TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

AUDIT COMMITTEE MEETING

11:10 a.m.
Thursday,
March 11, 2004

Waller Creek Office Building
Room 437
507 Sabine
Austin, Texas

COMMITTEE MEMBERS:

SHADRICK BOGANY, Chairman
PATRICK GORDON

STAFF PRESENT:

EDWINA CARRINGTON, Executive Director
RUTH CEDILLO
BILL DALLY
DAVID GAINES
KELLY CRAWFORD
SAM RAMSEY

A G E N D A

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

2 CHAIRMAN BOGANY: We're going to call this audit

3 committee meeting to order, March 11, 2004. We've got a roll call.

4 Shad Bogany, chair, present.

5 Patrick Gordon?

6 MR. GORDON: Present.

7 CHAIRMAN BOGANY: We've got an excused absence from Mr.

8 Salinas, and we have a quorum, and we will begin

9 this meeting.

10 We have one action item and we need to get an approval

11 from the minutes of the audit committee from December 11, 2003. Can

12 I get a motion?

13 MR. GORDON: Motion for acceptance.

14 CHAIRMAN BOGANY: Is there any discussion? Anybody have

15 any questions about the minutes from December 11, 2003?

16 (No response.)

17 CHAIRMAN BOGANY: Then let's bring it to a vote. All

18 those in favor of approving the minutes.

19 (A chorus of ayes.)

20 CHAIRMAN BOGANY: Aye. I wish I could have this type of

21 control. Okay. We're going to go to reported items. I'm going to

22 bring up Mr. Dally and he's going to give us an overview of the

23 fiscal year 2003, ended August 31, and we're just going to get where

1 this department is at this point.

2   MR. GAINES: Good morning, Chairman, and welcome to you

3 all.

4   CHAIRMAN BOGANY: Thank you.

5   MR. GAINES: And Mr. Gordon, to the committee, good

6 morning, Ms. Carrington.

7   MS. CARRINGTON: Good morning.

8   MR. GAINES: As a means of introduction, primarily to

9 Mr. Gordon here, I'd like to just briefly introduce my super

10 professional staff members.

11   Kelly Crawford here, she's our newest team member here.

12   She's been with us since November '02. She came from the Texas

13 Workforce Commission, with four years experience as a project manager

14 leading teams conducting monitoring engagements of the welfare reform

15 programs delivered by that agency. Last summer, Kelly passed three

16 parts of the certified internal auditor exam successfully, all three

17 parts that she took. She's going to be successful finishing that

18 this summer. So we're looking forward to that.

19   MR. GORDON: Having taken that CPA exam, that's quite an

20 accomplishment. Congratulations.

21   MS. CRAWFORD: Thank you.

22   MR. GAINES: And then, Sam Ramsey, he's been with us

23 since January '98. He came from the Department of Health and Mental

1 Resources. He had been an audit manager over there for 14 years.

2 He's been with us since then. Sam is retiring March 31. So I just

3 want to express my appreciation for Sam's contributions and being

4 with us since 1998. I'll be looking for posting a job posting by the

5 end of the week.

6 If you will, turn to the first agenda item. This is

7 management's discussion and analysis. It's an extract from the

8 department's financial statements for the year ending August 31,

9 2003. This information, the results of that audit was presented to

10 you at the Dallas meeting last month. The managing partner, George

11 Scott, specifically talked to this section of the report.

12 In discussions with the executive director and Bill

13 Dally, chief of agency administration, we felt that would be of value

14 to touch on some of the highlights in this information. I was going

15 to turn that discussion over to Bill Dally.

16 CHAIRMAN BOGANY: Thank you, Mr. Gaines.

17 MR. DALLY: Good morning, Mr. Chairman, board member,

18 Ms. Carrington. You should have a copy of that basic financial

19 statement. This is what was presented by George Scott last month.

20 There should be a blue tab that will bring you to the management

21 discussion and analysis part of that audit.

22 George Scott, the partner, what he did was present the

23 conduct of the audit, the fact that there was an unqualified opinion

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1 on the financials, and then certain communications to the board, but

2 he did not discuss any of the financial results or any of the

3 highlights that are highlighted in this NVNA. So that's what I'm

4 going to do. I'm going to go through this very briefly.

5 This is the second year that the department is under the

6 GASB 34 reporting model. As such, we had two new statements that

7 were part of this reporting model that were not previously in

8 government deals. Those were governmentwide statements. There's a

9 description of those. If you'll turn to Roman number v, page v, it

10 describes those two statements.

11 We then also have two fund types, the first being the

12 governmental fund and then there's a proprietary fund, or business-

13 type activities. Now, I'm going to just discuss and give some

14 background on those, too, because I think that will give you some

15 insight into how we financially account for our funds here at the

16 department.

17 The first one I'm going to go over is the proprietary

18 funds. This is the fund where we issue bonds for our single and

19 multifamily projects. So where does the money come from? We borrow

20 it. This last year, we actually borrowed 190 million in single

21 family bonds and 185 million in multifamily bonds.

22 However, the overall increase on total bonds was 124

23 million. The reason being is we actually paid off, or had debt

1 retirements, of 251 million in our bonds. That's related to the

2 refinance activity due to the low interest rates. Some of our older

3 issues that had higher interest rates, people are refinancing. When

4 that money comes in, we're getting both principal and interest in the

5 payoff. And so, at that point, we will retire the debt.

6 That's how we get our funds in that particular part of

7 our program, is borrow the funds, both in the single and multifamily.

8 We also account for our investments. Once we've sold

9 those bonds, those are then turned around into investments. They

10 start with a guaranteed investment contract, also called a GIC, or

11 investment agreement. And so, those will be invested for, typically,

12 24 to 42 months, while we get our loan origination done.

13 Then, that cycles into the mortgage-backed securities,

14 the Fannie Maes or the Ginnie Maes, which will then have about, you

15 know, could have a 30-year stated life, but typically are only going

16 to last ten or 15 years.

17 Then, the final piece of funds that floats through that

18 proprietary funds are the repayments of those loans. Those will be

19 collected monthly and deposited. And then, every six months, we make

20 debt service and pay down our bonds.

21 Of course, those investments are done through the Public

22 Funds Investment Act, and in accordance with our investment policy,

23 and I bring you quarterly reports to give you the activity on those

1 through each quarter.

2 During fiscal year 2003, the agency actually had an

3 increase of 80.2 million in investments. That's shown in a table on

4 page 7. Under the proprietary fund, that very first number, you'll

5 see we had an increase there of our cash investments. That's showing

6 that we actually had those debt issuances and then turned around and

7 made investments.

8 So far as activity, we had investments in mortgage-

9 backed securities. We had 92 million in purchases in 2003 and 182

10 million in the redemptions on maturities. You'll note we've had some

11 difficulties because of the pricing on some of those older issues.

12 We had to do some buy-downs and so that's an indication that we had

13 to do those buy-downs. We'll look for that activity to ramp up in

14 this current year, along with the fact that we will be issuing

15 another 180 million in single family bonds for this current year. So

16 we'll have a lot of work to do as far as getting our bond funds out

17 and making loans.

18 The second thing I want to talk about is there is a

19 note, per accounting standard GASB 31, the value of certain of our

20 marketable investments are required to be priced as each quarter.

21 They're also priced at the end of the year. What's happening there

22 is it's just our mortgage-backed securities.

23 There's a comparison made with what the market value of

1 loans are, or mortgage-backed securities, in the regular market as

2 compared to ours. When rates are falling down, the value of our

3 older portfolio is increasing because they've got higher coupon rates

4 there. And so, at the end of last year, we had a $24 million

5 unrealized gain.

6   In this particular August, though, we had a little bump

7 in the ten-year Treasury in March and mortgages followed that. And

8 so, that reversed and we actually had a $6 billion loss. That is

9 recorded through our income statement on the statements, but it does

10 not have a cash impact. Remember, it's an unrealized gain or loss.

11 We hold these things to maturity to pay off those 30-year bonds.

12   Let me then, let me pause there. Are there any

13 questions on the proprietary funds or those results?

14   CHAIRMAN BOGANY: No. Mr. Gordon?

15   MR. GORDON: No.

16   MR. DALLY: The other huge area are the governmental

17 funds. Where do we get these funds? These are either federal funds

18 or state funds that we use in our various federal and state programs.

19 So these funds are with either the state Treasury appropriations or

20 at the federal Treasury. Typically, our pattern is to, as we get

21 receipts from our subrecipients on their expenditures, we will

22 reimburse them by sending out these draws. And so, at that time, we

23 will draw on the federal Treasury. So these funds aren't really in

1 our bank per se, as they are set up in either the state Treasury or

2 the federal Treasury.

3   Some of the programs that we use here are alleviating

4 homelessness, providing emergency relief for individuals in crisis

5 poverty, establishing home ownership, housing rehabilitation,

6 capacity building throughout the state. Also, our manufactured

7 housing division, you saw some activities here. They're set up so

8 that their licensing fees, and their titling fees, and those things

9 are deposited. They're brought here and then we deposit them in the

10 state Treasury. And then, they use those funds to manage their

11 compliance of that industry.

12   If you will, if you'll turn to page 13, our chart has

13 got acronyms on all the various funds and revenues. However, we do

14 have a legend up at the top. CDBG, of course, is community

15 development block grant. CSBG, DOE, SUP, we do have a significant

16 decrease in our governmental funds between 2002 and 2003. It's

17 chiefly because that CDBG program finally and officially moved over

18 to the ORCA group. And so, we do not have those funds this

19 particular year.

20   If you look at CSBG, and HOME, and LIHEAP, and Section

21 8, all of those programs, that red bar is the 2003. They all had

22 increases in activity.

23   MR. GORDON: Can I go back and ask you one question on

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1 the proprietary fund?

2   MR. DALLY: Yes.

3   MR. GORDON: I was looking on page 7, to the category of

4 assets. There's two categories. There's capital assets and real

5 estate. Does this fund actually own real estate or property?

6   MR. DALLY: It will, but it will be in the course of we

7 just haven't disposed of it yet. And so, we'll make a foreclosure or

8 something on delinquent property --

9   MR. GORDON: All right. That's fine.

10   MR. DALLY: -- and they'll be a period of time where we

11 will have some REO --

12   MR. GORDON: Okay.

13   MR. DALLY: -- but we were looking to dispose of that,

14 to pay off the proceeds of the loan and the bonds.

15   MR. GORDON: Okay. So, generally, the real estate that

16 we get in this fund is from foreclosures or something of that nature.

17   MR. DALLY: That is correct.

18   MR. GORDON: We're not going out --

19   MR. DALLY: It's because we had a lien and a loan.

20   MR. GORDON: Okay. Sure, I understand. Thank you.

21   MR. DALLY: The other thing I want to point out in the

22 governmental funds is we did experience a large increase in our loans

23 and contracts. If you look on page 6, you'll see a loans and

1 contracts line. That went from 59 million in 2002 to 82 million.

2 There's also a related account, which is deferred revenue, which also

3 increased, down there in liabilities area.

4   These loans and contracts reflect HOME and Housing Trust

5 Fund loan programs administered by the department. During fiscal

6 2003, the agency started administering some down payment assistance

7 loans that we actually received back from Texas State Affordable

8 Housing Corporation. Those came back to us and we put those on the

9 books.

10   Also, there was an audit adjustment that was referred to

11 in the reports from George Scott last year. We changed our reserve

12 methodology, from we were reserving 40 percent -- in other words,

13 we'd take a gross loan amount and reserve about 40 percent of those

14 as perhaps being uncollectible. They asked us to look at our actual

15 experience and to modify that reserve account. We actually modified

16 that to 15 and 20 percent.

17   We went portfolio by portfolio. So these are the HOME

18 down payment assistance program and some of the Housing Trust Fund

19 multifamily things. So we went to each of those portfolios and saw

20 what our 90-day-plus delinquencies really were, possible, that we

21 should reserve on it. So by that, we were able to raise the level

22 for those loans. That's the reason for that increase.

23   MR. GORDON: On this fund, are you required to, when you

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1 bring in, like legislative appropriations, are you required to use

2 all those proceeds for a certain program? If you do, do you have to

3 return it? Is it booked as a liability?

4   MR. DALLY: The deferred revenues there are really those

5 federal HOME funds. What we've done is we'll book that loan, but

6 defer that revenue and we'll wait for actual receipt before we

7 recognize that, when it comes back.

8   MR. GORDON: Okay.

9   MR. DALLY: So far as the legislative appropriations,

10 those have a three-year life. There's the year that they're

11 appropriated to us and then they'll have two more years of life. If

12 we haven't expended them at the end of that third year, then they

13 lapse and they would go back to the Treasury.

14   MR. GORDON: Okay.

15   CHAIRMAN BOGANY: Mr. Dally, I have a question.

16   MR. DALLY: Uh-huh.

17   CHAIRMAN BOGANY: On the total assets that's down 50

18 percent, is that because we moved some over to the department, split

19 things up to the other groups?

20   MR. DALLY: It's several issues. One is that in 2002,

21 we had a build-up of funds in there due to the investor-owned utility

22 program. That program, we got some successor interest from

23 settlements out of the TXUs and Reliance that were getting out of the

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1 regulated market and into the deregulated. As such, they would be

2 part of SBF, or a system benefit fund. And so, we got a large

3 settlement there. And so, that's been spent down over the course of

4 this year.

5   There's another -- let me look here.

6   MS. CARRINGTON: Transfers out of revenue collected in

7 excess of appropriation authority is probably the other reason.

8   MR. DALLY: Yes, the manufacturing housing division

9 actually collects a lot more in revenue than they're actually

10 appropriated back to their operations. They'll look at the end of

11 the year, and assess that, and say, well, you've collected more, and

12 so we're going to sweep some of that back. That's another thing that

13 happens there.

14   CHAIRMAN BOGANY: Could we look for this to ever get

15 back on the positive side, in total? If I was just looking at this

16 at a glance, I'd say, Wow, our net assets are 50 percent down. Is it

17 possible that we'll get back even or close to even, now that we've

18 move all the departments, everything is in place now?

19   MR. DALLY: It's possible, but, really, to look at this

20 appropriately in this governmental fund, it's really showing that

21 we've utilized more of our funds appropriately. We've got an $11

22 million balance that's going to roll and begin the next year. The

23 previous year we had 22 million.

1   CHAIRMAN BOGANY: Okay.

2   MR. DALLY: So I would argue that we've been more

3 efficient in our use of some of those monies.

4   CHAIRMAN BOGANY: Okay.

5   MR. DALLY: And then, I'm just going to kind of quickly

6 hit the high spots of the rest of this report and say that behind the

7 NVNA are the governmentwide statements, those GASB 34 statements.

8 Then there are the fund type statements. And then, we have a set of

9 notes. Those notes, if you've got some time or questions, when you

10 look on the line items within the financial statements, there are

11 descriptions of each of those line items which tell you a little more

12 background of what they are. Also, those provide a little more

13 detail behind the numbers that are on the face of the financial

14 statement.

15   And then, finally, there is a rather large grouping of

16 our bond schedules. Those are our greater detail on the series, by

17 year, by rate, what the debt service is going to be throughout the

18 future. Those are part of and used by -- these financial statements

19 actually rolled up and are part of the statewide coffer that the

20 comptroller issues. So these are required schedule and rollup of the

21 rest of the state's financial statements.

22   Those, by the way, they finished their review of all

23 audited statements from all of the agencies. That's been an issue

1 here at the end of February.

2   Are there any other questions?

3   CHAIRMAN BOGANY: Mr. Gordon?

4   MR. GORDON: No, I'm fine.

5   CHAIRMAN BOGANY: Thank you, Mr. Dally.

6   MR. DALLY: Thank you.

7   CHAIRMAN BOGANY: Mr. Gaines, if you can take us through

8 item 3 through 5?

9   MR. GAINES: Yes, sir. Behind tab 5-b is the next

10 agenda item, the summary of prior audit issues. The first piece of

11 information behind that tab is a letter from HUD. In summary, just

12 self-right. This is relating to the HUD HOME monitoring visit of

13 2001. The department has been working with HUD since that time.

14 It's worked with TSAHC since that time. With this letter, all these

15 issues are cleared. That's been going on, again, since November

16 2001.

17   While I've been somewhat on the peripheral edges of

18 this, I know management and staff has spent considerable time in

19 working with HUD and accumulating documentation to support these

20 issues, significant time describing to HUD what our monitoring

21 procedures are, working with HUD on explaining the status of the

22 issues, and negotiating required corrective actions.

23   At the risk of overlooking someone's contributions, I

1 know that Suzanne Phillips, the director of portfolio management and

2 compliance, Sandy Mauro, manager of portfolio management and staff,

3 with specific mention of Ralph Hendrickson, Jennifer Molanari, Lucy

4 Trevino, and Betty Gallegos, they've spent untotalled hours and much

5 blood, sweat, and tears working through this. Hats off to them. I

6 believe it's also appropriate to recognize the cooperation and

7 assistance from David Long of TSAHC and the TSAHC staff in helping us

8 work through this. This is just good news all the way around.

9 　　　　　　CHAIRMAN BOGANY: Group effort, thank you.

10 　　　　　　MR. GAINES: Any questions on that?

11 　　　　　　CHAIRMAN BOGANY: No, we're great.

12 　　　　　　MS. CARRINGTON: I have a comment. If you look at the

13 last page of the letter, and read not only the good stuff that the

14 finding was cleared, the finding was cleared, the finding was

15 cleared, but if you look at the last page of this letter, the last

16 four paragraphs, you know, HUD acknowledged the substantial efforts

17 made by the state to resolve the serious deficiencies.

18 　　　　　　It's commendable that the state has elected to provide

19 additional assistance to the beneficiaries of the subrecipients that

20 we work with and also their next to last paragraph where they

21 acknowledge the positive changes made by TDHCA through the

22 reorganization and the restructuring.

23 　　　　　　I mean, quite frankly, a couple of years ago, when we

1   told HUD how we were going to integrate the programs into multifamily

2   and single family, as opposed to having these identified program

3   areas, they were very, very concerned to say the least. They were

4   not supportive and they were actually very persistent. So to not

5   only receive the letter where they said the findings are clear, but

6   then to really recognize and support our efforts and acknowledge

7   that, I think is really huge for us.

8   I think one person, David, that you didn't mention was

9   Ruth Cedillo and Ruth's integral involvement in working with staff in

10 getting these issues resolved. I called Cindy Leon the night we got

11 this letter and told her how much we appreciated it. The next day,

12 her staff was calling us saying, I understand you all are really

13 excited about this. So we're very, very pleased. This is huge

14 issue, said Mr. Bogany, a group effort, and this is a real milestone

15 for the agency.

16   CHAIRMAN BOGANY: I believe so. Since I've been on the

17 board, I know, whenever we got the first letter we weren't too happy.

18   My hat, and I think the whole board's hat, is off to the department,

19 and everybody that helped them. You guys did a great job. I'm just

20 happy to get it off the table.

21   MS. CARRINGTON: So are we.

22   MR. GAINES: Thank you, Ms. Carrington. I was not

23 referring to my speaking points or otherwise I would have mentioned

1 Ruth Cedillo.

2 Next is a summary of the prior audit issues. I guess

3 primarily for the benefit of Mr. Gordon, I'd like to just provide you

4 a brief overview of what this report's about.

5 MR. GORDON: Okay.

6 MR. GAINES: It's a standard report that's provided to

7 the committee on an ongoing basis. It's provides a summary status of

8 the prior audit issues that have not been previously reported as

9 implemented.

10 If you'll just turn to the first page of the report,

11 I'll use it for illustration purposes. You'll note that the data

12 being presented provides a summary of the audit, the audit whereby

13 the issue was identified, the scope of the audit, the auditor's name,

14 the date of the report, and a brief description of the audit issue.

15 If you'll note the legend on the bottom of the page, as

16 this is used in the right three columns, this information provides a

17 status update, or a history of the status update. So it will tell

18 you if the issue is in progress, if it's been delayed, if it's been

19 implemented, if management does not agree with the issue, it will

20 provide you the date of those sub-dates. You'll also notice the x

21 and the xx, which indicates whether the status is based on

22 management's recommendation or whether the status is based on an

23 independent assessment, either by an internal or an external audit.

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1   Once an issue is reported as implemented, it's dropped

2 from further reporting to the board. However, it will continue to be

3 tracked on the department's prior issue tracking system and it will

4 stay on that system until it's been reported as implemented based on

5 an independent assessment, at which time they will drop it off the

6 database.

7   So any questions regarding the type of information we

8 discussed?

9   (No response.)

10   MR. GAINES: In that case, I'll briefly discuss some of

11 the content here. The status of the first issue, the issue

12 represented as 187, the one I was using for illustration purposes,

13 relates to the department implementing a family self-sufficiency

14 program in the Section 8 program. The department's been working with

15 HUD, since this issue was first reported, on obtaining approval of

16 the plan. In January 2004, HUD approved a plan for the accounting in

17 the Houston area. The plan for outside the Houston area was approved

18 last July.

19   While this issue is being reported as implemented, the

20 actual timeframe for implementation is through March 2005, and

21 because of that, I think it would be more appropriate to report this

22 issue as in-progress until the plan has been implemented. This

23 particular recommendation says, implement a plan.

1   This was reported as implemented because the state

2   auditors, in a report they issued last June, followed up on this

3   issue, and that's also in the report here. It's issue 313. Their

4   recommendation was either submit a plan to HUD or obtain an

5   exemption, which is also an available avenue under certain

6   circumstances. In that case, we did report it as implemented after

7   the discussion because we submitted a plan pursuant to their

8   recommendation.

9   I carried that implemented status over to this, but as I

10   re-read it, I think it would be most appropriate to reclassify that

11   as in-progress while that plan is being implemented.

12   Any questions on this issue?

13   CHAIRMAN BOGANY: So are we saying that we will be

14   finished with it by April 1, 2004?

15   MR. GAINES: Well, the actual plan to implement the

16   program extends to March 2005. Now, the big question is -- do we

17   want this on that report from now until March 2005?

18   CHAIRMAN BOGANY: I'd like to see us get it done before

19   March 2005.

20   MR. GAINES: I think that actual timeframe on what's

21   required, based on management's discussions and agreement with HUD,

22   will take it that long. I don't know if there's opportunities to

23   shorten that timeframe. Maybe that's something that management can

1 speak to.

2   CHAIRMAN BOGANY: Ms. Carrington?

3   MS. CARRINGTON: I don't know that I'm the one to speak

4 to that. I know it's a period of time that's basically allowed by

5 HUD for us to develop it and put it into place with the various local

6 operators that we've identified. I'm sorry. I don't have my mike

7 on.

8   Ruth, what do we need to say about this, as I'm fumbling

9 through?

10   MS. CEDILLO: I'm Ruth Cedillo. I am in discussions

11 with staff. It is a very time-intensive process because we're

12 working with local operators. Again, we're also working on a process

13 to do some consolidation of those local operators. You also have to

14 do a thorough review of the services that are available in the

15 different areas. That's the reason they expect that it will take the

16 time that was expressed to HUD in our plan.

17   CHAIRMAN BOGANY: Okay.

18   MS. CEDILLO: Of course, we will stress the fact that we

19 want to have it done as quickly as possible.

20   MS. CARRINGTON: If we can get it done quicker than

21 that, we certainly will.

22   CHAIRMAN BOGANY: All right. So, David, will this

23 continue to be on our report until it's been implemented?

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1   MR. GAINES: This report is something that I put

2   together for the benefit of the agency and the board. It's at the

3   pleasure, I would say, of the board. You know, there's a question on

4   these long-term projects. Is it something we want to have on the

5   report meeting after meeting? Or is it something that management

6   represents to the board and unless we hear to the contrary, we assume

7   it's moving forward successfully?

8   CHAIRMAN BOGANY: Patrick, do you have any thoughts on

9   that?

10   MR. GORDON: Well, I think it's good to keep us advised

11   on these, especially on this report. So we probably ought to keep it

12   on the status report.

13   MR. GAINES: That's perfectly acceptable. It won't get

14   much attention unless it needs to.

15   CHAIRMAN BOGANY: Okay.

16   MR. GAINES: Beginning on page 2 of the report, issues

17   253 through 260, on page 6, are the HOME issues we just spoke of that

18   HUD has cleared. Those will be dropped from future reporting.

19   CHAIRMAN BOGANY: Okay.

20   MR. GAINES: If you'll turn to issue 306 on page 7, this

21   is the first of a series of findings that resulted from an SAO audit

22   on the community affairs program. So this relates to last June.

23   There's six remaining issues being reported to you. Of those, three

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1 are being reported as implemented. Are you with me, Mr. Gordon?

2 MR. GORDON: Yes.

3 CHAIRMAN BOGANY: Yes, we're here.

4 MR. GORDON: We're here.

5 MR. GAINES: Three are being reported as implemented.

6 CHAIRMAN BOGANY: I'm sorry about that.

7 MS. CARRINGTON: Go on, David.

8 MR. GAINES: On the remaining three issues there, there

9 have been slight delays on completing those issues. The most

10 significant relates to an original target date, issue referenced 314

11 on page 10. I'll just stick to that note directly then. This has

12 been the greatest delay. The others have been real minor, but this

13 particular issue, as I was discussing it with Peggy Ragman this

14 morning, she informed me that it was implemented as of yesterday. So

15 my planned speaking points aren't really necessary.

16 MS. CARRINGTON: And this is 314?

17 MR. GAINES: Yes, ma'am.

18 MS. CARRINGTON: Okay.

19 MR. GAINES: The remaining two, I'll update you on the

20 status of those at the next meeting.

21 MS. CARRINGTON: Okay.

22 MR. GAINES: The next series of issues, beginning on

23 page 15, with issue referenced 320, this issue and the following two

1 relate to a HUD rental integrity monitoring review of the Section 8

2 program that resulted in a report in August 2003. Here is another

3 instance where the department can pat itself on the back.

4 If you'll note, each of these issues is being reported

5 as implemented, pursuant to a HUD letter dated October 2003. In that

6 letter, HUD expressed appreciation for the department's outstanding

7 job of accumulating documentation sufficient for these issues. So,

8 good work in the Section 8 program and to director of community

9 affairs.

10 MS. CARRINGTON: Please note that the much shorter

11 timeframe in getting these odd issues resolved. This came up in

12 August of last year, and here we are in March of this year, and we

13 have it resolved.

14 MR. GAINES: Yes, ma'am. The next issue, in the last

15 page of the report, is issue referenced 330. It relates to the need

16 for the department to establish an management information system to

17 facilitate the tax credit program as it relates to the construction-

18 monitoring function. The department is currently in the process of

19 gathering program requirements in connection with developing a

20 multifamily module in a central database, which we will speak to

21 momentarily.

22 The recommendation is to exercise due diligence in

23 gathering those requirements and the process is going on as we speak.

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1 We expect it to be completed by March 31.

2   The last issue, issue referenced 331, was the result of

3 a recent Deloitte and Touche audit that was discussed in Dallas.

4 Bill Dally actually referred to this a moment ago. The issue relates

5 to the need to establish mortgage loan reserves based on actual

6 review of the loan portfolio and actual delinquencies. This issue

7 has now been reported as implemented.

8   Any questions on the status of prior audit issues?

9   MR. GORDON: No.

10   MR. GAINES: There is one other prior audit issue that's

11 not included in the report. This issue relates to a monitoring

12 review conducted by HUD in August 2003 of the Texas community

13 development block grant program, administered by the Office of Rural

14 Community Affairs. In this review, it focussed on the Colonia

15 construction contracts at the Colonia self-help centers and the

16 contracts that the department has with ORCA relating to those

17 centers.

18   As a result of the review, HUD recommended revisits to

19 the process for reporting self-help center requirements, a

20 recommendation relating to the reporting of that department. Towards

21 the end of September, the department received the HUD finding from

22 ORCA. It's in reference to how administrative expenses are accounted

23 for and how they need to direct-charge to the activities in instances

1   where it is a direct contribution to that activity. That will take

2   it out of the administrative category and put it in the program

3   activities.

4   In October, we did respond to ORCA and HUD. In March

5   '04, pursuant to additional request for information from HUD, in

6   regard to that response, which has been provided, we were informed

7   that the issue has been resolved and a letter will be issued in that

8   regard. We're still waiting on that letter from HUD for this issue.

9   The next report is also prior audit issues. This is a

10 report which an interest was expressed to bring to the board

11 periodically. It's a summary of prior audit issues that have been

12 previously reported as implemented. This is just an accumulation of

13 those that have been reported as implemented since the first of the

14 fiscal year. You'll notice there's 20 issues there reported as

15 implemented and provided for your information.

16   CHAIRMAN BOGANY: Okay.

17   MR. GORDON: Is there any follow-up from the ones that

18 were implemented? I mean, what's the purpose of providing these to

19 us now?

20   MR. GAINES: I think the purpose, in part, is just to

21 make the board aware, and the public, that we are correcting a lot of

22 issues, because all I report to you are issues that are not

23 corrected. The follow-up, some of those may be indicated with 2x.

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1 That means it's an independent assessment follow-up. If it's one x,

2 it's management's representation. Again, they'll stay in the

3 database until there's an independent follow-up.

4   MR. GORDON: Okay.

5   MS. CARRINGTON: Mr. Gordon, the point of those reports

6 that we started implementing when we looked at how many we still had

7 to resolve and we wanted something that made us feel a little bit

8 better. It's like, okay, how many now do we have in the plus column?

9   MR. GORDON: It's on the plus side.

10   MS. CARRINGTON: Yes.

11   MR. GORDON: So the ones that you have implemented will

12 now roll over into the plus?

13   MR. GAINES: Yes, sir. That report of 20 does not

14 include those I reported to you this morning as implemented.

15   MR. GORDON: Okay.

16   MR. GAINES: I might point out that this morning getting

17 through prior audit issues is probably the quickest I've ever been

18 able to, which is probably a good sign also.

19   MS. CARRINGTON: Yes, indeed, it is.

20   MR. GAINES: Your next agenda item is behind tab 5-c.

21 It's the status of central database. Again, primarily for the

22 benefit of Mr. Gordon, I'll do a brief overview.

23   The crux of this initiated is a project in September

 1 1998 to develop a strategic plan for the information systems

 2 development needs, to satisfy future housing program compliance

 3 requirements and reporting needs. After analyzing the functionality

 4 to meet the department's compliance-monitoring responsibilities and

 5 the reporting responsibilities, and reviewing the current systems and

 6 technology platforms that were being used by the agency, the

 7 strategic plan recommended that a single fully integrated central

 8 database be developed for all of the housing programs that are

 9 administered by the department.

10   Once that decision was made, the first module to be

11 fully implemented was the contract monitoring and tracking system, or

12 CMTS. The original scope of CMTS was geared towards multifamily

13 units.

14   The system was necessary to satisfy department's

15 performance measurement targets and legislative-mandated reporting

16 requirements, such as the annual reporting of household income of

17 families residing in the individual units and the rent charged to

18 each of those families, the racial-ethnic makeup of the multifamily

19 projects administered in the department's portfolio, tracking and

20 reporting of special needs, tenant services, and units designed for

21 the disabled.

22   CMTS was also to offer online compliance reporting for

23 the property owners and to provide automated compliance testing. So

1 they submit the data and with that data, there will be automated

2 compliance testing, whereby we can focus on acceptance and while

3 they're in the field, test the quality of the data that they're

4 submitting. This will make our compliance testing in that regard

5 much more efficient.

6   CMTS was installed for user acceptance testing in

7 January 2002 and was made available to the property administrators in

8 March 2003. During that interim, a project team completed data

9 migration from two of the legacy systems into the central database,

10 to the legacy systems that supported multifamily programs of the

11 department.

12   The user testing included a pilot program, a select

13 group of property owners, under all five of the multifamily programs

14 administered by the department. It included user procedures for both

15 internal and external customers, additional programming work at the

16 request of the user community, including development of ID/password

17 requests, associated security controls, and providing access to the

18 system and directions for use in the system.

19   Additionally during that interim, the house and resource

20 information clearinghouse system was developed which provides the

21 citizens of Texas easy access to information on home buyer

22 assistance, rental assistance, and other community services

23 throughout the state.

1   From March 2003 to November 2003, the department

2 established strategies for the rollout of CMTS to the department's

3 business partners. A final deployment letter was delivered to the

4 business partners in September 2003 and that module was considered

5 implemented with that letter and reported as such in November 2003.

6   In December 2003, the beginning of December, the

7 following month, the agency rolled out its contract system, which is

8 the second major module of the central database. The agency uses the

9 contract system to track fund allocations, program funds, contracts,

10 contract activities, the draw-downs for the HOME Housing Trust Fund

11 programs and the preservation programs.

12   The contract system replaces two of the department's

13 legacy systems that had previously been in use. Contractors now have

14 access to the system and enter contract activity setups, where they

15 initially set up an activity for further processing. They set up

16 their itemized budgets, perform draw requests, and submit project

17 completion reports online. Again, we're pushing the responsibilities

18 out to the field wherever possible.

19   Since that time, since December '03, the technical team

20 has temporarily been reduced from four programs to 2.5. With

21 turnover in staff, the 2.5 is the result of two of the key

22 programmers leaving and one of them coming back part-time.

23   So with that reduced staff since December, the team's

1 been working primarily on CMTS and contract system maintenance, which

2 includes the database administration, establishing security and

3 accounts for the business partners, correcting some of the

4 functionality problems that have surfaced since implementation,

5 assisting the external contractors, performing one-on-one training as

6 requested by the user groups, and developing reporting views to

7 retrieve and use information out of the system.

8   The project team has also worked on a post-

9 implementation review of the contract system to try to identify what

10 went well, what didn't go so well, and to learn from our mistakes.

11 At the end of February, members on the project team submitted post-

12 implementation review questionnaires to the project manager.

13   The project manager, since that time, has compiled the

14 results, and a review team meeting is scheduled for next week. By

15 the end of March, the project manager will be producing a report

16 documenting the results of that meeting and recommendations for

17 future development modules.

18   The department, again since the last reporting, has gone

19 into a contract with AIMS, Russ Walch being the proprietor. Mr.

20 Walch has been working with the proprietor relating to the central

21 database enhancements which add functionality, including single audit

22 program, program monitoring, 8609 requirements for the tax credit

23 program, and screen enhancements.

1   Further deliverables under that contract is a needs

2   analysis, business process improvement, which is aligning the

3   business operations with the central database, and designing

4   specification for entering and maintaining multifamily award data.

5   The design documentation assumes post-awards. So we're going just

6   from the point of award onward in the pipeline. However, the design

7   assumes that that application may be an enhancement in the future.

8   So we are picking up the application design requirements, although we

9   aren't currently planning on developing that functionality.

10   You can see from the status report that these activities

11 were planned for completion at the end of February 2004. This is

12 under the CMTS categories there. While Mr. Walch has completed the

13 process model to a point where the design specifications can be

14 written, because of time constraints from the production staff, Mr.

15 Walch has bene able to complete the model at a level of detail that

16 he normally would and would be most comfortable with.

17   So what this means is our functionality might not be

18 drill down to more thorough level of detail that we might have

19 originally wanted, or, more than likely, in the current strategy,

20 what we'll be doing is drilling down during the actual design. His

21 requirements gathering wasn't quite as in-depth, but during the

22 design we helped to compensate for that.

23   The consultant and the project manager also believe that

1 due to the size of the multifamily requirements, information-

2 gathering requirements, the amount of data captured during the post-

3 award, building of a large number of prototype screens, I believe

4 currently there's been 50, and they're expecting to be 100 different

5 data entry screens, the hour for this phase of the contract may need

6 to be extended. Current estimates on that are several weeks. I've

7 heard that meaning two to three weeks, approximately, and you'll be

8 advised to what extent that extension is necessary at the next status

9 update.

10   CHAIRMAN BOGANY: Okay.

11   MR. GAINES: Just real briefly, Mr. Walch has also been

12 designing the reports for the department, which are not targeted for

13 completion until the end of May. Two of the department's IT

14 development staff, among their other activities, have also been

15 working with Mr. Walch in accumulating the requirements and building

16 the design of multifamily module. This is primarily for knowledge

17 transfer purposes and so we'll have a thorough understanding of the

18 system design as we go into development and then maintenance once

19 it's implemented.

20   Currently, our emphasis is on the multifamily module and

21 the multifamily basically, again, concentrates on post-award

22 activities that will provide the ability to track credit allocations

23 to the state, allotment of those credits, the individual set-asides,

1 and such allocations to projects, even down to respective buildings.

2 It will track the allocations to each of the properties. There's

3 even information needs for fractional allocation needs.

4 It identifies the purpose of the allocation, i.e. as a

5 rehab, acquisition, new construction, necessary information for the

6 8609s, tax forms with the IRS, authorizing the credits to the

7 investors, functionality to manage the cost certification process,

8 basically tracking the credit allocation from initial allocation to

9 carry over to final issuance. The application scoring piece and the

10 tracking of that functionality and other pre-award activities will be

11 considered for future releases of the module.

12 Other multifamily properties included in this module

13 besides the tax credit include HOME, multifamily bond, and Housing

14 Trust Fund programs. While the design work is being lead by the

15 consultant, the technical team of the department will be doing the

16 development to ensure they're developing the right system. That will

17 be once all requirements and design work has been approved by all the

18 appropriate users and directors.

19 Following that summary, I believe it's like seven or

20 eight pages immediately following that summary, is a recap of the

21 capital budget authority and expenditures to date. I noticed that

22 there's been $260,000 appropriated for the biennium to the capital

23 database project, to the central database project, and $245,000 for

1 enhancements to the compliance system. You'll note that $41,000 has

2 been expended to date relating to those contract services that we had

3 spoken of.

4   That's a whole lot of information and I think it will

5 start gelling and settling in for newer members of the board. I'm

6 sorry, Mr. Salinas is not here. I'll have to visit with him on the

7 side so I won't subject you all to this again next time, but I will

8 visit with him on the side. I believe after a few meetings, it will

9 start gelling real well for you.

10   Any questions in this regard?

11   CHAIRMAN BOGANY: David, I have a couple of questions.

12 I'll make them very brief. In regards to the input, are we getting

13 staff input on this design? Staff is basically able to tell these

14 designers, Hey, this is what we need, or this is what we're looking

15 for?

16   MR. GAINES: The consultants work extensively with the

17 key staff and the key stakeholders on this project have been

18 identified as multifamily, real estate analysis, and portfolio

19 management staff. The front line staff have been involved. Before

20 we actually proceed with the development, we'll have the managers and

21 directors of those areas approve the requirements and the design of

22 the system --

23   CHAIRMAN BOGANY: Okay.

1   MR. GAINES: -- which should help minimize not providing

2   the functionality wanted and needed by the users.

3   CHAIRMAN BOGANY: All right. What's the timeframe? You

4   know, I've heard all this stuff, but I've never really heard a

5   timeframe, about when we were going to try to get this implemented

6   and up and running for them.

7   MR. GAINES: No, that's a great question. It's really

8   not practical to not even attempt to do a timeframe until you get the

9   design work completed. At that point in time, you know what the

10   system is going to look like and you can reasonably estimate the

11   resources required. We expect to have the design completed towards

12   the end of March, the first of April.

13   CHAIRMAN BOGANY: Is it a timeframe for the design work

14   to be completed?

15   MR. GAINES: The design work to be completed is what's

16   the first of April, the end of March.

17   CHAIRMAN BOGANY: The first of April, okay.

18   MR. GAINES: Yes, sir.

19   MR. HOWE: That's correct.

20   MR. GAINES: Is that right, Mr. Howe?

21   MR. HOWE: Yes.

22   CHAIRMAN BOGANY: Are they tracking pretty much the

23   first of April pretty good? Are they behind? Are they ahead?

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1   MR. HOWE: We're on schedule.

2   CHAIRMAN BOGANY: Okay. Great.

3   Mr. Gordon, do you have any questions?

4   MR. GORDON: No, that was my only question, was the

5 timing.

6   CHAIRMAN BOGANY: Okay.

7   MR. GAINES: Good question and you'll notice the modules

8 on the first page that are remaining are all asterisks. That

9 asterisk speaks to the fact that it's not even reasonable to estimate

10 time frames until that design work is completed.

11   CHAIRMAN BOGANY: Okay. Thank you.

12   MR. GAINES: Okay. Thank you. The next agenda item,

13 and last agenda item, behind tab 5-d, is the status of

14 internal/external audits.

15   You'll notice that the first row of this report is

16 referring to a planned audit by the State Auditor's Office. It's a

17 planned audit of the HOME and Housing Trust Fund programs.

18   The objectives of the audit are to determine whether the

19 department has processes in place to deliver housing services to the

20 neediest parts of the state, objectively awards contracts,

21 effectively monitors the contracts, ensures funds are disbursed in a

22 timely manner, and whether the department has used the appropriations

23 for the HOME and Housing Trust Fund programs in accordance with

1   limitations and directions imposed by state law and federal law,

2   state law including riders to the General Appropriations Act, federal

3   law, and department policy.

4   The SAO has informed the department that they plan to

5   begin the audit in early to midsummer, with the goal of having this

6   report released by the next legislative session. In a meeting with

7   executive staff, it was decided to ask the auditors if it was

8   possible to delay the start of this audit to the beginning of August,

9   due to the majority of the department's awards being issued for the

10 year between now and the end of July and all the work that's involved

11 with that production, the production work.

12   In consideration of this request, which was made in late

13 February, February 24, the department offered to put together

14 documentation to facilitate the auditor's understanding of these

15 programs and the department's control systems and business

16 architecture, if you will, related to their audit objectives. In

17 developing an understanding of an auditable unit, it's a major time

18 factor in most any audit.

19   Sufficient understanding is necessary to adequately plan

20 the audit. With that sufficient understanding, they identify the

21 significant risk, relevant control systems, and business architecture

22 in place to help mitigate those risks, and determine whether

23 management has the prescribed controls to mitigate that risk, and if

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1 those controls are operating effectively.

2 Being a significant consumption of time again in most

3 any audit, by preparing these materials, what we're proposing to the

4 State Auditor's Office is we'll compile these materials in a easy-to-

5 use, organized format by audit objective, the necessary information

6 that we believe they need to thoroughly understand our control

7 systems and processes in place.

8 That will include information not only relating to how

9 we operate, but the relevant laws, regulations, program rules. It

10 will include management and board policies. To the extent they

11 relate, process flow charts, standard operating procedures, the

12 checklists that were used in delivering the programs and providing

13 monitoring services, accomplishing the objectives of the programs as

14 it relates to their audit objectives.

15 We're hoping with this information, it will streamline,

16 expedite their efforts and they will recognize the value of this,

17 which we intend to do regardless if they accommodate our request or

18 not. We're hoping with that carrot that they will delay the start of

19 the field work until August. We expect to hear back just any day now

20 if they're going to be receptive to that suggestion or not.

21 CHAIRMAN BOGANY: Mr. Gordon, do you have any questions?

22 MR. GORDON: No, I don't.

23 CHAIRMAN BOGANY: Okay. I'd like to move for

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1 adjournment.

2   MR. GORDON: Second.

3   MR. GAINES: If I can interrupt, if that's your

4 pleasure, that's fine. I'm not quite through the status of audits.

5   CHAIRMAN BOGANY: I thought it was the last thing on my

6 agenda.

7   MS. CARRINGTON: They have it in their material, David.

8   MR. GAINES: Okay.

9   MS. CARRINGTON: So I think, unless they have any

10 questions.

11   CHAIRMAN BOGANY: Isn't that the last thing we had?

12   MR. GAINES: It's the last agenda item, but there's

13 several items on that agenda item, but again, if it's the pleasure of

14 the board.

15   CHAIRMAN BOGANY: David, we want to make you happy.

16 Let's get this done.

17   MR. GAINES: How ironic, because I want to make you

18 happy.

19   CHAIRMAN BOGANY: No, we're fine. I was going through

20 mine. I was making notes here. So we're all right.

21   MR. GAINES: Well, the remaining status of audits, you

22 can just kind of scan through those. You can see there's

23 coordination of external audits. We haven't had a lot of that.

1   From the internal audit division's behalf, the only

2 audit we've had recently is the opinion audit. For the most part,

3 Financial Services coordinates that audit. They haven't had any of

4 our funding source monitors in or we're generally more involved.

5   I suspect with the SAO audit we'll be much more involved

6 in coordinating the audits as that proceeds.

7   You'll also notice there a peer review project on our

8 audit plan. This is our contribution to the state internal audit

9 form of resources to conduct peer reviews of other state agency's

10 internal audit shops. It's a reciprocal agreement. They audited

11 with me a couple of years ago, or a year and a half ago. Now, at

12 this point, now it's our turn to pay back. While I've scheduled

13 this, and we've offered to the organization our availability, they

14 have not taken us up on doing that at this point.

15   You'll also note know there's an internal audit project,

16 subrecipient monitoring. The objectives of this audit are to assist

17 the adequacy of the department. So we're monitoring subrecipient

18 monitoring functions. The various areas that we're considering in

19 the aggregate that comprise the monitoring function are bulleted

20 there as you can see.

21   Based on our initial assessment of risk, we're

22 concentrating on the HOME program and Housing Trust Fund initially.

23 This is because they were subject to the reorganization. Any

1 significant changes like that, you're always going to increase the

2 risk relating to the operation, at least for a time period.

3   Additionally, the HOME program is one of the

4 department's larger funding sources. The Housing Trust Fund is being

5 included because it's a general revenue fund. It being reorganized

6 by function, with the HOME program, it's subject to many of the same

7 controls and processes as the HOME program.

8   In assessing the overall risk beyond HOME and Housing

9 Trust Fund, we ranked Office of Planning Initiatives. This is

10 because they have multiple funding sources and they also have their

11 own control systems designed to accomplish the subrecipient

12 monitoring function. So being separate, that kind of bumps them up

13 in the overall assessment of risk.

14   The community affairs program, we've kind of moved to

15 the bottom of our ranking due to the recent audit by the SAO. Well,

16 that doesn't seem too recent anymore, but that was released last June

17 and they're lower on that priority list.

18   We haven't made the progress here we're hoping to on

19 this project. I do feel like we're behind. It's taken much longer

20 to develop our understanding than originally anticipated.   We're

21 hoping that this work we do with the SAO, we can capitalize on that.

22 Not only will we be helping them in accomplishing their audit

23 objectives, this should facilitate our understanding considerably on

1 this audit, and that should help us move forward in that respect.

2   The last page is just various other ongoing activities.

3   The only deliverables there is the audit plan for this next year and

4 the annual internal audit report that's required by statute. That's

5 discussing our activities for the year. Those are two deliverables

6 that we do towards the end of the year and generally do not present

7 to the board until October.

8   CHAIRMAN BOGANY: Patrick, do you have any questions?

9   MR. GORDON: No.

10   CHAIRMAN BOGANY: Okay. David, one question I have,

11 overall, I know we've heard a lot of information this evening. I am

12 very happy to see the department, Ms. Carrington and yourself, have

13 taken it so seriously about this audit. We seem like we've jumped

14 leaps and bounds since I've been on the board. I do see some

15 organization here and implementation and direction. I'd like to get

16 your list as skinny as possible. It's just a brief, brief, how we're

17 doing, great, type deal.

18   What's the major issue with us at this point? Before we

19 had several. Now, what would you consider the one major issue that

20 we have that seems to be moving slow? Or is everything on a

21 timeframe that you're happy with?

22   MR. GAINES: No parameters on the universe we're talking

23 about? I mean, I know you're talking about the agency, but anything

1 I'm personally involved with?

2 CHAIRMAN BOGANY: Well, just involved with, you know,

3 we've looked at all the priorities. We've looked at where the

4 problems were. We've looked at the implementations. We've looked at

5 the scorecard. We seem to have more pluses than minuses. Is there

6 anything that's dragging behind?

7 MR. GAINES: I think on the SAO audit, of those

8 objectives listed, I think there were five off the top of my head.

9 Scanning through them, three or four of those, I think we're going to

10 do very well on. We've got challenges on finalizing some of our

11 documentation on how we operate, relating to the remaining objective.

12 I feel like we're doing a lot of -- we're performing, but sometimes

13 that's not real well documented as to how we go about doing it.

14 That's real time consuming for the auditors because

15 basically they have to sit down and interview people. To the extent

16 it's not formalized, you're going to get different stories,

17 interpretations from different staff. That always causes problems.

18 So you really want to try to formalize your significant

19 activities as they relate to the objectives of the department, which,

20 of course, ultimately are accomplishing the mission of delivering

21 affordable housing -- in this case, it's a housing audit -- but I

22 think making sure we've got that documentation in place, formalized.

23 We'd much rather the auditors say, We recommend improvements in

1 these areas as opposed to, You need to develop these areas.

2 CHAIRMAN BOGANY: Okay.

3 MR. GORDON: Then are you using these audits to better

4 develop so you don't have the same issues the next time?

5 MR. GAINES: Well, certainly we hope to learn from audit

6 comments. Hopefully, as management implements issues they're really

7 doing more than putting out a fire and treating a symptom.

8 Hopefully, the recognize what a cause is and they work back to that.

9 The auditor's objectives are generally going to try to identify the

10 cause, but sometimes that's real difficult, especially if the case

11 happens to be -- and I'm not suggesting that it is -- but if the

12 cause is any kind of some management issue, that's always difficult

13 to put your hands on. The goal is not to treat the symptom. It's to

14 get to the cause.

15 MS. CARRINGTON: Right.

16 MR. GAINES: I think the best way of doing that,

17 personally, and as an auditor, is have that business architecture

18 firmly in place, meaning nothing more than the aggregate of your

19 policies and procedures, your policies that you operate by, your

20 standard operating procedures, your laws, regulations that you

21 operate under, and program rules, and how you're interpreting those

22 and applying them.

23 We have a lot going on. We have our checklist to make

1 sure this is happening, this is happening. If you drill a little bit

2 further, and ask the question, how is that being applied, I think we

3 have some work to do there. How is the checklist being applied? You

4 get three people doing it, they may be applying it three different

5 ways without that drilled down, formalized process.

6 MR. GORDON: I have one additional question on these

7 audits. When an audit comes in, do you assign someone who is the

8 point person, who is in charge of making sure in this one audit, that

9 you comply with what they're requesting, and get the audit handled?

10 Is that kind of what you do?

11 MR. GAINES: Generally, the way we do that is on the

12 financial opinion audit, the auditors spend almost all their time

13 with accounting services, Financial Services, either Financial

14 Services or the accounting/grants side of the floor. And so, they

15 lead that audit, coordinate it, make sure their information requests

16 are satisfied.

17 On the other audit, there's myself generally, not

18 generally, we're there with management during the entrance

19 conference, hearing what's requested, and reassuring the auditors if

20 you don't get the responsiveness you need, let us know, and we'll

21 work with management and executive to see you get the information you

22 need.

23 MR. GORDON: So who would be in charge of -- I'm not

1 talking about the external audit -- for example, if a HUD audit or

2 something like that comes in?

3 MR. GAINES: The management involved would be whoever's

4 being audited. The internal audit shop, it's generally me sitting at

5 the table.

6 MR. GORDON: Right. I'm not talking about an internal

7 audit. I'm talking about an external audit.

8 MR. GAINES: An external audit, again --

9 MR. GORDON: An audit request for --

10 MR. GAINES: -- if it's a funding source monitor, it

11 will be whatever program management source is being monitored or

12 audited and me sitting at the table.

13 MR. GORDON: Okay. So you kind of oversee these audits?

14 MR. GAINES: Yes, sir.

15 MR. GORDON: You're the point person, okay.

16 MR. GAINES: And the internal audit shop.

17 MR. GORDON: Okay.

18 MS. CARRINGTON: And then, as David mentioned, we will

19 have really three divisions that we see, actually four, that will be

20 involved from a program standpoint. It will be single family --

21 MR. GORDON: Sure.

22 MS. CARRINGTON: -- that goes to the extent HOME funds

23 go through single family, and Housing Trust Fund, multifamily

1 director, the real estate analysis director, and also the manager of

2 Portfolio Management and Compliance.

3   MR. GORDON: Okay.

4   MS. CARRINGTON: If I may, Mr. Chairman, I guess when

5 you get a notice of an audit from an external auditor, you never feel

6 like there's a really good time for the notice to come. Of course,

7 when we received this in February, you know, we thought, gosh, June,

8 July, and August, that's when we basically achieve almost 100 percent

9 of our performance measures. You know, that's when we allocate

10 funds.

11   So we did, senior staff has worked with the Internal

12 Audit Division to begin to put together this plan that David outlined

13 to you all, so that as we request SAO to perhaps back up a couple of

14 months, we're giving them a volume of material, a lot of material,

15 for them to go ahead and take a look at, so that they can be better

16 prepared, and so can we.

17   We have already started preparing for this audit. We

18 know that with our reorganization, a lot of new processes were put in

19 place. As David has already mentioned, some of them are more well

20 documented than others. And so, what we are looking to do is find

21 staff around the agency that will volunteer to work on a project, or

22 is underutilized, and, you know, to ask my multifamily director right

23 now, in the middle of tax credits and HOME funds --

1   MR. GORDON: Sure.

2   MS. CARRINGTON: -- to sit down and write SOPs is

3   something that's just not going to happen. So what we're going to do

4   is identify other personnel to go into the divisions and assist them

5   so that we can have as much of this in place as possible when the

6   time comes.

7   MR. GORDON: All right. Well, in my opinion, I think

8   that requesting an extension because of the timeframe that the state

9   wanted, I think, is reasonable and prudent, because you do want to

10 provide a good response, but on the other hand, you've got a mission

11 to do here. I think at that point, we need to use these resources to

12 develop the -- like you said, you have a lot of production at that

13 point.

14   MS. CARRINGTON: Uh-huh.

15   MR. GORDON: So I'm hopeful that they'll accommodate

16 that request. I think it's certainly reasonable.

17   MS. CARRINGTON: Uh-huh.

18   MR. GAINES: Cautiously optimistic at this point.

19   MR. GORDON: Well, I think if they don't, then I think

20 you try to -- you're approaching it the right way. You're giving them

21 a lot of information to try to give them something to start looking

22 at when they do come in with the audit.

23   MR. GAINES: Even if they don't, you're correct in that

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1 once they get here, that should keep them busy for a period of time.

2 MR. GORDON: That's exactly right. You're loading up

3 the information for them.

4 MR. GAINES: Yes, sir.

5 MS. CARRINGTON: And we're gathering that up now.

6 MR. GORDON: Sure.

7 MS. CARRINGTON: I mean, we've identified, through the

8 scope of the audit, what it is they want. So we asked staff last

9 week, and I think it's due on March 15, do you have SOPs? If you do,

10 give us copies of them. Give us copies of applicable rules. Give us

11 copies of applicable policies. So we can sort of figure out what we

12 have. So this is our have pile. This is our not have pile. This is

13 what we know that we need to be working on.

14 MR. GAINES: Yes, ma'am.

15 MR. GORDON: I guess I would ask that, if possible, you

16 keep us up to date on the status of that audit --

17 MR. GAINES: Yes, sir.

18 MR. GORDON: -- because it seems like it's one of the

19 biggest things that's going on. It's kind of important, too.

20 MR. GAINES: That's correct, yes, sir.

21 MR. GORDON: Okay.

22 CHAIRMAN BOGANY: Any other issues, David, or

23 challenges?

1   MR. GAINES: You really don't want me to go there.

2   CHAIRMAN BOGANY: Okay. We don't.

3   Mr. Gordon, do you have any other questions?

4   MR. GORDON: No, I have no other questions.

5   CHAIRMAN BOGANY: All right. We'll save those

6   challenges for later.

7   MR. GAINES: Yes, sir. That's later agenda items.

8   CHAIRMAN BOGANY: Okay. Thanks a lot. Can you give me

9   an adjournment?

10   MR. GORDON: I think I'll second that adjournment.

11   CHAIRMAN BOGANY: I think that you can take us through.

12   Okay. Thank you, David. I appreciate everything, and the staff.

13   You guys have done such a great job. Thank you very much.

14   (Whereupon, at 12:25 p.m., the meeting was adjourned.)

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

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3   MEETING OF: TDHCA Audit Committee

4   LOCATION: Austin, Texas

5   DATE: March 11, 2004

6   I do hereby certify that the foregoing pages,

7   numbers 1 through 53, inclusive, are the true, accurate,

8   and complete transcript prepared from the verbal recording

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10   Texas Department of Housing and Community Affairs.

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