TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

AUDIT COMMITTEE MEETING

8:30 a.m.
Thursday,
October 9, 2003

Waller Creek Office Building
Room 437
507 Sabine
Austin, Texas

COMMITTEE MEMBERS:

VIDAL GONZALEZ, Chairman
ELIZABETH ANDERSON
KENT CONINE

STAFF PRESENT:

EDWINA CARRINGTON, Executive Director
DAVID GAINES, Director, Audit of Internal Audit
SUZANNE PHILLIPS
EDDIE FARISS
TIM GOURIS
CURTIS HOWE
DELORES GRONECK

A G E N D A

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

2   MR. GONZALEZ: I'll call the Texas Department

3   of Housing and Community Affairs audit committee to order.

4   And the first order of business is the roll call. Vidal

5   Gonzalez is present. Beth Anderson?

6   MS. ANDERSON: Here.

7   MR. GONZALEZ: Shad Bogany is absent. And Mr.

8   Mike Conine?

9   MR. CONINE: Kent. Mike Gowans.

10   MR. GONZALEZ: I mean Kent. Kent Conine.

11   Okay.

12   MS. ANDERSON: You can call me Ray.

13   MR. GONZALEZ: Mike. Kent. Whatever. Okay,

14   David. I hope I get you right. We do have a quorum.

15   MR. CONINE: You're right, Vidal Sassoon.

16   MR. GONZALEZ: We'll go to the approval of

17   minutes, dated May 29 of 2003.

18   MS. ANDERSON: I move approval.

19   MR. GONZALEZ: We have a motion. Do we have a

20   second?

21   MR. CONINE: Okay.

22   MR. GONZALEZ: All those in favor?

23   (Chorus of ayes.)

24   MR. GONZALEZ: All opposed?

1   (No response.)

2   MR. GONZALEZ: The motion carries. The minutes

3 are approved. Now we go to Mr. David Gaines for item

4 number two, presentation, discussion and possible approval

5 of fiscal year 2004 annual audit plan.

6   MR. GAINES: Mr. Chair, committee members, and

7 Ms. Carrington. We have a couple of people -- or several

8 people from the information services division that are

9 here to hear the status of the central database project.

10   So I'd like to, if I may, turn you to the last

11 agenda item. If I'm not mistaken, I think these guys have

12 other things going on as well. And so I might just want

13 to address that, and get on to what -- their real work, I

14 guess.

15   So I appreciate you being here, and a couple

16 of -- people back in the back. If you will, just the last

17 agenda item which is -- get my material laid out -- last

18 tab in the sixth series. Six B-7.

19   First off, I'd just like to mention -- first

20 again, I'd like to, before we get started, mention a

21 status meeting we had yesterday with Ms. Anderson, and

22 Curtis Howe, Walt Vega, Bill Dally and Ruth Cedillo and I,

23 we met, went into great length on this project, spent most

24 of the afternoon doing so.

1   And I believe it was a very worthwhile and

2 productive meeting, and most beneficial for us. And I

3 just want to express our appreciation to Ms. Anderson for

4 her interest and support in this project, and taking the

5 time to do that with us.

6   For this reason and the fact that the contract

7 system is substantially complete, I don't have a whole lot

8 to report. And you can look at the percentages there in

9 the summary event chart.

10   We expect full implementation of the module in

11 November. And with this implementation of the contract

12 system module, the department will be able to account for

13 the HOME funds from HUD, the original source, to

14 individual funds, to individual draws, as the funds are

15 disbursed, including the accounting of allocations to

16 regions, activities, set-asides, to the contract level.

17   And tracking will be by program and state year

18 with expiration dates associated with those funds.

19 Subgrantees will be submitting their draw requests online

20 via a web based interface and will be able to create and

21 maintain their own budget information on that budget line

22 detail; balances for each of the contracts will be

23 maintained.

24   The department, in summary, is just real

1 excited about this milestone. With the contract system in

2 place and the compliance monitoring tracking system in

3 place, a substantial portion of the department's central

4 database will be in production.

5 Speaking of the compliance and production

6 module, excuse me, compliance and monitoring tracking

7 system module, one thing I wanted to do was just to

8 reiterate that the department is in the process of

9 bringing property managers out in the field, onto the

10 system to enter tenant data online.

11 So they'll be entering the tenant data from the

12 field, and the portfolio management and compliance

13 division is using the system for automated compliance

14 checks. And I mention this because it continues to comes

15 to my attention periodically that there are even people

16 within the department here that are not fully aware of

17 that.

18 And that's a great success. And I wanted to

19 point that out, specifically point that out.

20 MR. CONINE: Can I stop you?

21 MR. GAINES: Yes, sir.

22 MR. CONINE: Just to bring my own self up to

23 date here? When you say tenant data, are you talking

24 about all the from this point forward, future projects

1 that we put into inventory or are we going back and doing

2 all the bond deals and tax credit deals and rehab deals

3 that we've got on the books.

4   MR. GAINES: If I'm not mistaken, that was the

5 product of this major data collection and data entry

6 effort we just went through.

7   MR. CONINE: All the historical stuff.

8   MR. GAINES: We've loaded that historical data

9 in connection with that department line project.

10   MR. CONINE: Okay. Thanks.

11   MR. GAINES: And once the contract system is in

12 production, departments can take a short break to assess

13 where we're at to date. It's going to conduct a very

14 serious post-mortem with the intent of identifying

15 opportunities of how we can even be more effective going

16 forward, and reassess its strategies to ensure that the

17 information system development is in alignment with the

18 user needs and the business goals of the department.

19   And with those summary comments, I'd just like

20 to open it up for discussion, or any questions. I might

21 be able to answer them, and if I'm not, we'll certainly

22 have people here in the audience that can.

23   MS. ANDERSON: Mr. Chairman. I want to

24 commend people on the IS steering committee that have been

1 providing support for this project now during the

2 development phase and also commend Curtis and Walt and

3 their team in the IS department.

4 I think one of the significant things I learned

5 yesterday that I did not know is that Walt and his team

6 designed and wrote this contract module without using

7 really the help of the contractor who had been involved

8 before. I mean, this team of internal developers really

9 did the design and the development work and we think we

10 got all the bugs, knock on wood, out of it.

11 And it's ready to go into production. And

12 that's quite a contrast from the initial release of the

13 compliance system that was built under the leadership of a

14 contractor that was very buggy when released.

15 And a lot of this effort over the last year has

16 been to get the bugs out of the compliance system that was

17 built by the contractor. And do some additional things so

18 that the two systems, the contract system and the

19 compliance system would work together.

20 And now that that good work is about to be

21 implemented and taken live, then the remaining modules,

22 you know, ought -- because we'll have a consistent

23 architecture -- ought to go a little faster and certainly

24 be more reliable when they're implemented. So I just

1 really want to commend Curtis and Walt and the steering

2 committee.

3   We had quite a discussion yesterday and I think

4 David summarized for you the challenges of governance of a

5 large IT project like this, and it's very important. And

6 I would sort of like to go on the record that it's very

7 important that all of the business users stay really

8 engaged with this.

9   Because IT doesn't make the decisions for the

10 department. IT's role is to get aligned with the

11 business, and that means the business has to participate

12 in developing the requirements, signing off on the

13 requirements, and being accountable for that sign-off, and

14 as Suzanne's and other people have done, participate in

15 the acceptance testing of the product.

16   So the business really has -- this is not an IT

17 project. This is an information solution to help move

18 this agency forward. And so the sustained commitment and

19 involvement of the business users is critical to the

20 success of this. Thanks.

21   MR. GAINES: I would like to clarify a couple

22 of comments just made. And actually, I would like Mr.

23 Howe to clarify those comments.

24   MR. HOWE: Good morning, Chairman, members of

1 the committee. I am Curtis Howe, information systems

2 director. I did just want to make one clarification on

3 the design of the contract system. Our contractor did

4 participate in the design of the contract system, but we

5 developed the system from the ground up.

6   MS. ANDERSON: Okay, fine. I misspoke.

7   MR. HOWE: Thank you.

8   MS. ANDERSON: It's still a very great job you

9 have done that with our internal team.

10   MR. CONINE: You have to be very leery of those

11 software systems people. You know, they are a little

12 suspect sometimes.

13   MR. GAINES: Okay, let's turn back to the first

14 agenda item behind Tab Six A.

15   MR. GONZALEZ: By the way, that was item 3 (g)

16 on our agenda.

17   MR. HOWE: Okay. I didn't realize we had two

18 different sets of numbers here.

19   MS. GRONECK: You must have your audit –

20   MR. GAINES: Okay. I must have the wrong book.

21 But we'll work through this.

22   MR. GONZALEZ: Do you want mine?

23   MS. GRONECK: It's ten six -- for you, David.

24   MR. GAINES: Okay, here's an agenda. I think I

1 can do this.   The same information, different

2 references. So I'll move very slowly as I fumble through

3 the information in that.

4   MS. ANDERSON: You don't have to do that.

5   MS. CARRINGTON: Oh no, David. Not slowly.

6   MR. GAINES: Very deliberately. Item 3 (a) in

7 your materials. Three -- that's the 2004 annual internal

8 audit plan. And no, excuse me. Let's go to action item

9 number one. Number two.

10   MS. ANDERSON: Number two.

11   MR. GAINES: Yes. We're going to the first

12 action item after the last minutes. Which is discussion

13 and possible approval of the internal audit plan for

14 fiscal year 2004.

15   And the Texas Internal Auditing act requires

16 that an annual plan be developed based upon risk

17 assessment processes. And the division uses nine

18 different risk factors, applies each one of those factors

19 to the auditable unit.

20   So the department, we've tried to align those

21 auditable units with the recent reorganization, including

22 the multifamily financing, the family financing and

23 portfolio management compliance divisions, as well as

24 significant functions of the department and operations

1 including activity such as support services, data

2 services, human resources, facilities and support, payroll

3 disbursements, purchasing, grant accounting, cash

4 receiving processes, the legislative strategies, the

5 community affairs division. These are all auditable

6 units.

7 For each of those auditing units, the internal

8 auditing division scores different risk factors based on

9 the division's historical knowledge of the agency,

10 information solicited from management and the board, as

11 well as from the external auditors, including the state

12 auditor's office, KPMG and Deloitte and Touche.

13 With this input, and the risk assessment

14 process we're proposing in this plan to you, you'll notice

15 the first two projects are carry over projects from last

16 year. The objectives that first to review, is the review

17 of the draw processes.

18 How to determine the draws are properly

19 accounted for, adequately supported, and in compliance

20 with the department standards. The project was originally

21 selected because of the inherent risks associated with the

22 cash disbursements, as well as risk factors relating to

23 the reorganization, such as the complexity of the

24 operations, new management taking on responsibilities, the

adequacy of controls, i.e. policy and procedures needing to be developed.

All that that would come about as a result of the reorganization and consolidation of that function. The reasons that this project is being carried over is that last year more time was expended than anticipated in developing and understanding of the processes, I believe.

In part, this was a function to speak; at times, was a moving target because of trying to -- the division trying to come up with standardized policies and procedures on this. There's been significant changes resulting from the reorganization and with it being -- I believe that moving target is somewhat stabilizing at this point.

Additionally, a staff person in the internal auditing division was assigned to the project, and the challenges she had in a new environment the people to talk to, the people with information. And the challenges associated with a new staff person getting orientation towards our policies -- internal policies and procedures has been the challenge that I probably should have better expected that I didn't.

And the remaining tasks at this point include selecting the sample, testing that sample and evaluating

1 the results and generating the report. The next project

2 relates to an internal auditing division fulfilling its

3 obligations under the state agency internal audit forum.

4 You might recall that we had a peer review of

5 our division in the latter part of 2002. The report was

6 released to January, February of this year. It's now our

7 turn to reciprocate, or it's been our turn to reciprocate

8 those services.

9 I included budgeted amounts in last year's

10 plan. The Association of State Internal Auditors didn't

11 call on those services last year. I'm quite confident

12 that they will this year.

13 We've been getting requests for information

14 such as when is the last time you contributed and they're

15 looking for people. Again, the original 100 hours

16 allocated to that project were consumed by various

17 activities, including in no small part, I underbudgeted

18 the time involved with the Board by approximately 200

19 hours last year.

20 And so a lot of that was consumed -- I look at

21 it very globally. A lot more time was spent with the

22 Board than originally anticipated.

23 The next proposed project is review of the

24 department subrecipient monitoring function. To date, the

1 internal auditing division has requested and received from

2 management questionnaires relating to their program

3 monitoring responsibilities.

4   And based on a review of these responses to the

5 questionnaires and a review of the related policies and

6 procedures, we will continue to further assess the risk

7 associated with particular monitoring responsibilities and

8 of particular programs.

9   And based on that assessment, we intend to

10 conduct a review to determine whether adequate monitoring

11 procedures are in place that will add some reassurance

12 that the subrecipients of the high risk programs are

13 complying with the high risk requirements. High risk

14 requirements of the federal regulations program rules and

15 contract terms.

16   And the final audit project plan planned for

17 this year is follow up on prior audit issues. And all of

18 you are aware the division has always tried to report the

19 status of audit issues, and we've independently followed

20 up on them as they related to the audit objectives of

21 projects approved in our annual audit plan.

22   This project is a little bit different in that

23 we'll be independently following up on those prior audit

24 issues that have previously been reported by management as

1 implemented that have not had that independent follow-up

2 by either internal or external audit. In that case, as we

3 do most of our work, we'll risk-strength [phonetic] those

4 issues.

5   And we'll start at the top of the list, and

6 work our way down, until we feel like we've addressed the

7 most significant ones. The remainder of the proposed

8 audit plan are the ongoing activities of the division, and

9 I'll let you just scan over those.

10   And open it up to any questions you might have

11 relating to the plan. And if the board will want to

12 approve the plan, adjust it or not.

13   MR. CONINE: I move for acceptance of the plan.

14   MS. ANDERSON: Second.

15   MR. GONZALEZ: We have a motion to second. All

16 those in favor say aye.

17   (Chorus of ayes.)

18   MR. GONZALEZ: All opposed?

19   (No response.)

20   MR. GONZALEZ: The motion carries.

21   MR. CONINE: And we have some discussion.

22   MS. ANDERSON: I just want to -- let me just

23 ask a clarifying question. I certainly support approval

24 of this plan. On the subrecipient monitoring, one of the

1 things that -- I don't remember which audit it was, the

2 community affairs audit.

3 The SAO audit. You know, one of the things,

4 and I think you and I talked about this -- I'm curious if

5 this is in scope, you know, sometimes the -- at times -- I

6 don't know how to word this.

7 The audits that are -- the A133 audits for the

8 programs that meet that $500,000 threshold, or when

9 they're not subject to an A133 audit, whatever kind of

10 annual audits that these agencies have done for them

11 sometimes can give us some early warning of things that we

12 want to be paying particular attention to, with respect to

13 their administration of our funds.

14 And so I wonder if the scope of that audit

15 involves looking at, as part of our monitoring function,

16 how do we monitor these grantees. The audits, the A133

17 audits coming in, as I recollect, the audits would, you

18 know, the process was that the audits would come in.

19 They'd kind of get passed off either into a

20 file or sent to Suzanne, and I was not comfortable at the

21 time when we had the initial review, and this may have

22 been remedied since then, that we were taking advantage of

23 the audits that were coming in, and properly reviewing

24 those for any immediate follow-up we ought to be doing

1 with the grantees. So I would just ask that we consider

2 putting that in scope of this.

3   MR. GAINES: I'd consider that an integral part

4 of the monitoring function, including the draws. In fact

5 the draw project, there may be some dovetail going on with

6 subrecipient monitoring. But between single audits and

7 draws, field visits, desk reviews, technical assistance,

8 those would be considerations within the audit.

9   MS. ANDERSON: Thank you.

10   MR. GAINES: Behind Tab 3 (b) is the annual

11 internal auditing report of the internal auditing

12 division. And this is a required report of the division.

13 The format and content is prescribed by the state

14 auditors office and is required to be distributed to the

15 Governor's office, the legislative budget board, the state

16 auditor's

17 office, and the Sunset Advisory Commission.

18   MR. CONINE: Are you on 3 (a)?

19   MS. ANDERSON: 3 (a).

20   MR. GAINES: 3 (a). I'm sorry.

21   MR. CONINE: Thank you.

22   MR. GAINES: The report is currently marked as

23 draft and is pending the final approval of the plan you

24 all just approved. With that approval, we can finalize

1 this letter and distribute it by the end of the month when

2 it's due. I'll just walk you briefly through the report,

3 highlighting the content.

4   The first couple of pages are the transmittal

5 and contents pages, then on page 1 of the report, the

6 internal auditing plan for the last year, ending August

7 31, with explanations for deviations from the plan, which

8 I have discussed with you in connection with the current

9 plan. Most of the deviations, there's one additional one

10 that is not rolling over to the current plan.

11   The additional deviation relates to the review

12 of the department's fees for the second project you see

13 listed there on page 1. This plan has been cancelled,

14 based on our assessment of the risk.

15   The primary reasons for this project related to

16 controlling as is identified in the construction and

17 inspection fees and billing collection processes. While

18 these weaknesses have since been resolved, relating to

19 those concerns, they related to the department extending

20 credit by paying for inspection fees, and the risk

21 associated with seeking reimbursement from those

22 development owners, the accounting and reimbursement of

23 that.

24   These risks with associating -- with extending

1 credit and then seeking payment or reimbursement for

2 credit were not identified as they relate to other

3 significant fees for the department. All other such fees

4 are collected prior to or at the time of service.

5 Additionally, in connection with it, the

6 manufactured housing division fee review, which we'll

7 discuss momentarily, we determined that adequate

8 processing controls are in place once received by the

9 department's accounting division. Accordingly, we didn't

10 feel it was of value to continue with this project, and we

11 did not include it this year's plan as a carryover

12 project.

13 And that's something that I want you all to be

14 aware of. Possibly I should have mentioned during

15 approval of the plan, in case you wanted to include it.

16 But at this point I don't see the value of it.

17 Beginning on page 3 of the report, it's a brief

18 discussion about the internal auditing division's most

19 recent quality assurance review, which was in August 2002.

20   And that review resulted in fully complies. Fully

21 complies, which is the highest rating that can be assigned

22 to reviews such as that.

23 Beginning on page 4 of the report is a listing

24 of audit findings and recommendations for the current year

1 and the status of each. While you realize there is

2 separate reports of the internal auditing condition that

3 provides you with periodic updates on the status of these

4 issues, this will give you a good overview of the issues

5 issued this last year.

6 MS. ANDERSON: I have a question about this

7 section of the report. And this is on page 7 of 23,

8 relating to the housing tax credit program.

9 MR. GAINES: Housing tax credit?

10 MS. ANDERSON: Yes, it's on page 7. My

11 question is about the current status column, second

12 paragraph, where there is a discussion about building an

13 interface between I guess it's an interface between the

14 multi-family access database and CMTS. Is this the

15 interface we were talking about yesterday that's in the

16 three step scope of work that's been put out for

17 competition?

18 MR. GAINES: Yes, ma'am, it is and as we

19 discussed yesterday, that's up for discussion and

20 consideration of options.

21 MS. ANDERSON: I just want to be on the record

22 that I think we ought to be very cautious about building

23 point to point interfaces between systems. And I hope

24 that we can, rather as part of building the housing tax

1 credit module, build the data into the database that

2 compliance needs and not write a special purpose

3 interface. I really think that that is something we ought

4 to think real hard before we embark on that.

5 MR. GAINES: I realize you interest and we'll

6 keep you apprised of the status of that. The balance of

7 these issues are issues we discussed in the normal course

8 during prior audit issues, so I don't see any need in

9 going into them.

10 On page 20 of the report is a copy of the

11 department's organization chart and what they're looking

12 for here is, where the internal auditor is located within

13 the division. They're looking to see that our report to

14 the governing board, and you'll see the dotted line

15 represented my administrative relationships with Ms.

16 Carrington and the agency.

17 Page 21 provides information on other

18 activities of the internal auditing division this last

19 year, and the impact we believe those activities had.

20 I'll just refer you to that information.

21 And finally, on page 23 of the report, is the

22 plan just approved. Okay. The next report item, if

23 there's no further discussion on that --

24 MR. CONINE: Do we need to move for approval on

1 that?

2   MR. GAINES: No, that's a report item.

3   MR. CONINE: Okay.

4   MR. GAINES: The next agenda item 3 (b) is the

5 internal auditing report relating to controls over fee

6 collections of the manufactured housing division. And I

7 just wanted you to be aware of this report. I'll refer

8 you to the executive summary.

9   Generally, we found that fees are properly

10 authorized, supported and collected. Management has

11 established controls to ensure its cash receiving

12 processes effective in safeguarding cash receipts from the

13 point of receipt until they're submitted to the

14 department's accounting division for deposit.

15   And that the cash receiving process is

16 operating efficiently, resulting in timely processing and

17 deposit to the state treasury. We did notice some

18 opportunities for improvement, and that relates to the

19 timeliness of clearing amounts posted to a suspense

20 account.

21   Upon initial receipts were posted in a suspense

22 account pending processing, further documentation. As of

23 the end of March 2003, there was over $350,000 in the

24 suspense account, residing in this account, between 160

1 and 180 days old. And until that's cleared, we don't know

2 what the revenues are.

3   It's actually reported on financial statements

4 as a deferred-type revenue found on the balance sheet.

5 The program also needs to improve its quality control

6 procedures to reduce errors and improve timeliness in the

7 processing of titles and license applications.

8   We found several exceptions to that. Overall,

9 considering the volume of transactions, I don't believe

10 it's a real significant error, and that's why we're

11 concluding overall, generally, controls are adequate.

12 They have the processes in place.

13   There needs to be some improvement on its

14 quality control reviews to ensure those processes are

15 happening as intended by management. And finally,

16 updating their standard operating procedures to reflect

17 the existing system processes in place relating to the use

18 of their automated systems, division's organizational

19 structure, job responsibilities and titles.

20   This report will be carried to the Manufactured

21 Housing Board which, I believe, is later this month.

22 October 20, if I'm not mistaken. Management was receptive

23 to the recommendations and are in the process of taking

24 corrective actions on those.

1   The next agenda item, 3 (c), is another

2 internal auditing report that has been recently released

3 and this relates to controls over the construction of

4 housing tax credit developments or HTC developments.

5 Controls to provide reasonable assurance that developments

6 actually delivered under the program conform to the

7 construction specifications relied on by management and

8 department's governing boards in its award decisions.

9   I want to point out that the period of this

10 audit was prior to the reorganization and some of these

11 issues have been addressed and are maybe in the process of

12 being addressed as a result of that reorganization.

13   The report is being presented to you in

14 management recognizing this condition, but also as a

15 source of information to act on, if it's not done so in

16 connection with the reorganization.

17   Notice found that improvements are necessary in

18 the design of the control systems during the construction

19 phase of HTC developments. Including the need to expand

20 the independent construction inspectors' contract

21 performance statements to include consideration and

22 verification of development.

23   Brick and mortar-type specifications such as

24 number of units being constructed, unit sizes, number of

1 bedrooms, bathrooms, development amenities. Really, other

2 scoring criteria that's considered in the approval of

3 these projects.

4 Additionally, the oversight of these contract

5 inspectors needs to be formalized, how that's going to

6 work and how we're going to ensure they're performing as

7 we intend for them to.

8 And you can see that on several issues,

9 management has taken corrective action already. On

10 others, they are in the process of doing so. We'd be glad

11 to open that agenda item up for further discussion.

12 MR. CONINE: Now, on the contracting

13 inspectors, are these our own, or are these the ones that

14 are currently being used by the financing source?

15 MR. GAINES: During this time period, it was

16 our own. Since then, of course, the strategy is, whenever

17 possible to use the inspectors of the first lienholder's

18 primary lender.

19 MR. CONINE: So we're trying to communicate to

20 those people we're interested in seeing that the project

21 simulates what was submitted on the original proposal from

22 each one of them. Is that correct?

23 MR. GAINES: I would say extending these

24 considerations to this strategy, what would relate would

1 be that we're satisfied that those first lienholder

2 inspectors are accomplishing the inspection functions

3 we're trying to accomplish. And of course, there's going

4 to be additional criteria than we typically look for. And

5 that being program specific criteria that they may not

6 necessarily be interested in.

7 MR. CONINE: Where's the demarcation between as

8 we go through the construction process and as we get into

9 compliance? How do we make sure we pick up, other than

10 just bricks and mortar, how do we make sure pick up, say,

11 social services as a for instance on the compliance side?

12 MR. GAINES: The special needs type of

13 services?

14 MR. CONINE: Yes. Again, in an application,

15 generally they say that so and so is going to provide such

16 and such service.

17 MR. GAINES: And that would be during the

18 affordability period and that is the responsibility of the

19 compliance portfolio management.

20 MR. CONINE: But compliance has the little box

21 on the form to check and make sure that's there?

22 MR. GAINES: That is not within the scope of

23 this item, but I understand they do verify those services

24 are being provided.

1   MR. CONINE: Okay. Thank you.

2   MR. GAINES: Yes, sir.

3   MR. GONZALEZ: Did Tom have a comment, or you

4   looked like you --

5   MR. GAINES: Would someone like to elaborate on

6   that?

7   MR. GOURIS: We also required that at cost

8   certification that we have a contract, for a services

9   contract in place.

10   MS. PHILLIPS: And to also clarify, Suzanne

11   Phillips. We in the compliance shop under Sarah Newsom,

12   we perform the very first official inspection of the

13   affordability period before we issue the 8609.

14   And that includes a review of the

15   accessibility, the lease up criteria. Whether they're

16   complying with the Section 8 guidelines that we've set

17   forth.

18   Whether they've officially met their first year

19   minimum set-aside. So we do a full screen of the

20   occupancy requirements and generally, the construction

21   requirements that they have attested to in that final

22   validation.

23   MR. CONINE: So what do you do when there are

24   supposed to be 72 units and you go out and count 64?

1   MS. PHILLIPS: We would toss that back and make

2   a determination, passing it back through the department,

3   whether or not they got the official okay to do it. And

4   then make the determination whether we release 8609s.

5   MR. CONINE: Okay.

6   MS. PHILLIPS: Generally, it's things other

7   than fewer number of units. Like the units not being

8   accessible, or if it's a rehab, not meeting health and

9   safety codes.

10   MS. CARRINGTON: The ultimate penalty, of

11   course, is that we would reduce the amount of credit

12   allocation.

13   MR. CONINE: Or -- forget about the penalty.

14   We don't want to get into that right now.

15   MS. CARRINGTON: And we will do that, Mr.

16   Conine. If they told us one thing, and delivered

17   something else, we'd take that obviously, very seriously.

18   MR. CONINE: Okay.

19   MR. GAINES: Closely related to that, in the

20   report we mentioned, at that time there wasn't a

21   definition of material deviations in number of units. And

22   management --

23   MR. CONINE: One. One would be material in my

24   mind.

1   MR. GAINES: Well, the last QAP says all

2 material and I think your guidance is certainly warranted

3 in the recommendations. We need to quantify what we mean

4 by material. And that's in the report as well.

5   MS. ANDERSON: Well, I would like to -- I don't

6 know how we'd define it, but Mr. Conine's far more

7 qualified to assist in definitional elements. But I think

8 it would be important for this board to know if we have

9 developers who are trying to operate in our state that are

10 having trouble keeping their commitments to us.

11   MR. GAINES: Behind Tab 3 (d) -- we'll move on,

12 if there's no further discussion there -- is the report

13 recently released by HUD. And this report's called a

14 rental integrity monitoring review, or RIM of the Section

15 8 program.

16   The review is described as a focused and

17 detailed assessment of the department's income and tenant

18 determinations. And before I touch on a summary of the

19 issues noted during the review, I would just like to note

20 a concluding comment in the transmittal letter.

21   And HUD commends the staff's knowledge of the

22 program and their efforts in maintaining well-organized

23 tenant files and just communicating an appreciation for

24 the openness to the suggestions and recommendations.

1   And if you will, on the first page are the

2 bulleted issues. And I'll briefly touch on the issues

3 surrounding those. If you'll turn to page 3.

4   And before I get to page 3, on the first page,

5 it discusses systemic issues and HUD defines those as

6 there are corrective actions required of the department

7 that the recalls be resolved and all related files be

8 corrected. So having said that, the first four issues

9 we're talking about are systemic issues.

10   The first one relates to a lack of verification

11 of public assistance and other income. There's various

12 types of verification that you can use, but you need to

13 apply them in a priority order. The order of priority is

14 third party written verification, third party oral

15 verification, a document review, and then a family

16 declaration.

17   And so as you proceed to each threshold, you

18 need to thoroughly document why the previous one wouldn't

19 suffice. And there are several exceptions noted. And

20 HUD's corrective action, as you might guess, is to

21 properly verifying documental income sources, assets and

22 deductions in determining eligibility.

23   The next two issues relate to data problems and

24 would not necessarily affect the eligibility. In one

1 instance, the application used by the Section 8 improperly

2 displays the lesser of the payment standard of gross rent

3 in a particular field that HUD captures.

4   And in the second instance, the department is

5 not reporting food stamp income or excluding it in a

6 particular field, which causes the total amount of income

7 to be improperly reported. In both these cases, the

8 department needs to take corrective action and ensure that

9 entry reporting requirements are properly satisfied.

10   The next issues, as you go on to page 5 of the

11 report, relates to the department not verifying, properly

12 verifying immigration eligibility. And HUD's requiring

13 the department to of course, do that for all non-INS

14 citizens.

15   The fifth issue relates to the concern that the

16 department's doing a strong criminal background check to

17 certify that they put those in a locked file, I

18 understand. And since the report, those have been

19 destroyed and will be, once their useful purpose has been

20 served.

21   Now, on page 6 of the report, HUD reports

22 various file documentations and the need for increased

23 quality control relating to file documentation, and

24 provided the department with the summary of each file

1 noted with exceptions described, and discrepancies or

2 inconsistencies in the file.

3   And it's asked that the department take

4 corrective action with those files. And I understand that

5 the department is in agreement with those issues and is in

6 the process of resolving them.

7   MS. ANDERSON: Has the agency written its

8 response letter to HUD?

9   MR. GAINES: I believe it's been extended until

10 tomorrow, and it's the intent to release that.

11   MR. FARISS: We have a letter ready for

12 signature.

13   MS. ANDERSON: I would like to have a copy of

14 that letter. Electronic is fine. As it goes out.

15   MR. FARISS: And just for your information, all

16 of those, we have implemented corrective action on all of

17 those, all of the findings, including having access to the

18 INS system so we can clarify alien status and correcting

19 the 500.58 Form and implementing a new procedure to ensure

20 that we are able to get for you income verification.

21   MR. GONZALEZ: Excuse me, could you come up to

22 the microphone so that Penny can get it?

23   MR. FARISS: I'm Eddie Fariss, Community

24 Affairs Division Director. And I was just mentioning that

1 we have implemented corrective action on all of the items,

2 all of the findings in this RIM review, including the

3 implementing a new procedure to gather third party income

4 verification.

5 We corrected the 500.58, so that we would be

6 able to gather the information that they were talking

7 about. The food stamp income, we now have access directly

8 to, I'm sorry, the food stamp issue was a matter of

9 including the food stamp income and then backing it out.

10 So we have begun doing that.

11 And then the fourth one was the INS issue,

12 which we now have access to, which we didn't have before.

13 So we're verifying that in-house and as David mentioned,

14 all of the criminal background files have been destroyed.

15 And so as soon as income is verified, income eligibility

16 is verified, that file is destroyed. So we do have a

17 letter that's ready for signature to go out to them.

18 MS. ANDERSON: May I ask a question.

19 MR. GONZALEZ: Yes, you may.

20 MS. ANDERSON: On page 6 of the report, they're

21 talking about developing an internal quality control

22 system and supervisory review system. They're offering it

23 as a suggestion, most frequently implemented quality

24 control to have a supervisor or the most knowledgeable

1 occupancy person rework a sample of cases performed by

2 other staff.

3   MR. FARISS: Right.

4   MS. ANDERSON: Is that recommendation something

5 that you all think was a good idea?

6   MR. FARISS: Right. And yes, we've revised

7 the SEMAP quality control checklist. This is how we

8 responded.

9   In August 2003, the department expanded and

10 began using the SEMAP quality control checklist to include

11 a more detailed review of the contract package. The

12 regional coordinator will review and sign off on each

13 section. The program coordinator or section manager will

14 review the same sections, and sign off. So a double

15 check.

16   MS. ANDERSON: Okay. Great.

17   MR. FARISS: Thank you.

18   MS. CARRINGTON: Mr. Chairman, if I might. We

19 will provide a copy of that response to all of the board

20 members.

21   MR. GAINES: Thank you, Eddie. Okay, the next

22 agenda item, 3 (e), is another HUD monitoring report on

23 the emergency shelter grant program. And I'd just like to

24 refer you to the final paragraph, on the transmittal

1 letter, for this agenda item.

2   HUD reports that the results of the review is

3 no findings or concerns. The paragraph goes on to state:

4   Overall, our conclusion is that the state of Texas'

5 performance in implementing the emergency shelter grant

6 program is excellent.

7   And I'm sure management will be glad to discuss

8 that in great length, if you all would like to go further.

9   MS. ANDERSON: Great report.

10   MR. GAINES: Okay. The next four tabs relate

11 to prior audit issues. And I thought it would be of some

12 value to recap these issues by the reports that generated

13 them.

14   Additionally, there's been several questions by

15 you and executive as well, relating to the HUD Section 8

16 report, August 2000 -- excuse me, September 2000, where we

17 had reported those issues as implemented; however, with

18 the SAO report released in June 2003, there were several

19 referred to as the department needing to take further

20 corrective action.

21   So I thought it would be worthwhile just to

22 generate the entire set of issues relating to this report

23 to highlight where we're at on those. And so behind the

24 first tab relating to the prior audit issues, just see

1 that there was 17 issues reported there.

2   I guess you'd see it if you counted each one.

3 But if you'll just scan through the current status, you'll

4 see that they are reported as implemented except for the

5 last one on page 8 of A, which we'll discuss momentarily.

6   And these issues have been considered by management as

7 implemented for some time, now.

8   In the June 2003 report, the SAO reported that

9 continued corrective actions needed to be taking place on

10 six of the seven issues being followed up on, due to

11 various exceptions noted, relating to their issues in

12 their final review. And our management believes that it's

13 established -- well, I mean, it's believed that it has

14 established adequate proposed systems for these issues

15 prior to SAO review.

16   It's also agreed to enhance its quality and

17 control review procedures to provide further assurance in

18 minimizing the related areas. The remaining issue relates

19 to the department establishing a family self sufficiency

20 program which is on page 8 of that series of issuance.

21   HUD has approved the department's request for

22 an extension for the FSS program outside of Houston area

23 and the department continues to work with HUD on an action

24 plan for within the Houston area.

1   MS. ANDERSON: Mr. Chairman, I had a couple of

2   questions about this one. When, you know, I've heard

3   about this family self-sufficiency plan over and over and

4   over and over again, every few months for the last couple

5   of years. When do we expect to have some real progress on

6   this?

7   MR. GAINES: I'd have to turn that over to

8   management?

9   MS. ANDERSON: When is the action plan? I

10   guess, more specific, when is the action for the Houston

11   area going to HUD for approval? Perhaps somebody ought to

12   give me some background on why it takes so long.

13   MS. CARRINGTON: As Eddie Fariss is coming to

14   help me out here, I can tell you that for several years,

15   the department's approach to this has been to request a

16   waiver from HUD for the implementation of the family self

17   sufficiency program.

18   And we have been successful in receiving those

19   waivers from HUD but have taken a look at our operations

20   around Houston and Brazoria County and made a

21   determination that there were sufficient vouchers in that

22   area, and the local operator with substantial capacity to

23   be able to develop a family self sufficiency program in

24   that area.

1   I think the biggest challenge for the

2   department is that some of these local operators may

3   administer six or eight vouchers. So they are very

4   scattered. It's very fragmented.

5   And so it's been difficult for us to require

6   them to develop such a program. Now, to address Brazoria

7   County and the time frame on that. Eddie, do we have a

8   time frame?

9   MR. FARISS: Well, no we don't. But we, you

10   know, the Section 8 staff is working directly with the HUD

11   staff to develop a plan that will be acceptable to them.

12   They didn't establish a deadline for us to submit that

13   plan.

14   MS. ANDERSON: Well, we ought establish our own

15   deadline. And I understand that we used to ask for

16   waivers, and I would say, why are we running a Section 8

17   program without a family self -- I mean that's -- I think

18   a family self sufficiency program is an important part of

19   being a PHA.

20   And if we don't have the capacity to develop

21   one, then maybe we shouldn't be administering the vouchers

22   in that area. And the Houston housing ought to prevail

23   upon the Houston Housing Authority to take those vouchers

24   from us.

1   But I mean, this thing has been sitting out

2   here as a finding since September of 2000. And I'm also

3   distressed when I see on David's reports where target date

4   and it's NR NR NR, which is, according to his legend, is

5   no response to status update request was received.

6   So when do we think that staff and HUD will

7   have this plan in shape, in the shape that HUD would

8   approve it?

9   MR. FARISS: I don't know, but I certainly –

10   MS. ANDERSON: A month? A year?

11   MR. FARISS: I think it will be less than a

12 year. My guess is within the next 30 days. I haven't

13 been directly involved in the discussions between staff

14 and HUD.

15   So I'm not sure what they have expected us to

16 do. It's only recently that they provided the exceptions

17 statewide, excepting the Houston area. So it's fairly

18 recently that we have begun discussing that plan with the

19 Fort Worth HUD staff.

20   MS. CARRINGTON: We believe that within 30 days

21 that we can get this submitted and approved by HUD.

22   MS. ANDERSON: That would be -- that's great.

23   MS. CARRINGTON: We will report to you at the

24 November meeting.

1   MS. ANDERSON: Okay. Thank you.

2   MR. GAINES: Next tab, 3 (f), relates to the

3   outstanding HOME issuance. I believe you're pretty much

4   familiar with these issues since the last report to the

5   board.

6   The department continues to work on resolving

7   the remaining outstanding issues. The most significant

8   event since the last update to the board has been a letter

9   to TSAHC, providing direction for resolving these issues

10 with reference to the amounts of cost that will be

11 questioned and that must be returned to the department if

12 the issues are not resolved.

13   The response was received to that letter from

14 TSAHC last week, and if I'm not mistaken, the department's

15 not thoroughly satisfied with that response and is in the

16 process of providing a follow up letter to that.

17   I wasn't really planning on going into any

18 great detail on this, unless you'd care to on a particular

19 issue or issues.

20   MS. ANDERSON: I would like to have a copy of

21 the correspondence that TSAHC, sort of the chain of

22 correspondence, maybe after you, if you say you're writing

23 another letter back to them.

24   MR. CONINE: I'd like that as well.

1   MS. CARRINGTON: We will provide that to all

2   the board members.

3   MS. ANDERSON: Including their letter back to

4   us.

5   MS. CARRINGTON: Our deadline, the department's

6   deadline for response back to HUD, I believe, is December

7   31 of this year. So what we have been doing is we have

8   been working with TSAHC is giving them some dates that are

9   obviously prior to our December 31 date, so that we can

10 include all of their responses.

11   And clear as many of these findings for HUD, to

12 HUD's satisfaction, as possible, in our response due to

13 HUD on December 31.

14   MR. GAINES: The same tab, 3 (f)(c), relates to

15 the current status of the issues that resulted from the

16 recent SAO report, the community affairs programs of the

17 department. And since this was a fairly recently released

18 report, I wasn't planning on spending much time here,

19 other than saying that management appears to be addressing

20 the issues.

21   Five of twelve of the issues have been reported

22 as implemented. Brief status updates are provided there,

23 with your information. And I'd also like to point out

24 that several of the target dates have moved up.

1   As management works on these issues, and as

2 they further considered the dates, I think there might be

3 a couple that after due consideration, were pushed back a

4 month or two as well. But it looks like a conscious

5 determination on what's reasonable.

6   And the issues behind the final tab there, on

7 the prior audit issues are four miscellaneous issues from

8 three different reports. Three of these have been

9 reported as implemented and the remaining issues is issue

10 reference 266 on page 1 of 2. Are you all with me on

11 that? Behind 3 (f)(d)?

12   MR. CONINE: I got you.

13   MR. GAINES: Okay. This issue relates to the

14 need for the department to implement the policies relating

15 to and procedures relating to review of delinquent loans,

16 advanced collection efforts.

17   The criteria for writing off loan balances.

18 Loan admin -- the loan administration has been working

19 with the admin [phonetic] staff to generate the necessary

20 management reports, and I understand there's a draft SOP

21 on how this will operate, floating around the department

22 for input and comment.

23   MR. CONINE: Are we getting cooperation from

24 our manager service there on this issue?

1   MR. GAINES: This is primarily single family

2 loans on the HOME homebuyer assistance program, is what

3 this is directly relating to. The same issue probably

4 extends to other types of loans and activities. I'm not

5 sure to what extent there's been work with our services on

6 that.

7   MR. CONINE: Well, I think that my view of the

8 world, and this is a global statement and so not

9 necessarily specific to this. But we should be actively

10 involved in monitoring all single family loans, whether

11 they are mortgage revenue bond programs, down payment

12 assistance programs, et cetera.

13   Because there's a synergism between the work

14 that we do here. And if some counseling needs to take

15 place, or some assistance needs to take place, to those

16 first time homebuyers, then we should be able to catch it

17 as quickly as possible, obviously before a house goes into

18 foreclosure. And I would endeavor management to try to

19 see that we can attain, get to that status or to that

20 level as quick as possible.

21   MR. GAINES: The next and final tab. And

22 that's assess the central database. I don't think there's

23 any further discussion.

24   MR. CONINE: We just talked about that.

1   MS. CARRINGTON: Mr. Chairman, I would like to

2   go back to something that David really kind of glossed

3   over. I think it's worth noted saying again, in that the

4   quality assurance review that was performed at our

5   internal audit department last summer and the report came

6   out, I think in December, January, February of this year

7   where our internal audit division is quote highly regarded

8   and received the highest out of three possible ratings, in

9   this fully complies. And I would like to commend David

10 Gaines and the internal audit division of this department

11 in this very commendable rating.

12   MR. GAINES: Thank you, Ms. Carrington. The

13 support from you and the board has allowed me to get to

14 this point. Thank you very much.

15   MS. CARRINGTON: Thank you, David.

16   MR. GONZALEZ: I don't believe there's a need

17 for executive session. So we'll entertain a motion.

18   MR. CONINE: Mr. Chairman?

19   MR. GONZALEZ: Yes.

20   MR. CONINE: I don't see this on the agenda,

21 but I thought you might want to discuss the football game

22 that was held out in Lubbock on Saturday night?

23   MR. GONZALEZ: No, we do not want to discuss

24 that. It's not an agenda item.

1   MS. CARRINGTON: And our general counsel is

2 sitting out there.

3   MR. CONINE: Gee. I can't talk about it.

4   MS. CARRINGTON: In just a minute, you can.

5   MR. GONZALEZ: Do we have a motion?

6   MR. CONINE: Move to adjourn.

7   MR. GONZALEZ: Do we have a second?

8   MS. ANDERSON: Second.

9   MR. GONZALEZ: All those in favor say aye.

10   (Chorus of ayes.)

11   MR. GONZALEZ: The motion carries. The audit

12 committee meeting is adjourned.

13   (Whereupon, at 9:50 a.m., the meeting was

14 concluded.)

C E R T I F I C A T E

MEETING OF: Texas Department of Housing and Community

Affairs Audit Committee Meeting

LOCATION: Austin, Texas

DATE: October 9, 2003

I do hereby certify that the foregoing pages,

numbers 1 through 47, 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.

10/23/2003
(Transcriber)   (Date)

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