doing in our

1 Section 8.

2 MR. CONINE: Okay. Any other questions?

3 (Pause.)

4 MR. CONINE: Do I hear a motion maybe from one
5 of the members?

6 MR. DAROSS: I move we recommend approval to
7 the Board.

8 MS. WILLIAMS: Second.

9 MR. CONINE: Resolution Number 01-02? Would
10 that --

11 MR. DAROSS: Is that what the number is?

12 MR. CONINE: Would that be in order? I think
13 that's the one referred to in our book.

14 MR. DAROSS: Right, Number 01-02.

15 MR. CONINE: We have a motion and a second for
16 recommending to the Board that we approve the
17 establishment of the administrative fee threshold reserve
18 and policy here in our book. All those in favor, say aye.

19 (A chorus of ayes.)

20 MR. CONINE: All opposed say nay.

21 (Pause.)

22 MR. CONINE: And the ayes have it.

23 Thank you, very much.

24 MR. DALLY: Thank you.

25 MR. BURRELL: Thank you.

1 MR. CONINE: While we're on money, I want to go
2 back to -- if I could, Ms. Stiner, go back to -- and maybe
3 Bill could help out answering this -- the money that was
4 returned to HUD on the two issues that -- well, I guess,
5 the one issue plus the other one that's contemplated.

6 My understanding is that we expended those
7 dollars to our subrecipients and we're now having to pay
8 those dollars back. And my -- I have two questions. One:
9 I assume that money comes out of our reserves or some
10 operating surplus for the year if there is any.

11 MR. DALLY: That's correct.

12 MR. CONINE: Okay. And are we going to go --
13 is it traceable to go back to the subrecipients, or is
14 it -- are we just going to blow that off and move on down
15 the road?

16 MR. DALLY: Well, that's a policy decision, but
17 they are essentially in the same spot that we are. In
18 other words, they -- we -- came in and audited and said,
19 You went out and paid the subrecipients cost, and they
20 didn't have support for it. And then we've gone out and
21 asked, Okay, please bring in the support for this. And
22 they have not.

23 And so yes, I would be of the opinion that
24 ultimately the liability does lie with those
25 subrecipients, but --

1 MR. CONINE: Ms. Stiner, do you want to
2 comment?

3 MR. DALLY: -- I don't know what policy-wise
4 we -- whether we want to go after that or not.

5 MS. STINER: Yes, I'll comment. Bill's
6 absolutely correct. So it depends on what instructions I
7 guess that HUD would want to give us. Traditionally, if a
8 subrecipient has not kept records, we go in and do an
9 audit. And we will cite them for, you know,
10 noncompliance. But I guess that they -- you know, we can
11 cite them.

12 But if there's really a real possibility that,
13 you know, those funds would be repaid, we ought to think
14 through that. I mean this is something we need to think
15 about, how we're going to proceed --

16 MR. DAROSS: Yes.

17 MS. STINER: -- from this point forward.

18 MR. DAROSS: It occurs to me that most of the
19 people that we would be going after probably don't have
20 any assets to go after other than --

21 MS. STINER: Yes, what we give them.

22 MR. DAROSS: -- what they've built already.

23 MS. STINER: Yes.

24 MR. DAROSS: And that would put us in the
25 position of, I guess, foreclosing on property and taking

1 property back. And I don't think we want to be in the
2 business of owning these properties.

3 MR. DALLY: No. And to clarify, see, the first
4 issue, where we had the million-two -- those were the
5 Department's own administrative costs. And we found
6 support for roughly \$1 million, and then we returned the
7 261-. And now the amount that's in question, the 80,000-
8 whatever, is from the subrecipients.

9 MR. CONINE: Okay. All right.

10 MR. DAROSS: Oh, okay.

11 MR. CONINE: I had --

12 MS. WILLIAMS: Okay.

13 MR. CONINE: I had it confused. I thought it
14 was both.

15 MR. DALLY: So there's not a recovery for the
16 261-; that was the Department's own. It's that second
17 finding, on the 80,000, where we would --

18 MR. DAROSS: All right.

19 MR. DALLY: -- do something with regard to
20 subrecipients.

21 MR. DAROSS: Well, two comments. I'm assuming
22 that some of the controls we're putting into place and
23 some of the new database management procedures are going
24 to, hopefully, do away with the possibility that we'll
25 have that 260,000 figure or some figure like it come up

1 again.

2 MR. DALLY: That's correct. What we've done
3 now is -- those groups in the compliance monitoring area
4 that put their efforts in several different programs are
5 now keeping that time for each one of those programs. And
6 then we make adjustments in payroll, too. So the support
7 is -- are those time sheets and those -- that payroll,
8 which is what was lacking before.

9 MR. DAROSS: But, you know, having said what I
10 said earlier about not being able to collect this, I'm
11 kind of rethinking that because it seems to me that as a
12 policy matter, we ought to take the position that we're
13 going to hold these people's feet to the fire if they're
14 not reporting to us with proper documentation so we can
15 back up their figures to HUD. And maybe we ought to look
16 at, at least, a policy statement that we don't want this
17 to happen again.

18 MS. STINER: I think that's very reasonable.
19 And we've gone beyond, and we often extended management
20 and technical assistance training. And if you are -- we
21 can issue a directive, I suspect.

22 Ruth, I know you've worked with this. Do you
23 want to add anything to that?

24 MS. CEDILLO: Sure.

25 My name is Ruth Cedillo, and I'm deputy

1 executive director. It's very unlikely that we would be
2 able to recapture any funds from the subrecipients. And,
3 again, you know, we do have to take some responsibility
4 because there was some deficient training that we'll have
5 to take responsibility for. So it will probably be very
6 difficult to recapture any of these funds from the
7 subrecipients.

8 However, the staff has done a phenomenal job in
9 documenting the administrative funds for the agency. HUD
10 has worked with us very well in accepting a lot of the
11 information.

12 The staff even went as far as going back to
13 executive briefs, where they had documented all their
14 activities. They also went back to their travel vouchers
15 and allocated costs and time allowed for the monitoring --
16 well, for the visits. And there were more site visits
17 that were done. And so I think that it's about where it's
18 going to be with regard to documentation.

19 MS. STINER: Will you speak more to the
20 training and technical assistance for the subrecipients so
21 that those things are not repeated?

22 MS. CEDILLO: Well -- and some of the things
23 that we've done -- also, you know, we've separated the
24 regional coordinators in the HOME program of -- from the
25 monitoring staff. And I think that the regional

1 coordinators will be able to concentrate on providing that
2 technical assistance and the aspects of implementing the
3 program, where the monitors can go back and make sure that
4 the requirements of the program have been met.

5 So I have even heard comments from the staff
6 that it has really helped to separate those
7 responsibilities because usually, it's very easy to set
8 aside the monitoring when you have requests for funds that
9 have to be processed and the day-to-day activities of a
10 program. So I believe that that's going to help a lot in
11 making sure that the administrators follow the program
12 requirements.

13 MR. CONINE: Would it be possible to furnish
14 this committee with a list of the subrecipients that make
15 up that \$80,000, just to --

16 MS. CEDILLO: Yes, sir.

17 MR. CONINE: -- name who they are? Is that
18 doable --

19 MS. CEDILLO: I believe it's doable.

20 MR. CONINE: -- just for information purposes
21 only?

22 MS. CEDILLO: Yes, sir.

23 MR. DALLY: I think I want to add a little
24 something. The difficulty that the subrecipients had
25 is -- some of these contracts were stretching back two and

1 three years ago. And so if they didn't keep that time and
2 those time sheets, it's -- they're -- it's almost
3 impossible.

4 It's reasonable to think that they put in the
5 efforts and they delivered the program, but having -- the
6 A-87 requires the documentation and time sheets. And it's
7 difficult at this point to recreate that, but, certainly,
8 now that they're on notice, we can expect that they're
9 going to keep those kinds of documents and that we'll have
10 them before we actually send admin dollars back out to
11 them.

12 MS. MORRIS: If --

13 MR. CONINE: Come on up.

14 MS. MORRIS: -- you don't mind, I wanted to
15 further comment that we do --

16 MR. CONINE: Sure.

17 MS. STINER: Why don't you identify who you --

18 MS. MORRIS: I'm sorry.

19 MR. CONINE: Come on up, and --

20 MS. STINER: Yes.

21 MR. CONINE: -- state your name.

22 MS. MORRIS: I wanted just to add a comment.

23 I'm Pam Morris, Director of Housing Finance Programs.

24 We did change our implementation manual, and we
25 had HUD approval for how -- we have explained how you

1 document your administrative fees and have given them some
2 guidance. And that has gone out. And we've clarified our
3 HOME contracts to enforce that it's reimbursed
4 expenditures and you do have to document your expenditures
5 on administrative.

6 We emphasized it strongly in the HOME
7 implementation training that we did back in August for the
8 2000 contracts. And we've even gone to the step to
9 possibly have HUD come in for the next training session
10 and do training on what the OMB circulars mean and how you
11 document your administrative expenses, because we don't
12 always get consistent answers from them on what
13 appropriate documentation is.

14 And I think that -- I'm hoping that will solve
15 the problem long term. I think we've certainly raised the
16 awareness with the subrecipients.

17 MR. CONINE: Good. Thank you.

18 MS. MORRIS: Thank you.

19 MR. CONINE: Okay. Thank you, Ms. Stiner. We
20 certainly appreciate that.

21 Anything else, before we go into executive
22 session, from the committee?

23 (Pause.)

24 MR. CONINE: All right. We need to go into
25 executive session. This is for discussion and possible

1 approval of the performance evaluation for the internal
2 auditor, under Section 551.074, Texas Government Code.

3 (Whereupon, the committee went off the record
4 for executive session.)

5 MR. CONINE: We're back on the record from the
6 executive session, back in public session, I guess. The
7 Audit Committee has completed its executive session of the
8 Texas Department of Housing and Community Affairs on
9 January 26, 2001, at 9:58 a.m.

10 Is there any other business to come this
11 morning before the Audit Committee, committee members or
12 Ms. Stiner?

13 MS. STINER: No. None, sir.

14 MR. CONINE: Thank you.

15 We stand adjourned. Thank you.

16 (Whereupon, at 9:59 a.m., this meeting was
17 concluded.)

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MEETING OF: TDHCA Audit Committee
LOCATION: Austin, Texas
DATE: January 26, 2001

I do hereby certify that the foregoing pages,
numbers 1 through 39, 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.

01/31/01
(Transcriber) (Date)

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