TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

AUDIT COMMITTEE MEETING

Room E 1.012
Capitol Extension
1400 North Congress
Austin, Texas

9:30 a.m.

Thursday
September 12, 2002

COMMITTEE MEMBERS:

Vidal Gonzalez, Chair
Elizabeth Anderson
Shadrick Bogany (not present)

TDHCA STAFF:

Edwina Carrington, Executive Director
David Gaines

1   P R O C E E D I N G S

2   MR. GONZALEZ: Calling the audit committee

3   meeting to order. We'll start off with the roll call.

4   Beth Anderson?

5   MS. ANDERSON: Here.

6   MR. GONZALEZ: Vidal Gonzalez, here, and Shad

7   Bogany's absent. We'll go to Item 1 and call on David

8   Gaines.

9   MR. GAINES: Good morning, Chair. Ms.

10 Anderson, Ms. Carrington. You'll notice the agenda has

11 three report items, but I would like to take these a

12 little bit out of order. I have people from the central

13 database project here, and I know they're interested in

14 the status of that. And I'm not sure they're interested

15 in the rest of it.

16   But in that respect, we have representatives

17 from the technical team, and the leadership of the team,

18 and Chad Landry [phonetic] over here is helping lead up

19 the functional user team. We have one of the steering

20 committee members over here. So I'd like to move that to

21 the first of the agenda.

22   MR. GONZALEZ: Okay.

23   MR. GAINES: If you'll please turn to the page

24 immediately following the prior audit issues. And you'll

25 see basically an overview page, Status of the Central

1 Database Overview, discussing the benefits -- goals and

2 benefits of the project, a brief discussion of milestone

3 dates, of major milestones and those dates, how we set

4 those, the project timeline and the status of funds.

5   If you'll turn to the first page, which is the

6 overview, I'm not going to go into detail on this. This

7 is just business benefits and business goals. We've

8 touched on these before; we've walked through them before.

9   I did want to touch on the bottom half of the

10 page that discusses the major milestones in delivering

11 this project, as well as how we came up with the target

12 dates that we're shooting for. And I'd like to discuss

13 that in connection with discussing the timeline of the

14 sale.

15   So if you'll turn to the next page, the

16 timeline. First, I'd like to just kind of provide you an

17 overview of the type of information we're providing to

18 you. Our goal is to standardize this information so you

19 know what you're looking at, that it's consistent. We can

20 go right to the questions you have, and that'll facilitate

21 ongoing reporting.

22   Changes -- right now we're anticipating this is

23 pretty much what we'll be reporting. We'll only be

24 providing going forward to the extent you see additional

25 information you like, or to the extent we see that there

1 is information you need to be aware of and it doesn't fit

2 into these schedules.

3   I'd like to just use this program module on

4 line 18 as an example of what's being provided here. And

5 if you will, line 18 -- you can turn a couple of pages

6 back, and you see a description of all the modules. And

7 you'll notice at the top of page 5, "18, Program Module,"

8 is a description of that module.

9   And we'll have those descriptions on each of

10 the modules so you kind of see what you're getting.

11 Combine that with the business goals and benefits. That's

12 a pretty good overview picture of where we're going.

13   Now, if you'll turn back to line 18 again on

14 the timeline, the first page, it's -- excuse me. Back in

15 the back, there is also -- you'll notice if you scan

16 that -- look up a couple, you'll see capital expenditures

17 under some of the modules. Those are the actual capital

18 expenditures to date on that module and a brief

19 description of what those expenditures are.

20   Now if you'll turn back to page 18 -- or the

21 first page, line 18, you notice for the program module,

22 we're 0 percent complete. So in other words, we haven't

23 started any work on this particular module. The

24 development's start date -- and you can scan above. You

25 can see some of the percentages complete on the prior

1 modules.

2 On the next page, we actually have completed

3 modules, or completed activities and milestones. And

4 those were reported as 100 percent complete.

5 But as we make progress, we'll be given

6 estimated percentage complete. We also have start and

7 finish dates for each of the modules, and you'll notice

8 for the program module, we've got two summary phases,

9 development, functional planning and deployment.

10 There's major milestones within development

11 that are highlighted on that overview page is what those

12 major milestones are. Then there's detailed tasks

13 supporting those milestones in the detailed project plan

14 that the project team uses to work off of.

15 Likewise, on the functional planning and

16 deployment phase, the detail supporting that is -- we're

17 really at the threshold of that; deployment comes towards

18 the latter end of the delivered product. So for the most

19 part, we're just at the threshold of identifying the

20 details supporting those phases of the project.

21 Okay. The development start and completion

22 dates are based on these detailed tasks that have been

23 identified and the consensus experience of the project

24 manager and the IS director in performing similar work in

25 the past, and their other responsibilities they are

1 currently dealing with, is how those dates have been

2 derived.

3   The duration of the tasks for the functional

4 planning and deployment dates -- the duration part, is a

5 little less certain. For the program module, the start

6 date is November 20 for functional planning and

7 deployment. And this date was basically an estimated date

8 based on the estimated completion of the technical design

9 of the system, which is in the other phase, being the

10 development stage.

11   So as technical design is completed, that was

12 the start date of our functional planning and deployment

13 date. And this is generally the latest date at which time

14 the functional user should have sufficient information to

15 develop their deployment plans is why we set that date.

16   The completion date is estimated to be

17 approximately three months after the technical team

18 delivers the system to the functional users. The detailed

19 tasks and resources necessary to accomplish these phases,

20 these tasks, have not been identified at this point. And

21 so, accordingly, they are very preliminary dates, and

22 they'll be adjusted as the detailed plans -- the detailed

23 tasks and resources -- are identified to do that.

24   You'll notice some of the preceding modules,

25 lines 1 through 16, have dates that have expired,

1 historical dates is what I'm calling them. These

2 historical dates and others, such as those reported for

3 the completed tasks, are based on the actual dates. They

4 are the best approximation of when that work was actually

5 done and signed off on.

6   As far as the type of information being

7 provided, any questions on that? If not, there's a couple

8 of specifics I'd like to discuss.

9   (No response.)

10   MR. GAINES: Okay. In that case, let me turn

11 you to the compliance monitoring and tracking system

12 that's line 1 of the project line. Notice that the

13 technical development of the project is substantially

14 complete. We're estimating 95 percent. The technical

15 team's estimating 95 percent at this point.

16   The functional planning and deployment is being

17 reported as being 57 percent complete. I believe in

18 looking at this that the functional team needs to revisit

19 what all is necessary within this phase and be sure

20 they're satisfied with the progress being reported.

21   There are considerable data scrubbing and

22 population issues that have not been fully addressed, and

23 I'm not sure they've been factored into this time frame

24 that they're projecting.

25   So I'll be working with the functional user

1 over the next few weeks to ensure that all the deployment

2 issues have been taken into account, and based on the

3 results of that, there may be some adjustment to that

4 date. I would like to think any adjustments to that date

5 would be within and concurrent to the following line,

6 which is the industry roll-out period.

7   You notice, this is a considerable time frame.

8   And what this period relates to is making the tested,

9 proven system available to the department's multifamily

10 business partners managing properties in the department's

11 portfolio that are subject to ongoing LURA agreements,

12 land use restriction agreements, and getting those

13 partners on line, if you will, to report their tenant and

14 unit information on an ongoing basis.

15   One thing that the timeline doesn't reflect is

16 the significance of this module. And this module,

17 basically, not only does it include the compliance and

18 monitoring functions and tracking functions, it's also the

19 basis and underlying architecture for the entire system.

20   And while it's reported just as another module,

21 completion of this module represents a significant

22 accomplishment in the development of the overall project.

23 And I've kind of just referred to some of the team

24 members that are here with me today, one of them being

25 James Roper. He's the user in the compliance division and

1 here momentarily would like to provide you a brief

2 demonstration of the functionality of the system that

3 has -- at this point, it's estimated to be 95 percent

4 complete.

5   In connection with that, I believe James is

6 going to discuss some survey results that we've

7 accumulated from the users in the field that have actually

8 been -- they're what we call our PILOT tests, and will be

9 part of the acceptance testing of the system.

10   The only other thing I wanted to point out on

11 the status report and the standard reporting that we'll be

12 providing to you is the next handout that follows the

13 timeline documentation, which is the status of funds as of

14 August 31.

15   This has been presented to you previously.

16 It's a little more summarized. We're taking more and more

17 detail out, so we won't burden you with it. But we'll be

18 glad to bring that back to life at any point you might

19 have questions on it.

20   I did want to bring your attention to the

21 bottom line on this. We are currently expecting our

22 appropriated capital budget to be fully expended by March

23 2003. And as we've previously discussed, the department,

24 the project team, the entire team needs to establish

25 strategies on how to best proceed beginning -- how best to

1 proceed from that date until the beginning of the next

2 biennium, September 1, '03, where it's assumed at this

3 point that we'll have continued funding for this project.

4   I didn't have any other planned comments for

5 the project. We're open to questions. And I hope we have

6 the right people here to answer them.

7   MS. ANDERSON: I'd like to hold my questions

8 until after --

9   MR. GAINES: Okay. In that case, I'll turn it

10 over to James Roper. And I believe he wants you all to

11 kind of scoot aside.

12   MR. ROPER: We just want to know if all is

13 clear for technical difficulties here.

14   (Pause.)

15   MR. ROPER: While he works on that, I'd like to

16 give you all a brief overview of what we're actually doing

17 in the demonstration. My name is James Roper. And I'm a

18 monitor in the compliance division. I've got to speak to

19 the mike.

20   Again, my name is James Roper. And I'm a

21 monitor for the compliance division. I'm here today to

22 demonstrate the compliance module to the central database.

23   Since coming on board with TDHCA, I have worked

24 extensively with compliance monitoring modules. This

25 module was near completion but required testing. After

1 extensive in-house testing, the system was ready for a

2 PILOT test involving external users on a limited scale in

3 a real-life scenario.

4   Eleven volunteer properties were chosen to take

5 part in the PILOT program, using the external interfaces

6 that were designed for the end user. Eight separate

7 companies managed these eleven properties.

8   Automated tests were conducted on the household

9 data input by the external users, and the results of these

10 tests were evaluated against manual desk reviews conducted

11 by in-house personnel. The results of these tests were

12 found to be correct and more accurate than manual reviews,

13 and faster as well, due to not having to deal with

14 interruptions during the day, and the human factor.

15   After the PILOT program was complete, a

16 customer satisfaction survey was developed to get a

17 feedback on the system and identify any programming issues

18 that were outstanding. This survey asked questions or

19 feedback on functionality and the ease of use of the

20 system. It was graded on a scale from 1 to 5, 1 meaning

21 that the system did not meet their expectations at all, 3

22 meaning that it met minimum expectations, and 5 meaning

23 that it exceeded their expectations.

24   Eight surveys were sent out, and eight

25 responses were received. The results of the survey were

1 positive, and they are as follows: 62.5 percent of

2 respondents gave the system 5's, meaning they exceeded

3 their expectations; 16.6 gave the system 4's; 9.72 gave

4 the system a 3, which meaning it just met their

5 expectations; 1.38 percent gave the system 2's; and there

6 were no 1's reported.

7 9.97 percent gave no response to some of the

8 screens, because the user simply did not go into that. Of

9 the five programs that the compliance division monitors,

10 the Tax Credit Program, eleven of which were a part of the

11 PILOT program, the HOME program, two of which were in the

12 PILOT, and the Bond program, one of which was in the

13 PILOT, were tested.

14 The HDP and the HTF program were not tested as

15 a part of the PILOT. These will be tested in the near

16 future. Several programming issues were identified during

17 the PILOT, and these are being addressed now. Most of the

18 issues related to the user friendliness of the external

19 screens and require only minor programming changes.

20 The data cleansing of the current data and the

21 data population for the missing data is being addressed in

22 the next phase of deployment, meaning we have to worry

23 about migrating existing -- other existing systems, and we

24 also have added fields to the compliance system that was

25 not in our other system.

1   One of the business issues that was identified

2   was the interrelationship of the data components that we

3   deal with on a day-to-day basis, those being individuals,

4   organizations, properties, and the programs that these

5   properties participate in. By being able to easily track

6   these interrelationships, we will be better able to

7   monitor the effectiveness and efficiency of the programs

8   that we administer.

9   I hope to demonstrate the value and benefit of

10   the system, not only to the compliance division, but as a

11   foundation for the future modules that will be rolled in,

12   and are being developed now.

13   The compliance module is the most complicated

14   of the compliance testing. At this time, I would like to

15   log in the system and show the members the functionality

16   that we currently have. This is the log-in screen, if I

17   can remember my ID. Okay.

18   Once logged into the main screen, the user has

19   the opportunity to search the database by many different

20   fields, being organization, person, address, or the

21   property themselves. Today, I would like to start with an

22   example of an individual, a person that we deal with on a

23   day-to-day basis. I'll search for him by his last name,

24   Mr. Hoover.

25   And as you see in our database, we have many

1 persons with the last name of Hoover. The one we're

2 interested in today is Mr. Dennis Hoover. If I click on

3 his name, then I pull up the detail, contact information,

4 address information that we currently have in our database

5 for this person.

6   At the bottom of the screen, I can click on

7 organizations, and that will lead me to the organizations

8 that this person is related to. And as you can see, there

9 are quite a few organizations that Mr. Hoover is related

10 to. One of the organizations is Hamilton Valley

11 Management. And by clicking on that, I will not only -- I

12 will see the organization's detail, the physical address,

13 contact information concerning them. And by choosing

14 Properties at the bottom, then I can see the properties

15 that are related to this organization.

16   Again, you will see a number of properties that

17 this company manages, one of which, near the bottom, is

18 Llano [phonetic] Square. Llano Square was one of the

19 participants in the PILOT program. So by clicking on that

20 property, then I pull up the detailed information

21 concerning that property, the review information, contact,

22 and address details; it also lists the individual program

23 requirements that this property participates in, both HOME

24 and Tax Credit.

25   By going into the profile for each program --

1 by clicking here, then I can see the exact requirements

2 for that property to maintain compliance under this

3 program. It shows the minimum set-asides, their income

4 and rent requirements, any additional occupancy

5 requirements, any supportive services, anything that is

6 required under the program.

7   Now, by clicking on the name again, I go back

8 to that main screen. Another feature here is the fees,

9 the monitoring and compliance fees that are charged to the

10 properties for each program. We can go into that, set up

11 a profile of fees that are required under the program. It

12 will -- and we can bill those fees to the properties and

13 maintain a record of transactions and keep balances from

14 year to year.

15   We can also track the last review that was

16 conducted. And since this property was a part of the

17 PILOT program, if we go to Review Groups at the bottom,

18 we'll see that we conducted reviews for this property, and

19 because of the automated testing that was done as part of

20 the PILOT, several findings were generated by the systems

21 testing.

22   If I want to find out the individual detail of

23 the finding, for example, this one -- if I click on the

24 finding itself, the type, then I can go to the bottom and

25 find the detail about the finding, what caused the

1   finding, what corrective actions are required. Also under

2   finding status, I can track each individual finding and

3   what phase it is, all the way through closure.

4   If I'm interested in finding out what

5   household information caused this finding, by clicking on

6   the unit number here, I can pull up the household

7   information that was input by the end user. And this

8   information includes what the property designated, the

9   household composition, ethnic background of the household,

10 and all of the unit accessibility for that particular

11 unit, and the household information that was input by the

12 end user.

13   So by having all of this information

14 interrelated, then reporting tools can be developed to

15 monitor compliance with the programs, check for the

16 effectiveness and efficiency that the programs are

17 involved in, and also check for the effectiveness of the

18 programs that we put out there. If they're not working,

19 then we can make modifications to them.

20   This information will be available agencywide.

21 That way all of the data is interrelated, and it makes the

22 system more powerful. So, as you can see, functionally,

23 the system works. Any questions?

24   MR. GONZALEZ: Good presentation.

25   MS. ANDERSON: Thank you.

1   MR. GAINES: Your pleasure?

2   MS. ANDERSON: I have a couple of comments, as

3 usual.

4   MR. GAINES: Okay.

5   MS. ANDERSON: That's a very -- that's very

6 helpful to see it, you know -- to see a demo

7 representation of the live system and very encouraging

8 results from the field also, about the reaction of the

9 owners to -- both to the friendliness and their

10 satisfaction with the system.

11   And I agree with you, David, that this really

12 is the foundation for the entire central database project.

13   It's my experience in this industry that oftentimes when

14 we talk about, you know, development, a lot of systems

15 seem to be 95 percent done for an extended period of time.

16   You know, you're never really, really finished.

17   And I think it -- so my request to you and the steering

18 committee and the functional users, the Compliance System,

19 specifically, is that at the next audit committee meeting,

20 I'd like to have a report on what the remaining

21 requirements are to get 100 percent complete development

22 on this initial phase of compliance, so that we can

23 eliminate that dependency from the timetables of rolling

24 out -- of working on the other modules.

25   So I mean, I think I'm asking for a list of,

1 you know, remaining user requirements. And I would ask

2 that we have those be restricted to the have-to-have kind

3 of items, not the nice-to-have kind of items.

4   And then on a reasonable schedule, you know,

5 I'm also very interested in having someone talk to us

6 about what the plans are to -- what's the roll-out plan,

7 and who is going to be responsible for that? How do we

8 coordinate those roles between the compliance division and

9 IS?

10   What kind of a tool kit, or whatever, is going

11 to be given to all the owners, you know? Are you sending

12 them a diskette with embedded user training or something,

13 so they can -- to install, and then begin to use this

14 system? So I'm not -- I don't know if it's reasonable to

15 expect that one at the next meeting, but I'd at least like

16 to know when we can see that, or have a briefing on the

17 industry roll-out plan, because it just -- I think it's

18 critical to all of our partners in the field to have.

19   So that's sort of in our compliance. With

20 regard, I appreciate very much the briefing. And it's

21 clear -- as it has been clear, that you and the functional

22 user team and Walt and Curtis, and your contractors and

23 everybody has been working very hard on this.

24   I'm a little surprised to see, in some of these

25 modules, that the development length of time -- start and

1 end dates for development on some of these things look

2 much longer than previous versions of the project plan.

3 And so I would also ask that on a timetable you tell us

4 what's reasonable. But that we blow out to the -- and I'm

5 not saying we have to see pages and pages of detailed

6 project plans.

7 But what I would like is a briefing on what --

8 when you blow out the detail on the subsequent modules,

9 you know, really starting with the -- probably starting

10 with the application module, these things that have dates

11 that go in past the end of the funding, existing funding

12 and so forth, that we get some validation of these

13 estimates -- time estimates, from the developers that are

14 going to be doing the work, so that you come back and just

15 get me a little more comfortable with the validity of

16 these start and end dates on the development.

17 And I think maybe if we just focus on these

18 application program and construction modules, the majority

19 of the activities taking place beginning now and into next

20 year, that would really help me to get comfortable that we

21 have a project plan that's valid, and actionable, and

22 attainable.

23 MR. GAINES: Yes, ma'am. You said someone can

24 provide it today?

25 MS. ANDERSON: You know, it's -- and I very

1 much respect Curtis and Walt. And -- but I need to

2 understand what the basis of the estimate is, and that

3 that's been validated by the developers that are going to

4 do the work.

5   MR. GAINES: Yes, ma'am. Very good. Thank

6 you. The next item, or the first item on the agenda is

7 the Status of Prior Audit Issues. So if you'll turn back

8 to the listing following the Tab 3 of your board book.

9   Since the last report, eight issues have

10 dropped as implemented or otherwise resolved. And one

11 issue has been dropped as no longer relevant. So a total

12 of nine issues, as implemented, or otherwise resolved.

13   Four issues relating to the internal payroll

14 audit that we presented to you last month have been added

15 to the report. So there's currently 25 issues being

16 reported. Twenty-three of these are being reported as in

17 progress, one issue has been reported as implemented, and

18 one issue has been reported as delayed, pending action by

19 HUD.

20   Okay. What I'd like to do is just kind of give

21 you an overview of where we're at on these issues and kind

22 of how we got here. Okay. And if you will, just starting

23 at the beginning, I'm going to walk through these briefly,

24 so you all feel free to stop me at any time, although I'd

25 prefer you wait until I'm through.

1   MR. GONZALEZ: Did you hear that?

2   MS. ANDERSON: Yes.

3   MR. GAINES: The first three issues are rather

4 dated internal audit issues going back to the summer of

5 1999/2000. These issues relate to all program areas, and

6 for the most part, have been reported as implemented by

7 most of the program areas.

8   Delays in implementation by the remaining

9 program areas in large part relates to a lack of

10 sufficient coordination and just specific assigned

11 leadership in dealing with these cross-cutting issues that

12 cross over more than one division.

13   More recently, these issues have pretty much

14 been put on hold pending the results of reorganization.

15 And while management recognizes the need to be moving

16 forward on issues in spite of the reorganization, these

17 are some of the considerations that argue in favor of the

18 reorganization and I believe are reasonable to wait until

19 the dust settles on that, and let the new management under

20 the new organization deal in resolving these issues.

21   The next issue, Reference 187 on page 2 of 12,

22 is a Section 8 issue that was one of 17 issues identified

23 by HUD in a monitoring review in the late summer of

24 2000 -- one of 17 issues. The other 16 issues have been

25 reported as implemented by management.

1   This issue is relating to a family self-

2   sufficiency program. And management is currently

3   assessing the local operator's area's capacity to deliver

4   the services necessary under this type of program. If

5   such a capacity is not available, the department intends

6   to request an exception from HUD from the requirement,

7   which is available under certain circumstances, such as

8   not having the capacity in the areas where the Section 8

9   tenants are living.

10   Management plans on being through with their

11 assessment and requesting the exception, or recognizing we

12 do have the capacity, and begin developing the plans, by

13 the end of this calendar year.

14   I'd like to skip over the next several issues.

15   The status updates on these issues have not been provided

16 since the last board meeting, and the target dates are

17 rapidly approaching, so it will be a very short time when

18 a status update will be necessary, and we can report those

19 in future meetings.

20   Issue 253 on 4 of 12 through Issue 260 on page

21 7 of 12 relate to a HUD report issued on the HOME Program

22 in November 2001. There has been several written

23 communiques back and forth between the department and HUD.

24   I believe there has been -- well, I know there has been a

25 couple of meetings in person regarding these issues.

1   The department responded to the November 2001

2   report in February 2002 of this year. The department's

3   response was in general disagreement with HUD and offered

4   additional information for HUD to consider and offered

5   alternatives to HUD's corrective actions.

6   HUD responded to the department June 27, 2002,

7   that the department's response was generally unacceptable

8   except for one finding, which was cleared by HUD.

9   Since that time, the department has been

10   working to resolve these issues and provided HUD another

11   response on July 26, 2002. In this response, the

12   department reported the progress it's making on addressing

13   these issues, the intentions it has on moving forward and

14   addressing the corrective actions, or stating its

15   arguments supporting its disagreements with the issues or

16   the corrective actions.

17   Originally there were eight findings in the

18   report. Two of these have been resolved; one has been

19   acknowledged by HUD as being resolved, as I have

20   previously mentioned. So of the remaining six, there is

21   one issue, Issue 253 on 5 of 12, that the department

22   disagrees with, and it's provide HUD additional

23   documentation in connection with the July 26 letter that

24   it hopes will resolve this issue.

25   There was a considerable amount of

1   documentation provided in connection with the results of

2   in-house testwork of the same tests HUD conducted, plus

3   additional testwork that tested successfully.

4   And the department's provided these results and

5   the documentation to HUD in the hopes it will satisfy HUD,

6   whereby the need to implement HUD's corrective action

7   won't be necessary. And their corrective action requires

8   that the department reinspect all units funded by the HOME

9   program for compliance with inspection standards since

10   1998. So this is something we'd really like to go away.

11   I'm not going to touch on the details. We've

12   been through them before. But again, I'll be glad to at

13   any -- after my discussion. Actually, I will be glad to

14   right now if you'd prefer. But again, I'll move forward.

15   There were five other issues -- five remaining

16   issues; two implemented, one, the department disagrees

17   with. The remaining five, the department continues to

18   work on. The significant changes in the status report

19   since the last report, I'd like to just touch on briefly.

20   Issue 258 on page 6 of 12 relates to the

21   prohibited clause in land use restriction agreement

22   executed between one of the -- between the department and

23   one of the subrecipients regarding the ability of the

24   partnership to waive occupancy requirements.

25   And HUD's corrective action requires that we go

1 back to all of the LURAs since 1998 and fix this. And

2 basically, the department's determined that the prohibited

3 language is included in the LURAs and that the most

4 efficient, effective way is to proceed by executing orders

5 applicable to all the LURAs that are in violation of the

6 HUD regulations.

7   There's approximately 140 documents that are in

8 the process of being prepared and will be presented to the

9 board at the October 10 meeting for approval prior to

10 subsequent processing.

11   Issue 260 on page 7 of 12 relates to two

12 different circumstances. The first relates to instances

13 where there was no documentation that newly constructed

14 units were in compliance with the Model Energy Code. The

15 corrective action is that we go back since 1998 on all

16 such properties that are subject to this, obtain

17 documentation to verify that they are in compliance.

18   The department has provided the subrecipient

19 with the listing of all applicable projects. This was

20 provided on August 22 and has requested the documentation

21 to support compliance with Model Energy Code. The

22 department has a meeting scheduled with the subrecipient

23 on September 24 to consider progress to date.

24   The second portion of that issue, and the

25 remaining three issues the department manages to report

1 on -- there has been no reported significant changes in

2 status since the last status update, which we did discuss

3 the status at that time. However, I understand we

4 continue to work on those issues.

5   The next four issues result from the

6 department's annual audit of its financial statements by

7 Deloitte and Touche. And these begin on page 7 of 12,

8 Issue 272 through 276. Accounting plans to have these

9 issues resolved in connection with the current financial

10 reporting period and the current audit that's currently

11 underway. Deloitte and Touche have a responsibility to

12 follow up on these issues management believes will be

13 implemented.

14   And the results will indicate so, with the

15 possible exception of Issue reference 275 on page 8 of 12.

16 This relates to Deloitte's recommendation to develop an

17 integrated system to support the department's financial

18 management needs. This is somewhat a subjective matter

19 that accounting has taken some corrective actions on,

20 believes it's being dealt with to the extent practical,

21 considering the existing systems and resources, and just

22 hopes Deloitte won't consider it an issue that necessarily

23 has to be reported again during -- in connection with this

24 audit, in which case it will be dropped from future

25 reporting as being considered adequately addressed.

1   The next issue, 264, or the next issues, excuse

2 me, relate to an audit conducted by the internal auditing

3 division, selected single-family loans. The report was

4 released in January 2002. I'm speaking to Issues 264 and

5 266 on 9 and 10 of 12.

6   There are seven issues originally reported in

7 this issue, of which five have been reported as

8 implemented or otherwise resolved. Of the remaining two,

9 I'd like to simply discuss Issue 264.

10   And if you read the issue on this and then

11 review the status, it appears that the issue has been

12 corrected and resolved. And so the logical question is

13 why do we have an August '03 target date? And the reason

14 being is that the issue is not very well summarized. And

15 that needs to be elaborated going forward.

16   In addition to developing processes to ensure

17 that all loan documentation is in place which has been

18 implemented, the department has a considerable task of

19 conducting historical research of single-family loans made

20 under the Homebuyer Assistance Program, specifically

21 identifying disbursements under that program as loans or

22 otherwise and for those loans accumulating the necessary

23 documentation to support the department's financial

24 interest.

25   MS. ANDERSON: How far back, when you say

 1 historical, does that reconstruction go?

 2   MR. GAINES: I'm not sure how far back, but it

 3 goes as far back as we've been involved in that activity,

 4 Homebuyer Assistance Program, which may be back to the

 5 beginning of the program, back in the early '90s.

 6   MS. ANDERSON: Okay.

 7   MR. GAINES: And I do have summary information

 8 regarding the significance of that if, by chance, you're

 9 interested at some point.

10   The next issue, 268, on page 10 of 12 -- also

11 we had one more issue relating to the internal audit on

12 single-family loans, and I wasn't going to speak to that

13 specifically. The target date is rapidly approaching, and

14 we'll get an updated status at that point.

15   Page -- the next page, next issue, 268 on page

16 10 of 12, relates to one of four audit findings resulting

17 from KPMG's federal single audit of the state for fiscal

18 year 2001. This report was released February 2002, and

19 since that time, two of the four issues have been reported

20 as implemented.

21   On issue 268, again page 10 of 12, there has

22 been considerable confusion surrounding this issue. It

23 was reported to the board at the last meeting, as it is

24 here, that the department planned on requesting HUD to

25 reconsider the issue because the department believe HUD

1 was misunderstanding the issue as reported by KPMG.

2 In actuality, the department was

3 misunderstanding, according to the partner with KPMG. We

4 believed that it was wrong for HUD to be accepting the

5 estimate of questioned costs supporting this of 100

6 percent of the soft costs.

7 This was based on comments by KPMG that their

8 sample results could not be projected to the total

9 population and based on our reading of the report, whereby

10 35 of 40 sample items tested successfully. In working

11 through this with KPMG since this report -- since the

12 board book was delivered to you and the materials were

13 delivered for getting it to you -- since that time, the

14 partner, KPMG, has clarified our misunderstanding by

15 stating that no, wait a minute; yes, while 35 of 40 tested

16 successfully, those 35 didn't include soft costs. Only

17 five of them included soft costs.

18 Thereby, 100 percent of the sample items that

19 included sample -- soft costs did not have documentation.

20 Additionally, HOME management and staff, during the

21 course of the audit, reported to KPMG that documentation

22 supporting soft costs was not required for reimbursement,

23 and that a percentage of the contract amount was

24 allowable. And that was what was being reimbursed.

25 Considering no documentation in their test

1 results, considering that comment, HUD -- excuse me, KPMG

2 estimated the total soft costs for the year and then

3 questioned the total soft costs, which is a reasonable

4 conclusion.

5   What we've done since that time, since that

6 revelation, which has been in the last week, is we've

7 requested and received from KPMG the details supporting

8 their 40 sample items. We had misunderstood KPMG based on

9 verbal discussions and reading of the report.

10   And while they acknowledge that

11 misunderstanding and the confusion surrounding the wording

12 in the report, they've come back with this additional

13 information. We feel like we need to look at those other

14 32 items and be satisfied that's the case. Based on the

15 results of that, we're kind of back to stage 1 of

16 developing strategies on how to best proceed with this

17 issue.

18   Okay. The second of the two issues that still

19 is outstanding relates to issue reference 271 on page 11

20 of 12. And this relates to the embezzled funds by a

21 subrecipient employee that we do business with. The

22 embezzled funds included $183,000, or 183,400 or LIHEAP

23 funds and 280 -- or excuse me, 28,000 of Department of

24 Energy funds, which on our report of yesterday to the

25 Governor's office, pursuant to a request from the U.S.

1 Department of Health and Human Services, that it will be

2 returning the HHS funds, or the 184,000 -- the 183,400 --

3 we'll be returning those funds to HHS no later than

4 October 31 of this year.

5 The department will also work with the

6 Department of Energy as they contact us to satisfy any

7 possible claims they might have. Are there any questions

8 relating to -- oh, the remaining issues are the internal

9 audit issues relating to the payroll audit. And I didn't

10 have any planned discussion for those today, although one

11 of them we have independently verified as being

12 implemented.

13 Prior Audit issues. Any questions you'd like

14 to go into on that?

15 MS. ANDERSON: Are we going to have -- to me,

16 the obvious question when we're getting ready to reimburse

17 HHS is, what the status of the conversations with the

18 grantee are about reimbursing us. Is that a -- I guess

19 that's on the executive session?

20 MR. GONZALEZ: Yes. And of course that is a

21 recourse to the department. I believe there's plans for

22 further discussion of that today.

23 MS. ANDERSON: Okay. Great. David, you're

24 continuing to bird-dog this along with this part of the

25 management of the agency. And I'm really -- on behalf of,

1 you know, the taxpayers, I really appreciate your

2 diligence working through these issues.

3   And I would just ask that as we approach the

4 next department meeting next month, that, as you prepare

5 this report, you know, some of these items that have not

6 had any updated commentaries since the end of July -- you

7 know, October will be two-and-a-half months after that.

8 Kind of use your judgment, but let's have some updated

9 statuses on some things where it makes sense. Maybe that

10 will --

11   MR. GAINES: Yes, ma'am.

12   MS. ANDERSON: Maybe my request for that will

13 help make sure that --

14   MR. GAINES: Okay.

15   MS. ANDERSON: -- management can, you know,

16 can make some time to do that. And then, specifically, on

17 this soft cost thing, where we had these recent

18 developments in the last week, I specifically would like

19 to make sure that the next audit committee meeting that we

20 have, you know, that the HOME program has done its review

21 of those items so that you have -- are able to update us

22 on the -- what the current --

23   MR. GAINES: Yes, ma'am.

24   MS. ANDERSON: -- thinking is about that next

25 month.

1   MR. GAINES: Yes, ma'am. And thank you to

2 management working with me on these.

3   There is one other issue, if you will, that's

4 not included on this report. It didn't result from an

5 audit. This relates to the HOME program income issue.

6 HUD issued a letter to the department dated November 2001,

7 and advised the state that it was receiving all this

8 program income into its management information system,

9 IDIS.

10   In that letter, HUD also expressed concern that

11 a particular subrecipient that had been generating program

12 income was being retained by them and not reported to the

13 department.

14   In response to this letter, the HOME staff has

15 developed standard operating procedures that went into

16 effect April 2002 that address the issue of receiving

17 program income and posting it into the management

18 information system IDIS.

19   Furthermore, the HOME program contracts funded

20 in 2001 and going forward will be written in such a

21 manner, and were written in such a manner, whereby the

22 retainage of program income by the subrecipients will not

23 be allowed.

24   This will make the treatment and accounting of

25 program income much easier. That will be coming back to

1 us. And it will just keep tracking and accounting much

2 easier specific to the particular subrecipient, the

3 department's requested program -- all program income

4 generated by the HOME-funded contracts, less any

5 legitimate, allowable expenses against that program

6 income.

7   To date, subrecipients reimbursed to the

8 department over $600,000 that had previously retained, and

9 the department staff is in the process of reviewing this

10 information to determine if it's complete and accurate.

11   Okay. The last item on the agenda relates

12 to -- it's titled Review -- let's see, Status of a Review

13 of Low Income Housing Tax Credit Inspection Fees.

14   After the last board meeting, Ms. Carrington

15 contacted me and other appropriate staff to discuss a

16 situation that had recently come to her attention, the

17 situation related to the department's payment of

18 inspection fees on tax credit properties.

19   While these fees were to be reimbursed to the

20 department by the property owners, adequate procedures had

21 not been established to properly account for and collect

22 these fees.

23   Ms. Carrington requested that the internal

24 audit division conduct a review of circumstances

25 surrounding this. To date, as of today, the Tax Credit

1 Program has provided us an accounting of all related fees

2 and collections that it maintained in an access database.

3 According to these records, as of yesterday,

4 tax credits in the program has billed $703,000, rounding

5 off for inspection fees. The department's collected

6 423,000, which includes some overpayments, about $33,000

7 in overpayments.

8 Of that 423,000, 236,000 has been collected in

9 the last 30 days. So it looks like people are being very

10 responsive to our requests for reimbursement. The

11 remaining balance is 203,000. And this is net of the

12 33,000 in overpayments. So it's closer to $237,000 is the

13 remaining balance being reported as being due from the

14 property owners on these tax credit properties.

15 MS. ANDERSON: When was the payment deadline in

16 that round of bills that went out? I thought it was

17 requested by August 31.

18 MS. CARRINGTON: I think it was the 29th.

19 MR. GONZALEZ: The --

20 MS. CARRINGTON: That was actually a Friday.

21 Right. The 29th was a Friday.

22 MS. ANDERSON: Okay. And so we have separate

23 request for payment letters -- is that in the plan,

24 that -- not -- where it's not been collected?

25 MS. CARRINGTON: The letters just went out on

1 the 22nd of August. We gave them actually a very short

2 time frame to respond.

3   MS. ANDERSON: Okay.

4   MS. CARRINGTON: And staff has been getting

5 calls indicating a willingness to pay --

6   MS. ANDERSON: Okay.

7   MS. CARRINGTON: -- but could they have a

8 little more time? So I would think that we would want to

9 wait, at least for 30 days from the date of the August 22

10 letter, and then do a second billing after about the 22nd

11 or so of September.

12   MR. GAINES: The information provided to

13 Internal Audit has -- the program area believes it's

14 complete. During the course of this review, the -- our

15 review, the objectives are to determine completeness and

16 accuracy surrounding this report.

17   Upon completion of the report, Ms. Carrington

18 has also requested that the division review other fees

19 collected by the department, just to ensure that adequate

20 controls are in place to provide reasonable assurance that

21   all fees that should be collected are being collected,

22 properly recorded and processed.

23   That will be either a series of little mini-

24 reports going forward, or one big report. I hadn't quite

25 thought through that. Maybe for timeliness' sake, it

1 might just be a series of short reports relating to each

2 of the different fees we're considering. And of course,

3 you'll be kept apprised as when they forward in that

4 respect.

5 MR. GONZALEZ: Excuse me. When we go, do we

6 normally expect payment within the 30 days period? Or

7 what --

8 MR. GAINES: I haven't looked at the actual

9 billing, but I suspect that's the case. I'm not real sure

10 on that.

11 MS. CARRINGTON: Actually, the billing that

12 went out in August -- the letter was dated the 22nd, and

13 we asked them to pay us by the 29th. So we didn't give

14 them 30 days. So we will be evaluating that, and

15 determining what period of time seems to be reasonable.

16 MS. ANDERSON: Of the 703,000 that was billed,

17 how does that number compare to the department's payment

18 of inspection fee prior to that? Because I understood

19 that in some cases, staff would make an adjustment and not

20 bill the developer for the full amount of the inspection

21 fees. Do you have a gross amount of inspection fees paid

22 by the department that we then turned around and billed

23 703 of that?

24 MR. GAINES: That will be addressed in our

25 review in determining completeness. I do know that at one

 1 time frame we were billing on a sliding scale. It was

 2 called a pro rata scale, which was a flat fee, plus so

 3 much per unit. That did not necessarily recover all the

 4 costs relating to a particular inspection.

 5   So when we get to those will be the question of

 6 are we standing by our original billings? Are we changing

 7 and going and trying to recover that full cost? And I

 8 think that's something we can work through with Executive

 9 and come to the right decision on that.

10   Any further questions on this or any other

11 subjects we discussed this morning? Thank you very much.

12   MR. GONZALEZ: Thank you. Very good report.

13   MR. GAINES: Thank you.

14   MR. GONZALEZ: I'll entertain a motion to

15 adjourn.

16   MS. ANDERSON: So moved.

17   MR. GONZALEZ: Second. The audit committee

18 meeting is adjourned.

19   (Whereupon, at 10:30 a.m., the meeting was

20 concluded.)

1   C E R T I F I C A T E

2

3 MEETING OF: TDHCA Audit Committee

4 LOCATION: Austin, Texas

5 DATE: September 12, 2002

6   I do hereby certify that the foregoing pages,

7 numbers 1 through 40, inclusive, are the true, accurate,

8 and complete transcript prepared from the verbal recording

9 made by electronic recording by Penny Bynum before the

10 Texas Department of Housing and Community Affairs.

_____ 09/16/02
(Transcriber)   (Date)

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