

TEXAS DEPARTMENT OF HOUSING AND
COMMUNITY AFFAIRS

AUDIT COMMITTEE MEETING

8:40 a.m.
Thursday,
March 13, 2003

Room 437
Waller Creek Office Building
507 Sabine Street
Austin, Texas 78701

PRESENT:

AUDIT COMMITTEE:

Vidal Gonzalez, Chairman
Beth Anderson
Shadrick Bogany (not present)

STAFF:

Edwina Carrington, Executive Director
David Gaines
Delores Groneck
Bill Dally

ON THE RECORD REPORTING
(512) 450-0342

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P R O C E E D I N G S

1
2 CHAIRMAN GONZALEZ: We'll call the Audit
3 Committee meeting to order. We'll start with a roll call.
4 Beth Anderson.

5 MS. ANDERSON: Here.

6 CHAIRMAN GONZALEZ: Shad Bogany. He's absent.
7 And Vidal Gonzalez is here. Two present, one absent.

8 We'll go to Item 1, which is the Discussion and
9 Possible Approval of Minutes of Audit Committee Meeting of
10 February 13.

11 MS. ANDERSON: I move adoption of the approval
12 of the minutes.

13 CHAIRMAN GONZALEZ: We have a motion and I
14 second it. All those in favor say aye.

15 MS. ANDERSON: Aye.

16 CHAIRMAN GONZALEZ: All opposed? The motion
17 carries. Then we'll go to the David Gaines Show here, the
18 Presentation, Discussion and Possible Approval of Fiscal
19 Year 2003 Annual Internal Audit Plan.

20 MR. GAINES: Chair, Good morning.

21 CHAIRMAN GONZALEZ: Good morning.

22 MR. GAINES: Members of the Committee, Ms.
23 Carrington. The second agenda item is the Discussion and
24 Possible Approval of the Fiscal Year 2003 Annual Internal
25 Audit Plan. You'll find the plan on the back page of the

1 minutes you just reviewed, kind of hiding there.

2 The Texas Internal Auditing Act requires that
3 an annual plan be developed based on risk assessment
4 procedures. And the Internal Auditing Division uses nine
5 different risk factors that it applies to each of the
6 auditable units within the department.

7 And in the past, we've defined these auditable
8 units as the LBB strategies that are measured to determine
9 the department's progress in achieving its goals and
10 objectives. For the current period, we've replaced some
11 of those measures with the divisions responsible for
12 satisfying those measures, such as the Multifamily
13 Finance, Single Family Finance Production, and the
14 Portfolio Management and Compliance Divisions, to align
15 more closely with the recent reorganization.

16 We've also added significant functions, such as
17 support services, data services, human resources,
18 facilities and support, payroll, disbursements and
19 purchasing, grant accounting, and the cash receiving
20 processes as auditable units to which we apply these risk
21 factors.

22 And based on the risk assessment that we've
23 done, it's -- and other considerations as well, not
24 exclusively restricted to the risk assessment, we've
25 developed the proposed audit plan you see in front of you.

1 I'd like to just briefly walk through each of
2 these projects. The first -- before I discuss the
3 document itself, there is one other project that should be
4 included on this plan that's not. And that's the tax
5 credit inspection fee project that we've been working on.

6 Following what's been presented to you on that
7 project later this morning, I'd like to include that on
8 the plan to formalize the board's approval for that
9 project. Based on results of that review, the tax credit
10 fee review project I just referred to, a request by one of
11 the board members -- based on a request of one of the
12 board members and the inherent risk associated with cash
13 and cash receipts, we've added the reviews of other fees
14 collected by the department, including the Manufactured
15 Housing Division.

16 And these are the first two reviews listed on
17 your plan. The objectives will be to assist the
18 effectiveness and controls of the fee collection processes
19 to ensure that authorized fees are collected and properly
20 accounted for.

21 Additionally, although it's not specifically
22 mentioned here in your plan, an objective of this project,
23 and really all of our projects in the foreseeable future
24 will be to be more cognizant of opportunities for process
25 improvements. And by doing so, we'll be able to

1 contribute to management's efforts, and doing so, the
2 efficiencies associated with reorganization.

3 It's also important, especially in these times
4 of budget constraints, to be in a continual process
5 improvement mode. And so we're going to be paying more
6 attention in those respects as we -- regardless of all
7 this audit area we're working on.

8 The next proposed project is review of the
9 department's draw processes. And the objectives of this
10 review will be to determined the draw is properly
11 accounted for, adequate supported, and in compliance with
12 department standards. That would include any applicable
13 federal laws, state laws regarding those draws.

14 And this project is being proposed because some
15 of the risk factors we use in our risk assessment
16 identified many areas of the department that's -- have
17 been directly affected by the reorganization as high risk.

18 Those are factors such as recent changes in organization,
19 recent changes in management, complexity of systems,
20 changes in the control process.

21 So there was so much that was ranked as high
22 risk for the board to focus on, we backed out and said,
23 Wait a minute. What are the inherent risks? The risk
24 that something could go wrong, that there was no controls
25 in place.

1 And of course, I guess the most inherently
2 risky item would be cash out on the table. If there's no
3 controls, it's not going to be used for proper purposes.
4 So we thought what passes -- it does have some controls
5 over it. It's in this Federal Treasury, and the State
6 Treasury. It's in the local accounts.

7 So the next tier down, if you will, will be the
8 processes getting to those cash balances, manned cash
9 receipts and cash disbursements. Cash receipt projects
10 were the first tier I referred to, and this would be the
11 other side of the coin, cash disbursements.

12 In this particular project, we will also focus
13 our consideration to those draw processes most affected by
14 the reorganization.

15 The next project is our contribution to the
16 Peer Review Process coordinated by the state agency's
17 Internal Audit Forum. And that's -- you're aware of the
18 department's internal audit function recently underwent a
19 quality assurance review as required by professional
20 standards and the Texas Internal Auditing Act.

21 They were required to do that at least once
22 every three years. And we chose to have members of the
23 State Auditor's Internal Audit Forum to conduct this
24 review, with the cost of this is our reciprocation. We
25 have to contribute hours to that function to be made

1 available to conduct peer reviews of other state agencies'
2 internal audit shops. And so we budgeted time for that
3 this year.

4 The remainder of the projects being proposed
5 are ongoing activities of the division, including
6 following up on prior audit issues, developing our annual
7 audit plan for fiscal year 2004, preparing our annual
8 audit report, which basically describes the internal audit
9 function's contributions and results for the year, and
10 coordinating and assisting external auditors.

11 I've also listed as a project my role in a
12 central database steering committee, due to the time
13 involved in providing that assistance. Are there any
14 questions on the annual audit plan?

15 Okay. There is one point I would like to bring
16 up before you vote on that plan. You might remember last
17 year's plan was amended to include an ongoing project
18 whereby the Internal Auditing Division was going to
19 facilitate a controlled self-assessment project, and
20 controlled self-assessment program.

21 And this program was to be owned by management,
22 and be a proactive review to ensure processes, systems,
23 and activities are controlled and executed in a manner
24 that supports the business objectives of the department.

25 The board approved the plan, but requested that

1 we delay inception of the control and self-assessment
2 project until after the reorganization has been
3 implemented.

4 I've excluded it for current consideration. I
5 believe management's plate is very full without placing
6 another initiative on their shoulders. I wanted you to be
7 aware of that. And that concludes my proposal for the
8 current year's plan.

9 MS. ANDERSON: Mr. Chairman, I move approval of
10 the Fiscal 2003 Internal Audit Plan.

11 CHAIRMAN GONZALEZ: Okay. And I second.

12 MR. GAINES: And if I may, with the addition of
13 the Tax Credit Inspection Fee Project added there.

14 MS. ANDERSON: As amended. Yes.

15 CHAIRMAN GONZALEZ: All those in favor.

16 (Chorus of ayes.)

17 CHAIRMAN GONZALEZ: All opposed? The motion
18 carries.

19 MR. GAINES: The next agenda item is a series
20 of report items. Items 3(a) through 3(e) relate to the
21 results of all the work performed by Deloitte and Touche,
22 the department's external auditors.

23 George Scott, the managing partner, is here
24 today to present those results.

25 George?

1 MR. SCOTT: Thank you, Dave. Good morning, I'm
2 George Scott. I'm a partner with Deloitte and Touche, and
3 I'm responsible for the -- conducting the audit this year.

4 As we're running audit and financial statement
5 presentation, a lot of trees have been killed for the --
6 all these documents that we'll go over today.

7 I'd like -- actually, the financial
8 statements -- there's actually three financial statements.

9 There is the Comprehensive Annual Financial Report, which
10 is in a grey cover. A subset of that is the report on the
11 Bond Program -- Revenue Bond Program, which is a separate
12 document. And the third financial document had to do with
13 computation of unencumbered fund balances.

14 All those are subsets of the first one,
15 Comprehensive Annual Financial Report. Our opinion on the
16 Comprehensive Annual Financial Report is on Roman numeral
17 II is that it is a clean opinion. In our opinion
18 financial statements do present their financial position
19 of the agency as of August 31.

20 Also, as you look in the other two reports,
21 they're also clean opinions. Again, our opinion of the
22 financial statements both for the revenue bond program do
23 present fairly that particular program separately, as well
24 as the unencumbered fund balance information, which is a
25 requirement of your bond indentures. It goes through the

1 different fund balances within those particular
2 indentures.

3 An audit conducted under Generally Accepted
4 Audit Standards and Government Auditing Standards, since
5 some of this is -- this is a requirement by the state,
6 that you have an audit done under Government Auditing
7 Standards also -- those standards are a little bit more
8 extensive than Generally Accepted Auditing Standards.

9 Those standards require that we plan and
10 perform an audit to reasonable assurance that the planning
11 statements are free from material misstatement. In order
12 to do that, we have to attach a variety of records and
13 documents. We interview individuals throughout the
14 organization, the various representations from the
15 organization as to the accessibility of information, and
16 so forth.

17 And during the course of the audit, there were
18 no restrictions placed on it, access to documents or
19 records, or individuals. We received, really, outstanding
20 cooperation throughout the organization. This was a very
21 difficult year for an audit, because as you will note in
22 the financial statements, the basis for the presentation
23 has changed substantially.

24 So it's not something you've seen before. And
25 all large governments, like the agency here, have gone

1 through this. And it has not been an easy process. I --
2 your -- this organization had done some advance planning,
3 and was prepared to go through that process.

4 I will tell you I have many clients that had
5 not -- did prepare at all. And they were still trying to
6 get financial statements out from last -- even from last
7 summer. So it is quite an endeavor to do that.

8 And as you look to the financial statements,
9 you will see that there are numerous things that are
10 not -- have not been there before, such as management's
11 discussion and analysis. And that is similar to what you
12 see in the SEC environment, but it's not exactly the same.

13 And what's more important, it's part of the
14 basic financial statements, which is something that is not
15 done by any industry, to put an MD&A management discussion
16 analysis in their review as one of the primary
17 information presented to a leader. This is very -- this
18 is a very significant change.

19 As well as, if you'll go further back in our
20 report, you'll see that it's presented, in many cases,
21 more like a commercial entity, in which for a Government
22 such as the agency here, that is a dramatic change in how
23 accounts are classified, how they're presented.

24 Accruals are different, because you're going to
25 a full accrual basis. So -- and you looking between fixed

1 assets and capital assets differently, doing depreciation
2 differently than you would normally do -- typically, what
3 governments typically have done.

4 The interesting thing here is that you're doing
5 it both ways. If you go through the report, one, the
6 complexities of this report is you're presenting it much
7 like you did before. But also now you've added this --
8 new layers of information on a different basis. And so it
9 is a very complex presentation.

10 But you have made it through, and it is -- you
11 know, again, I think it is a compliment to the staff to
12 accomplish that. We did not -- do not prepare the
13 financial statements. That is done internally. And so I
14 wanted to point that out.

15 We continued to -- we were doing the audit, and
16 continue to remain independent of management and the
17 board. This is a requirement that we disclosed to you as
18 an audit committee, that we do need to continue to meet
19 the independence requirements of the ALCPA as well as the
20 General Accounting Office. And that continues to -- and
21 continues to be the case.

22 As a part of our report, we issue a letter to
23 you that doesn't even have a title on it. It's just a
24 three-page letter. It's called a SAS 61 letter, which is
25 communication with an Audit Committee, and basically

1 summarizes what I have just talked about.

2 We have no material adjustments to the
3 financial statements, which during the course of this
4 conversion, that is not true for most organizations. So
5 again, I think you had financial management that was
6 really on top of this situation.

7 We had -- also, there were no significant past
8 adjustments. One of the things that we are required to
9 present to an audit committee now is occasionally during
10 the course of the audit we may find adjustments that are
11 not material enough to make -- discuss with management.
12 Management may decide they don't want to make adjustments.

13 We're required to disclose those significant
14 ones to you, and the reasons -- management's reasons for
15 not booking those. We had none in this -- in the current
16 audit.

17 Also during the course of the audit we
18 performed procedures around compliance with state and
19 federal law, as well as reviewed internal control
20 environment. We identified no situation that we believe
21 is a material weakness in the internal control environment
22 identifying those compliance exceptions with state law
23 that would need to be required in these reports.

24 However, we do issue a report to management,
25 which is again, another document, which goes through items

1 that we believe that the audit committee and the board
2 should pay attention to, plus we review the prior year's
3 comments that we had and what the status of those were.

4 And as you read through those, we identify
5 that -- we encourage the board to look at their directors'
6 and officers' insurance which lapsed during the year, and
7 perhaps work with SORM, who is trying to pull together, I
8 think, a state program to deal with that.

9 But with the uniqueness of this organization,
10 we being in the bond market and so forth, the liability of
11 the board is heightened because of that. It's not a
12 typical state agency. And so you may want to look at that
13 pretty seriously.

14 The other area is on the regular loans, to
15 review the loan loss reserve, which the agency has already
16 done, as you see in the response. As we looked at that,
17 it had not been reviewed for -- it looked like for several
18 years.

19 There was no real documentation on what basis
20 that loan loss reserve was accumulated. And actually, it
21 looked too high to us based on what we could see as
22 historical evidence. And I know they've looked at it, and
23 I think they're adjusting it on a go forward basis.

24 As far as some of the prior comments, the --
25 one of the concerns we had last year was the accounting

1 for the Texas Housing Trust Fund. And basically, that
2 activity was split between several locations, and so it
3 was hard to figure out, or look at it from one
4 perspective. When you asked the agency to look at that,
5 and they have done that, and basically moved that into the
6 general fund so you can see it in one location.

7 The Down Payment Assistance Program -- we had a
8 concern last year that the down payments were not being
9 reconciled on a timely basis for supporting documents. So
10 you had a disconnect between what was recorded and what
11 may have actually been received. And that procedure has
12 been put in place. We notice in this year's audit we
13 identified no problems with that this year.

14 There was also -- last year's situation we were
15 concerned about accounts payable being cut off after 30
16 days. And obviously there were a lot of liabilities that
17 are not paid within 30 days. So to look at that -- and
18 they've done that, and implemented procedures around that.

19 And the other area was the integrated financial
20 information. We identified that there were several
21 systems that still didn't speak together. You had the
22 PeopleSoft systems that had not been implemented, and you
23 are in the process of doing several of those now. So
24 again, that seems to be an ongoing -- that obviously is
25 not something that we addressed immediately. So it's an

1 ongoing issue.

2 So that concludes our report. Again, I'd like
3 to thank everyone's cooperation from the board down.
4 Again, the course of the audit -- it's not an easy process
5 to go through. And it's really quite painful. And we
6 certainly appreciate everyone's help. If you have any
7 questions I'd be happy to answer them.

8 CHAIRMAN GONZALEZ: I do have one. How often
9 do you recommend reviewing the loan loss reserve?

10 MR. SCOTT: I think the loan loss reserve
11 should be reviewed at least every two years.

12 CHAIRMAN GONZALEZ: Thank you.

13 MR. SCOTT: Thank you.

14 MS. ANDERSON: I do have a comment. I want to
15 thank our -- all of our staff, and Deloitte and Touche. I
16 appreciate your teamwork, you know, working together on
17 this audit. And I'm very proud of this agency.

18 Anytime you have a complex agency like this,
19 you have a set of clinging opinions, you know, and I mean,
20 I just think that's something that we really ought to
21 celebrate in this agency that we have, this evidence that
22 our financial house is in good order.

23 In reading the letter to management that
24 Deloitte and Touche prepared, I was, frankly, very
25 disturbed to see that we had allowed the D&O insurance to

1 lapse last year. And maybe I missed something, but I
2 don't remember that decision coming to the board. So, you
3 know, maybe I just missed it in a board meeting.

4 But I think that the decision to wrap something
5 like that should have come to the board, and I think we
6 were -- you know, I think it was -- the timing was such it
7 was before Ms. Carrington was -- before she accepted our
8 offer that we're so thrilled to have her as our executive
9 director.

10 But I would ask that staff -- that in the audit
11 committee meeting next month, that we have a proposal from
12 staff to reinstate this D&O insurance. This is not
13 something that I want sitting out, you know, as a pending
14 action item for an extended basis. So I would like to
15 have the commitment that we -- staff's commitment that we
16 have an action -- whatever action we need to take to get
17 it reinstated, that we get that on next month's agenda.

18 CHAIRMAN GONZALEZ: Okay. David, I'd like to
19 at least have a -- some comments, or have somebody from --

20 MS. ANDERSON: Mr. Bill Dally.

21 MR. DALLY: Mr. Chairman, we did not bring that
22 to the board, you're correct. But that decision to let
23 that lapse did not come back to the board. And for that I
24 apologize.

25 That premium that we had was \$125,000. And our

1 experience had been that we had not had any claims against
2 that. We only had about \$100,000 deductible. Things --
3 and in that environment, we were on our own so far as
4 negotiating.

5 But what I want to bring to you today is we
6 have actually gotten a proposal through SORM for a very
7 reasonable premium. Our \$100,000 deductible -- that
8 premium would be \$11,136. And then yes, I would recommend
9 that we -- that would be money well spent to put that
10 policy in place.

11 So what we'll do is we can circulate this
12 proposal to the board members and stuff, and if you want,
13 make that an action item for next month.

14 MS. ANDERSON: Well, I mean, I'm not even sure
15 that that has -- an \$11,000 expenditure we don't have to
16 approve. But let's just -- you know, we can consult with
17 the rest of the board, if we want. But I think the
18 sentiment, I'm certain, I feel -- certainly.

19 MR. DALLY: But evidently, we got some -- a lot
20 better negotiating power when the State Office of Risk
21 Management put this out -- this proposal out for us. But
22 we got this -- it's dated March 11. We'll be sure someone
23 got this proposal. But --

24 MS. CARRINGTON: And what we can do, Bill, is
25 just notify the board next month that the D&O coverage is

1 in place.

2 CHAIRMAN GONZALEZ: The previous one was with
3 CNA. Is that correct? Or what --

4 MR. DALLY: Marsh was the broker, but I think
5 it was Fire Union, or some other underwriter.

6 CHAIRMAN GONZALEZ: Okay. That was 125 --

7 MR. DALLY: \$125,000. About a \$100,000
8 deductible.

9 MS. ANDERSON: Thank you.

10 MR. DALLY: Thank you.

11 MR. GAINES: Thank you, George. The next
12 agenda item, at 3(f), which is behind Tab 6(f), is the
13 Internal Audit Report on the Low Income Housing Tax Credit
14 Inspection Fee Project that we've recently completed.

15 The first couple of paragraphs are standard
16 language that have been tailored to the project. This was
17 considered an agreed-upon procedures engagement. And this
18 type of engagement provides assurances of something less
19 than an attestation engagement, which provides assurances
20 or provides an opinion regarding the fairness of the data
21 being presented.

22 And basically, what this means is that we
23 applied procedures that had been agreed upon with
24 management, and our understanding of the board's
25 intentions, solely for the purpose of assisting you with

1 respect to evaluating the amounts due from tax credit
2 project owners that have resulted from construction
3 inspections conducted on the projects.

4 And while the standards -- the sufficiency of
5 the procedures applied is formally, if you will,
6 sufficiently the responsibility of the users of the
7 report, meaning management and the board, often -- and I'm
8 on the record, but aside from the standards, I believe the
9 procedures have been applied provide you quality
10 information with respect to evaluating these amounts.

11 And if you will, I intend to focus our
12 discussion on the executive summary. A subsidiary ledger
13 that identifies payments to the inspectors and
14 reimbursements from the project owners by a specific
15 project at the project level has been prepared and
16 reconciled to the accounting records.

17 As of September 30, 2002, the net inspection
18 fees due from project owners for the construction
19 inspections conducted prior to September 1 totalled
20 \$100,126.

21 This is the same information that was reported
22 to you for several months now in status meetings. This
23 net balance consists of \$203,238 due from project owners,
24 and \$103,113 due to project owners, netting to the
25 100,000.

1 As of February 20, management has billed an
2 additional \$152,402 of the 203,000. Management intends to
3 bill the balance of that as it assesses and is satisfied
4 with the documentation supporting those balances.

5 Effective September 1, 2000, Financial Services
6 Division assumed responsibility for maintaining the
7 detailed subsidiary records supporting the balances due
8 from the project owners. And based on the work we've
9 performed with the Tax Credit Division and the Financial
10 Services Division, and based on our review of the records
11 and documentation and the processes that they're using, we
12 believe the Financial Services Division has the capacity
13 necessary to fully account for these activities and
14 balances going forward.

15 And I'll be glad to discuss any of the details
16 that you'd like to get into.

17 MS. ANDERSON: I have a question, Mr. Gaines.
18 If memory serves, when we met last month, you indicated
19 that there was another -- and I think the number was about
20 40,000 that was about -- you know, potentially about to be
21 billed.

22 MR. GAINES: Yes, ma'am.

23 MS. ANDERSON: Do you remember that
24 conversation? Can you give me a status?

25 MR. GAINES: And that would -- at this point is

1 the balance, playing the 203 that we're reporting due
2 from --

3 MS. ANDERSON: Right.

4 MR. GAINES: -- and the amount recently billed
5 of 152. That remaining balance still is out there that,
6 as of my last check-in with Financial Service Division,
7 they're continuing to look at it. They intend to bill it
8 as they assess the quality of that documentation
9 supporting that.

10 We're comfortable in walking away from the
11 project, because based on our sampling of the detailed
12 documentation, and fairly good-sized samples, we found the
13 quality of the data to be there. And of course, Financial
14 Services Division doesn't want to necessarily rely on our
15 work. They want to look at it independently before they
16 bill that.

17 MS. ANDERSON: I would just ask, and I'm not
18 from an audit perspective, but from just a fiscal,
19 financial perspective, that we continue to get some
20 updates on this. It doesn't have to be in the Audit
21 Committee. It can be a report to the full board, or
22 something like that, how we're working down those
23 remaining balances, both the due-to's and the due-from's,
24 you know, working that sort of, toward a finalish
25 resolution.

1 MR. GAINES: Yes. I think we'll have a
2 periodic briefing on that, and include it on the agenda,
3 and maybe let someone with financial services discuss it.

4 MS. ANDERSON: Thank you.

5 MR. GAINES: Okay. The final agenda item is
6 behind Tab 6(g), and this is the Status of
7 Internal/External Audits.

8 For the internal audits, you'll notice the
9 recent completion of the inspection fee receivable report
10 that we just discussed. The next couple of audits are in
11 the planning stage and relate to the collection of other
12 fees collected by the department that we just approved in
13 the audit plan. We began our planning on those projects
14 anticipating approval.

15 The last project is a review over the controls
16 over tax credit deliverables. And I've classified this as
17 in the fieldwork reporting phase. This project is a
18 holdover project from last year, and it was delayed due to
19 turnover in staff.

20 It's since been kicked back up and gone through
21 by the newest member of our staff that I'm so pleased to
22 have with us. And it's sitting on my desk at this point
23 pending my review.

24 And to the extent I'm satisfied with the
25 report, we -- I just need to finalize it. I do need to

1 assess if there is any more fieldwork necessary to release
2 that report. I hope to be able to get that off our desk
3 by May -- release that in May.

4 The next series of audits relate to projects
5 conducted by external auditors. The first one is a
6 quality control review of the internal audit function that
7 was completed last month and presented to you, or was
8 presented to you last month.

9 The KPMG audit refers to the federal portion of
10 the statewide financial single audit which has been
11 completed. This report was released in February. I
12 didn't actually receive a copy of the report until since
13 we posted the board items, so I wasn't prepared to discuss
14 the results of that report with you today. But we'll do
15 that, and I'll deliver the text of the report to you
16 between now and the next meeting.

17 The next audit underway -- or the next audit
18 listed by the State Auditor's office is one that is
19 underway. It's a review of the department's Community
20 Services Block Grant Programs, or program, and the Energy
21 Assistance Programs, and the Section-8 Program.

22 The department is expecting a final draft
23 report on this project just any day now. And we expect
24 that soon. The second State Auditor's Project listed
25 relates to the legislative summary documents. And these

1 were presented to you at the last board meeting.

2 Finally listed are the Deloitte and Touche
3 Projects that Mr. Scott just discussed with you. And of
4 course, those are all completed. Any questions relating
5 to the status of audits?

6 MS. ANDERSON: I have one question. On the
7 Manufactured Housing Fee Project that you're getting ready
8 to undertake, does that sort of fall under our interagency
9 agreement with the Manufactured Housing board and stuff,
10 such that David and the division's time and expenses in
11 that somehow gets charged back over the --

12 Thank you.

13 CHAIRMAN GONZALEZ: Did I see a nod over there?

14 MS. ANDERSON: Penny, the answer -- Bill Dally
15 shook his head yes, Penny.

16 MR. DALLY: For the record, yes. The --
17 they -- in our interagency agreement, it covers the --
18 actually, the governmental and communications area of our
19 agency. It covers our financial area and payroll, and the
20 purchasing, those areas.

21 It also covers the internal audit, because
22 every group is to have an internal auditor. Every agency
23 is to have an internal auditor. And a lot of the smaller
24 ones are going to contract out with third parties to do
25 it.

1 In our particular instance, David had always
2 been sort of funded, or his group had been funded out of
3 that group. And so when we did the agreement, there was a
4 portion of it. Yes.

5 MS. ANDERSON: Okay.

6 MR. GAINES: And so even last year, some of --
7 he was -- in other words, it's not on an audit basis. He
8 was charging in part the agreement last year --

9 MS. ANDERSON: Just part of the regular
10 overhead allocation or something.

11 MR. GAINES: And so he looked at controls and
12 risks for the above groups, and now he's got one that's
13 cash receipts. Well, it's there and it's here. So he's
14 going to do both groups. So yes, it is covered by that
15 agreement.

16 I mean, in effect, the Housing Division has
17 been made aware of the project. I have not discussed that
18 with their board, yet, which I will.

19 CHAIRMAN GONZALEZ: Any other comments? Okay.
20 We will entertain a motion for adjournment.

21 MS. ANDERSON: I move adjournment.

22 CHAIRMAN GONZALEZ: Second. All those in
23 favor.

24 MS. ANDERSON: Aye.

25 CHAIRMAN GONZALEZ: The motion carries. Thank

1 you, David.

2 MS. ANDERSON: Thank you, David.

3 (Whereupon, at 9:10 a.m., the audit committee
4 meeting was concluded.)

C E R T I F I C A T E

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IN RE: Texas Department of Housing and Community
Affairs Audit Committee Meeting

LOCATION: Austin, Texas

DATE: March 13, 2003

I do hereby certify that the foregoing pages,
numbers 1 through 29, 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.

(Transcriber)

(Date)

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