

Texas Department of Housing and Community Affairs

Audit Committee

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

Thursday, July 27, 2000
5:45 p.m.

COMMITTEE MEMBERS:

C. KENT CONINE, Chairman
JAMES DAROSS
MARSHA L. WILLIAMS

ALSO PRESENT:

DAISY STINER
DAVID GAINES
RUTH CEDILLO
SUZANNE PHILLIPS
BILL DALLY

I N D E X

<u>AGENDA ITEM</u>	<u>PAGE :</u>
CALL TO ORDER, ROLL CALL CERTIFICATION OF QUORUM	3
PUBLIC COMMENT	3
ACTION ITEMS	
Tab 1 Presentation, Discussion and Possible Approval of Minutes of Audit Committee Meeting of March 24, 2000	3
REPORT ITEMS	
Internal Audit Reports	4
Status of Prior HOME Audit Issues	32
Status of Audits/Annual Audit Plan	44
EXECUTIVE SESSION	65
OPEN SESSION	66
ADJOURN	66

P R O C E E D I N G S

1
2 MR. CONINE: I've got 5:45. Let's call the
3 Audit Committee of the Texas Department of Housing and
4 Community Affairs into session, if we might. First thing
5 we'll do is call the roll. Kent Conine is here.

6 Jim Daross?

7 MR. DAROSS: Here.

8 MR. CONINE: Marsha Williams?

9 MS. WILLIAMS: Here.

10 MR. CONINE: We've got three members present.
11 We're all accounted for.

12 At this point I would call for any public
13 comment. If there is any public comment, please turn in a
14 witness affirmation form. I don't have any. I don't
15 think anybody else has any. So we'll move on to the
16 action items, if that's all right.

17 Tab 1 is the presentation, discussion, and
18 possible approval of minutes of the Audit Committee
19 meeting on March 24, 2000.

20 MR. DAROSS: I move that the minutes be
21 approved as submitted.

22 MS. WILLIAMS: Second.

23 MR. CONINE: Moved and seconded. Any
24 discussion?

25 (No response.)

1 MR. CONINE: All those in favor, say aye.

2 (A chorus of ayes.)

3 MR. CONINE: The minutes are approved.

4 Next are the report items, the internal audit
5 reports. David Gaines.

6 MR. GAINES: Thank you, chair, members of the
7 committee, Ms. Stiner.

8 The second item on the agenda under report
9 items would be Housing Trust Fund subrecipient monitoring
10 audit. If you'll turn to the first section behind Tab A,
11 that's where you'll find that report. And what I'd like
12 to do is just briefly walk you through the different
13 sections of the report.

14 The first couple of pages is just the
15 transmittal section. It highlights a couple of the
16 report's significant issues and then just the fact that
17 the report follows. The following page is the
18 distribution page, which is a required distribution by the
19 Texas Internal Auditing Act. Table of contents will give
20 you a quick overview of its contents, and then the report
21 begins on page 1 of 16.

22 If you would, I'd like to just start out by
23 focusing in on the program overview, the last paragraph.
24 It talks about the size of the Housing Trust Fund staff.
25 And at the end of our field work there was five people

1 involved with that program, one being the manager,
2 construction coordinator, senior planner, assistant
3 planner, and administrative assistant to carry out the
4 duties of that program.

5 Considering that, the Housing Trust Fund
6 manager has concentrated their monitoring resources on the
7 construction program, which is the largest of their
8 programs over the last -- from the years '97 through '99.

9 That comprised slightly over 50 percent of their total
10 awards for that period.

11 On page -- the following page there's an
12 executive summary, and I'm pretty much talking off the
13 executive summary but I'll walk you through it as to where
14 it's laid out in the report. On page 3 we begin the
15 construction section, and as I was saying, this is where
16 the Housing Trust Fund has emphasized their monitoring
17 activities and review of those activities -- we've
18 assessed they do have adequate procedures in place to
19 provide assurance that construction is of high quality.

20 They've done this primarily by site visits,
21 actual construction inspections, and reviewing the
22 reasonableness of the related draw-down requests and
23 relating those back to what's actually being placed out at
24 construction sites. While the function provides
25 reasonable control over these projects, we know that the

1 opportunities to improve the effectiveness of the function
2 departmentwide, because of the changing role of the
3 construction coordinator, which I've briefly discussed
4 here and the growth of the Housing Trust Fund, the limited
5 resources of the fund, the specialized nature and skills
6 required of a construction inspector; because of the fact
7 that other programs within the department have similar
8 functions, we've recommended that management consider
9 alternatives to what the Housing Trust Fund is currently
10 doing. And I'll just touch on those alternatives briefly.

11 The first one we suggested was considering an
12 agencywide construction inspection section to provide
13 services to each of these different areas on an as needed
14 basis. We believe by doing so you'll make better use of
15 these specialized resources. The construction staff could
16 provide assistance to program staff in areas such as
17 technical assistance to the underwriting staff for front
18 end property and rehabilitation inspections for the
19 compliance division, and these resources to be drawn on an
20 as needed basis.

21 We believe such a function should be reporting
22 to a level of management that's independent of the program
23 areas, because by doing so, they aren't going to have the
24 pressures of the award process or program pressures to
25 produce results on that function and allow them to

1 objectively assess the quality of construction for the
2 department.

3 A centralized staff would also allow for
4 consistency in the quality of the inspections among the
5 programs, a consistent coordinated hiring, training, and
6 recruitment program to ensure that we have appropriate
7 skill levels for the function; and it would relieve the
8 program areas of this responsibility and allow them to
9 focus on technical assistance, contract administration,
10 contract awards.

11 We also recommended as another alternative that
12 the department consider contracting with third parties to
13 conduct these inspections on behalf of the department.
14 This approach is currently being taken by the Tax Credit
15 section and may be of benefit to the other programs. If
16 this alternative was chosen, the department would still
17 need to maintain some minimum level of skills in
18 construction inspection to oversee those contracts and
19 ensure that the contract services are being properly
20 performed.

21 In connection with either of those, we are
22 recommending that there be a formal evaluation of the
23 degree of overlap between our inspections and those of
24 third parties, such as the primary lenders or the local
25 governments where the Housing Trust Fund projects are

1 located to determine the extent that there is overlap and
2 the extent that we can rely on those functions -- rely on
3 those third-party inspections to avoid duplication and to
4 better accomplish our objectives with our limited
5 resources.

6 And finally, out of those alternatives -- and
7 the last one is across the board, to consider what third
8 parties are doing -- if none of those prove to be
9 acceptable, we're going to have to go to what I would
10 consider the last resource, our last recommendation, and
11 that would be there's a need to increase the resources
12 because of the growing needs of the Housing Trust Fund.

13 MS. WILLIAMS: May I ask a question?

14 MR. GAINES: Yes, ma'am, any time.

15 MS. WILLIAMS: When you say establish an
16 agencywide construction inspection section, is that common
17 in other states that have -- they have their Housing Trust
18 Fund? I would just be curious to know whether that's kind
19 of something that's been done in other states; if it has
20 been, how successful, et cetera?

21 MR. GAINES: I'm not able to respond to that.
22 It's a good question and actually one I've had myself, but
23 we didn't do the research. Management has indicated it's
24 in general agreement that they need to consider the
25 alternatives and have indicated that they plan on doing

1 that, hoping to have a plan in place by December 31.

2 And as we proceed through this, I am going to
3 paraphrase management's responses just briefly, but of
4 course, all the relevant management personnel are here and
5 they're prepared to speak to any of those detailed
6 questions you might have on how they might proceed.

7 The second issue is just enhancing of --

8 MR. CONINE: Let me ask a question of Ms.
9 Stiner if I can right there.

10 MR. GAINES: Yes, sir.

11 MR. CONINE: Who under your leadership is going
12 to have a broad view of the construction inspection
13 services that we do as a total department to be able to
14 come back -- to do a recommendation back to you, then
15 ultimately back to us by December 31? Have you thought
16 that through yet?

17 MS. STINER: Yes, sir. Kimbal Thompson, who is
18 the staff assigned to Housing Trust Fund right now is a
19 person with many years of construction experience. If we
20 were to organize it in-house, we'll need to see where it
21 would be placed. As David has indicated, we -- no, it
22 won't be in the Housing Trust Fund, but we haven't thought
23 through where in the agency it would be placed. But in
24 terms of an individual, if I understand your question
25 correctly, to help us --

1 MR. CONINE: Yes. Just a point person.

2 MS. STINER: It will be Kimbal Thompson.

3 MR. CONINE: And he's familiar with what's
4 going on with the tax credit side and the HOME side and
5 all the other construction inspections we do throughout
6 the department?

7 MS. STINER: He is, and has even done some of
8 our Section 8 program. He's worked with those folk in the
9 Section 8 program, actually gone out and done some
10 inspections of the housing quality standards there. So
11 he's the person with that kind of knowledge and would be
12 coordinating such an analysis with us in the department.

13 MR. CONINE: And he's also capable of running a
14 financial analysis on whether we've got enough revenue
15 coming in to do it in-house or whether we need to go out-
16 of-house with it?

17 MS. STINER: No, sir. That would be Mr. Bill
18 Dally's responsibility, the CFO.

19 MR. CONINE: Okay.

20 MR. DALLY: I've just got a comment. I think
21 our issue here is we're going to run into some resource
22 issues about FTEs.

23 MR. CONINE: Right.

24 MR. DALLY: And what I think is important here
25 is that we have construction reports coming in on our

1 projects that show that it's adequate, that it's meeting
2 the standards it should. But I think there are third
3 parties with that kind of expertise out in these places
4 that do it.

5 Now, in tax credits we had that rider that
6 required that those sets of inspections -- and we also
7 turned around and said, Okay, we're going to charge back
8 whatever those fees are for the engineers that go out and
9 look at those because those are -- I think, too, there's
10 different levels of inspection. We have a group that does
11 manufactured housing, but that's a whole other issue of
12 tying down and setting up. That's not multi-family,
13 multi-units construction, which is a whole other arena.

14 And so I think we're going to be limited in
15 having expertise to cross all of those versus a single
16 family inspection, so I think we should -- our strategy
17 should be to look for third parties where we can, but have
18 a coordinator, Kimbal Thompson or somebody who draws in
19 and sees that we have reports on all of our projects where
20 we should, and that's in the files.

21 If someone -- a qualified inspector -- has
22 looked at it, and we have it documented in our files, but
23 not that we're going to staff up and send a lot of people
24 out to do that. That's my thought on it.

25 MR. CONINE: Okay. Thank you.

1 MR. DAROSS: Yes. There was a comment along
2 these same lines about the possibility of utilizing other
3 inspection reports that are being done by other entities
4 involved with these things, which I think we certainly
5 ought to look at from an economic standpoint. But do we
6 have any kind of an actual requirement, legislative
7 requirement, that we perform the inspections ourselves, or
8 could we look at inspections being done by other agencies
9 involved?

10 MR. DALLY: I don't think we have a requirement
11 that we, in particular, do it. I think the requirement is
12 that one is done and that we know it's done and documented
13 in our files.

14 MR. GAINES: We do have that responsibility to
15 be satisfied with those inspections.

16 MR. CONINE: Right.

17 MR. DALLY: And I think that's where we need to
18 be sure that we have in our files inspections from
19 qualified folks, but not necessarily that we go out and do
20 it.

21 MR. CONINE: Okay. I just --

22 MR. DALLY: Those are my thoughts.

23 MR. CONINE: It takes someone with either
24 knowledge of all of our little departments or a group of
25 people that come from each of those to figure out how to

1 do it, and I just wanted to make sure that was in process.

2 MR. DALLY: But I think we do need a contract
3 coordinator or someone whose charge is to see that all
4 these reports are coming in and if there are areas or
5 programs that are not getting an inspection done, then it
6 may fall to us or someone in-house to find someone, or we
7 do it until we find someone to do it.

8 MR. CONINE: Okay.

9 Continue on, Mr. Gaines.

10 MR. GAINES: The next issue is closely related.
11 It's just referring to the job description of the
12 inspection coordinator of the Housing Trust Fund. The
13 actual employee is well qualified to serve in this
14 capacity. I'm referring to the job description itself.
15 The written job description needs some improvements so we
16 can assure ourselves that any future applicants hired into
17 the position has the appropriate qualifications to fill
18 it. And management's agreed with that.

19 On page 5 of the report I go into programwide
20 issues. But before I do that, I just wanted to touch
21 briefly on the acquisition awards, and the reason I'm
22 doing that is we went after the big dollars during this
23 review as Housing Trust Fund has done in their applying
24 resources in their monitoring function. But the
25 acquisition awards comprised approximately 33 percent over

1 the last three years, '97 through '99, and so with
2 acquisition and construction, we're up over 84 percent at
3 this point.

4 And this just helps you put it in perspective
5 as we get down to some of these other issues, the overall
6 relevance.

7 The Housing Trust Fund relating the acquisition
8 awards has little to no responsibilities associated with
9 acquisitions. The primary controls over these activities
10 really relate to the contracting award process, the
11 underwriting process, and then the monitoring process of
12 affordability period, which is performed by compliance
13 division. And because of these reasons, they weren't --
14 this activity was not included within the scope of our
15 audit.

16 Now to the programwide issues. The first issue
17 is the uniform grant management standards, and the Housing
18 Trust Fund does contract with organizations that may be
19 subject to these standards, including local governments
20 and nonprofit organizations that receive federal block
21 funds. These standards are the state's counterpart to the
22 federal standards A133 that relates to federal funds, and
23 these are the state's standards counterpart.

24 In fact, it's almost difficult to differentiate
25 them if you don't look at the title at the top. I think

1 for the most part, the state took those standards and
2 adopted them.

3 So we do need to incorporate those standards,
4 refer to them in the contract, develop procedures to
5 monitor to ensure compliance with those standards, and
6 Housing Trust Fund has agreed that that needs to be done
7 and has indicated that they're planning an implementation
8 date of October 31.

9 On page 6 I briefly talk about the reporting
10 and follow-up process, the monitoring results. And for
11 the construction program, they're generally adequate.
12 They have procedures in place to where if a compliance
13 exception is noted, they hold future draw requests until
14 those exceptions are resolved.

15 On the other areas -- excuse me. Before I get
16 to that, even though they're generally adequate on the
17 construction program, there are several opportunities to
18 improve those, not only to the construction programs but
19 to all the programs within the division. Currently
20 there's not formal procedures for communicating these
21 results to the executive director or to other programs
22 that may contract with the same subrecipients, and there's
23 not really a management information system that's in
24 place.

25 These are similar comments to what you've heard

1 in previous reports related to the department's monitoring
2 function. And without this type of information, it's
3 difficult for people involved in planning, executing,
4 monitoring, and overseeing program activities. You'd like
5 to be able to use these results to risk-rank subrecipients
6 and the actual compliance requirements to determine the
7 allocation of monitoring resources to subrecipients and to
8 procedures to be applied.

9 We need to improve the SOPs across the board
10 for adding quality control review procedures. Currently
11 reviews are going on. They just aren't documented in the
12 SOPs as to how those reviews should be conducted, and they
13 aren't documented so you can determine the extent of those
14 reviews.

15 Additionally, relating to just the non-
16 construction related contracts -- so we're getting into
17 the smaller program areas -- the SOPs should be enhanced
18 to specify the required report content of these reports:
19 the scope, the nature, time frame considered, possibly
20 rather than the reporting of a particular instance, maybe
21 the underlying control that wasn't operating that allowed
22 that incidence to occur, things such as that.

23 And policies and procedures should also be
24 established for following and tracking deficiencies that
25 have been noted to ensure that proper corrective actions

1 are eventually taken, and management has agreed with that.

2 They've agreed to update their policies and
3 procedures by October 1. The recommendations relating to
4 using the monitoring results for risk-ranking of the
5 subrecipients is contingent upon completion of their
6 Housing Trust Fund database that's currently in progress.

7 They anticipate four to six months before that will be
8 completed.

9 On page 8 I talk about the financial
10 monitoring, financial management reporting systems, and
11 currently the Housing Trust Fund is using spreadsheets --
12 electronic spreadsheets to collect and attract its
13 financial data to assess the performance of individual
14 subrecipients. While this may be the best tools they have
15 to work with at this point, this information is not
16 currently reconciled to the department's accounting
17 records to ensure the completeness or the accuracy.

18 Additionally, they have not been receiving from
19 the financial services division information to assist the
20 program as a whole rather than each individual
21 subrecipient; information such as Housing Trust Fund
22 appropriations, overall expenditures, balances, loan
23 payments from borrowers, funds at risk of lapsing. They
24 need to be receiving this on a regular basis to
25 effectively monitor and assess the overall program

1 performance.

2 So accordingly, we're making recommendations
3 that they request this information formally from
4 information systems. We've acknowledged in similar
5 comments some system problems. I think in the meantime we
6 need stopgap measures until we can get these interfaces,
7 consolidated systems, centralized database put together to
8 where the program managers can draw off it themselves --
9 retrieve it themselves. In the meantime there just needs
10 to be stopgap information provided.

11 MR. CONINE: I don't know who this question is
12 for. I see where the database is going to take four to
13 six months. Ms. Stiner, I guess -- how are we
14 coordinating that database with everything across the
15 department and into some global system that will be
16 available some time early next year or mid- next year?
17 What's the latest and greatest?

18 MS. STINER: The latest and greatest is that
19 the centralized database for the whole department is what
20 we're building and moving toward. What is out there --
21 the task force met yesterday, the IS task force, in terms
22 of talking about priority for the centralized database,
23 and I don't know what the projected date of completion is.

24 But each program, as you know, needs to be able
25 to interface with the current system that we have, and I

1 think that's what this is going to. I see Keith shaking
2 his head about the four to six months.

3 Can you come forward and explain how it's going
4 to interface with the centralized database that we're
5 building for the entire department?

6 MR. HOFFPAUIR: Yes. What we anticipate is the
7 database that we're going to be utilizing. We received a
8 template of the CDBG database, and we will be cutting and
9 pasting on it to make it a little more what we need within
10 the Housing Trust Fund. The CDBG database is based on an
11 Oracle platform, which we anticipate, from what I've heard
12 on the agencywide database, that's going to be the
13 platform for that database as well, so there will be
14 commonality and there will be communication interface
15 possible with those two databases.

16 MS. STINER: There's a plan in place to bring
17 every program area onto that platform. CDBG was one of
18 the first major programs to go on that platform, and so
19 you're going to be utilizing that as a model to convert
20 your -- what is your data in now, Genesis?

21 MR. HOFFPAUIR: No. Right now it's in Excel
22 spreadsheets.

23 MS. STINER: Oh. You just said that. Excel
24 spreadsheet. So you'll be putting it into the model the
25 CDBG is using that's on the Oracle platform?

1 MR. HOFFPAUIR: Right. We received a copy of a
2 template this week, and we're already going into it.
3 Rebecca Peterson, my assistant planner -- she's already
4 starting to go into it and analyze the pages, and we're
5 going to start putting our information into it and seeing
6 if our program fits into that.

7 MR. CONINE: The -- what would you think the
8 target date is for the agencywide database as opposed to
9 just the Housing Trust Fund database?

10 MR. HOFFPAUIR: I don't know what the
11 agencywide target would be.

12 MS. STINER: I think that is a better question
13 for -- well, probably a better question for me. I'm
14 looking around. I can't see anybody I can just download
15 that one to.

16 MR. CONINE: I'm just trying to get a feel,
17 because I think a lot of what Mr. Gaines is bringing up
18 will be naturally resolved by that time.

19 MS. STINER: Let me tie this in for the
20 committee. One of the recommendations -- well, we've been
21 working on a centralized database at this agency a number
22 of years.

23 MR. CONINE: Right.

24 MS. STINER: We started by buying the Oracle
25 system and the accounting program, of course -- all bills,

1 financial services are on there. We've talked about doing
2 that, and we were building that in-house with our IS
3 staff. And the projections that we were getting from our
4 IS staff was too far out for that -- for us and what we
5 need to do, especially given that a lot of the
6 recommendations that came out of Sunset, and just where we
7 need to be as a business plan.

8 So as we speak, we have put together an IS task
9 force and committee. The committee is chaired by David
10 Long. This committee will be responsible for looking at
11 the overall business needs of the department and
12 prioritizing that with IS so that IS can devote the
13 necessary resources it needs to whatever the project may
14 be.

15 But the centralized database is on that laundry
16 list. It is somewhat very close to the top, so as we
17 speak, I don't know that we've had a chance to project out
18 what the completion date is on that particular one
19 development, but it is something that's on the plate for
20 that committee to look at.

21 MR. CONINE: Okay. Thanks.

22 MR. GAINES: Thank you, Keith.

23 On page 9, briefly, I have a section on non-
24 construction activities, and what I'm referring to here is
25 the down payment assistance predevelopment loans to

1 capacity building. This comprised approximately 16
2 percent of the total over the last three years, 7 percent
3 for the down payment assistance capacity building, 5
4 percent predevelopment at 4 percent.

5 The down payment assistance, the largest of the
6 three -- the Housing Trust Fund, although they don't have
7 responsibilities -- monitoring responsibilities once the
8 assistance loans are closed, as I've discussed in your
9 Attachment A, it does have other monitoring
10 responsibilities relating to the subrecipient's
11 responsibilities for marketing the program, targeting the
12 income and special need groups specified in the contract,
13 and for completing the contract within contract terms.

14 At this point the Housing Trust Fund doesn't
15 have their policies and procedures formalized for this,
16 and accordingly, we're recommending that they do so.
17 Management is in agreement with that and has an
18 anticipated completion date of December 31.

19 On the predevelopment loan and capacity
20 building subrecipients, page 9 -- I'll continue on --
21 while there's adequate monitoring checklists that have
22 been developed and used for monitoring these activities,
23 they haven't formalized them in standard operating
24 procedures.

25 Accordingly, there were instances noted where

1 maybe a checklist wasn't completed, without explanations
2 why, no indication or evidence of supervisory review. And
3 so this is what formal policy and procedures hopefully
4 will accomplish, and so we're recommending that to provide
5 resource rooms [phonetic] that management's objectives are
6 accomplished in monitoring those activities.

7 We also recommend relating these activities
8 that clear outcome measures be developed and measured
9 against the actual results. This provides management with
10 the information necessary to assess if the department is
11 receiving the benefits it expects from these types of
12 activities. Without the performance outcome measures, we
13 aren't really able to effectively assess whether the
14 public benefits derived warrants a continuance of the
15 activity.

16 Management's agreed with these recommendations
17 and they intend to formalize their monitoring policies and
18 procedures by December 31. They've also indicated they're
19 in agreement with the outcome measures on the
20 predevelopment loans. They have a good idea what those
21 outcome measures are, and it's just a matter of
22 accumulating the information and using them in the
23 decision making process.

24 On the capacity building, it's a little bit
25 more difficult to identify, and this program is to train

1 and build the capacity of nonprofits so they can deliver
2 these construction activities, housing activities, also.
3 Currently, the Housing Trust Fund does have procedures in
4 place to evaluate the training programs, evaluate the
5 trainer and the trainees -- trainers -- evaluate the
6 trainers. They receive evaluations. Bottom line is we
7 don't know if these activities ever result in building the
8 capacity of these guys, and that is challenging.

9 Housing Trust Fund has indicated they're going
10 to look into this a little bit further, research what that
11 outcome measures may be out there. The ones I think of
12 might take several years of accumulating data and having
13 applicants attest whether they've received capacity
14 building in the past. It will take considerable effort
15 and time to get a meaningful database in that respect, but
16 I believe management appreciates the need and value of it,
17 and they've indicated they'll look into it.

18 That concludes the significant issues of the
19 Housing Trust Fund report. Is there any questions I can
20 ask, or answer?

21 MR. CONINE: Jim?

22 MR. DAROSS: Just a comment. I was much more
23 pleased after I finished reading this report than the last
24 report you gave to this committee. Certainly, there
25 are -- you're always going to find some things that need

1 changes, and --

2 MR. GAINES: Yes, sir.

3 MR. DAROSS: -- I think the changes here are,
4 first of all -- the construction initiative I think was a
5 really good idea. And it seems to me -- it seems like a
6 model you'd see in corporate America, where you gather all
7 of your similar functions together instead of having them
8 broken up among different departments. I think that's a
9 good idea if we can do it.

10 But generally, I was pleased at the outcome of
11 the report, that there weren't a whole lot of really
12 terrible problems. There were some issues you thought
13 could be changed and that's good.

14 MR. GAINES: Yes, sir. That's a good summary,
15 and I certainly don't want to take full credit for that
16 idea. It's been floating around for a while. I'm just
17 trying to get us to address it formally.

18 MR. DAROSS: I also noted that the turnaround
19 time from the date that you submitted your report to
20 management to getting the management response back was
21 very good.

22 MR. GAINES: Yes, sir. Thank you for those
23 comments.

24 MR. CONINE: Marsha, any comment?

25 MS. WILLIAMS: No.

1 MR. CONINE: Go ahead, Mr. Gaines.

2 MR. GAINES: The next report is -- if you have,
3 Selected controls over board awards for low-income housing
4 tax credit allocations -- I've faxed you a copy of that
5 because it wasn't in the book. Do you each have a copy of
6 that in front of you? And I can provide copies if you
7 don't.

8 MR. CONINE: (Perusing documents.) 7/25 at
9 4:12 in the afternoon.

10 MR. GAINES: Anybody not have it?

11 MS. STINER: Mine's upstairs. I have it.

12 MR. CONINE: You can cheat off me.

13 MR. GAINES: I'd like to first turn to page 4
14 of this report and bring your attention to the scope and
15 objectives of the audit. The objectives were very
16 specific and focused on whether the department had
17 adequate controls over 9 percent tax credit allocations
18 relating to the underwriting conditions imposed on
19 projects that were relied on by the board members as well
20 as other conditions that maybe have been imposed by the
21 board in awarding these projects.

22 Being a very specific scope, we are reporting
23 on what we call our one-page reports, but you can see it
24 took me four pages to do it. But this is for conciseness
25 and there's a lot of information in a small area here. So

1 please ask any questions if I haven't gone into sufficient
2 detail.

3 If you will, let's turn to the transmittal
4 letter now -- that'll be the first page. And basically,
5 we concluded that there are reasonable controls in place
6 to ensure the project conditions are satisfied prior to
7 the issuance of 8609, which serves as the project owner's
8 basis, serves as the basis for claiming the tax credits
9 against this federal income tax returns.

10 However, we did note that we believe there
11 needs to be better communications between the tax credit
12 division and the underwriting division. These
13 communications need to be formalized to ensure that the
14 conditions identified by underwriting are properly
15 understood by tax credits, and that the assumptions
16 underlying -- the assumptions considered by underwriting
17 divisions are the same as those considered by tax credits,
18 and following up on those conditions.

19 We're recommending that the tax credit division
20 in coordination with underwriting divisions, develop and
21 implement procedures to ensure that the underwriting
22 division is sufficiently involved in determining that the
23 significant conditions are adequately satisfied prior to
24 the issuance of 8609.

25 Additionally, the tax credit staff should

1 enhance their standard operating procedures to include the
2 financial feasibility analysis which is performed to
3 determine the final tax credit allocation amount, which
4 should be no greater than the amount recommended by the
5 underwriting division as a condition of the award
6 allocation. These procedures should require the tax
7 credit staff to provide sufficient detail and explanation
8 as to how the supporting documentation meets or satisfies
9 the conditions that are noted.

10 Management's in basic agreement with greater
11 involvement with the underwriting division. Management's
12 recognized that we need an agencywide procedure -- an
13 agencywide SOP that's apparently being developed. It's in
14 the process of being developed to ensure that all
15 conditions relied on by the board members, including
16 programmatic and legal conditions, as well as underwriting
17 conditions, are satisfied prior to closing or allocating
18 funding or providing incentives to borrowers.

19 All program directors will have the
20 responsibility of coordinating with underwriting and legal
21 to determine the adequacy of their representation that all
22 conditions have been satisfied prior to funding, and in
23 the case of tax credits, prior to the issuance of 8609.

24 Management is currently anticipating that this
25 SOP would be completed by October 31, 2000. Management's

1 also agreed to amend its SOPs to provide for a more
2 detailed write up of what the feasibility analysis entails
3 and how it should be conducted.

4 MR. DAROSS: I have a question about this
5 portion of the report, and you started off by telling us,
6 and indeed it's entitled, A review of selected controls
7 over the board awards.

8 Is there a reason why you only looked at that
9 one particular function?

10 MR. GAINES: Generally in selecting our
11 projects we go risk-based. This didn't necessarily hit
12 our risk assessment at that level. This project resulted
13 from -- we also solicited input from management, external
14 auditors, from board members. This project actually came
15 about by a request or a suggestion from one board member
16 and two different directors. The three of them expressed
17 interest in this question.

18 MR. DAROSS: Okay. Do we need to recommend
19 approval of these reports to the full board? Is it
20 something that gets approval by the board?

21 MR. GAINES: I'll be glad to respond to that.

22 MR. CONINE: Please.

23 MR. GAINES: May approve or disapprove which
24 direction management agrees to go on a recommendation or
25 not, but I'm just presenting these reports, if you will.

1 They don't need --

2 MR. DAROSS: It's not anything like a budget
3 that we need to approve or --

4 MR. GAINES: No, sir.

5 MR. DAROSS: Okay.

6 MR. GAINES: No, sir.

7 MR. CONINE: No.

8 MR. GAINES: Okay.

9 MR. CONINE: Can I ask one -- are you finished
10 with your presentation?

11 MR. GAINES: Yes, sir. Any questions for me or
12 management?

13 MR. CONINE: What I'm gathering here is we're
14 trying to coordinate a communication between the
15 underwriting department and, I guess, it's the tax credit
16 department that issues the 8609s to make sure the two of
17 those guys have communicated appropriately and that the
18 dollars on the tax credit 8609 is understood and fully
19 represented and so forth?

20 MR. GAINES: Yes, sir.

21 MR. CONINE: And this goes on after the
22 project's up, and it's been there year after year when
23 they get their 8609. How does the compliance department
24 fit into this little loop that we're trying to create?

25 MR. GAINES: I'll be glad to give you my

1 impression, but maybe the compliance director would be
2 better suited to do that.

3 VOICE: You give your impression --

4 MS. STINER: Well, if you want me to give my
5 impression --

6 MR. CONINE: That's good, because I've got a
7 question for both of you.

8 MS. STINER: I think the area that we're
9 talking about now is before the development gets placed in
10 service. The compliance division comes in at the --

11 MR. CONINE: Okay.

12 MS. STINER: -- the development has been placed
13 in service. But this procedure that we're talking about
14 is during that two-year interim period of time that the
15 credits are allocated and the developer has to put it --
16 yes. And then, now, you may direct your questions to the
17 compliance and allocations staff.

18 MR. GAINES: That's real close to my response.
19 Compliance would be even more during the affordability
20 period.

21 MR. DAROSS: My question relates to the review
22 that you gave us of the previous report on the HOME
23 program. Are you going to be addressing that?

24 MR. GAINES: Addressing the prior HOME report?
25 Yes, sir.

1 MR. DAROSS: Yes, I'll wait until after you're
2 done on that.

3 MR. GAINES: Okay. That is our next agenda
4 item -- behind Tab B.

5 What you have here in front of you is -- and
6 you probably recognize at least the format -- you have an
7 extract out of our prior audit issue tracking system
8 relating to HOME issues. You have a three-page summary
9 which provides a high level summary of basically the
10 report, when it was issued, the issues itself, the
11 recommendation, and the status as of the most recent
12 status update.

13 Following that, you have the detailed report
14 which identifies by issue the original report
15 recommendation, original response, and any changes in
16 status since that point in time. And so walking through
17 this, basically I can summarize these HOME prior audit
18 issues in three broad categories.

19 The first category relates to the HUD-OIG
20 issues, and these are issues 145 and 146 on your summary
21 page. Issue 145 questioned -- well, both the issues, if I
22 may -- we had questioned costs relating to the department
23 not providing adequate supporting documentation for
24 administrative expenses. These administrative expenses
25 can be recapped between those of the department and those

1 of subrecipients that were tested by OIG when they were
2 conducting the audit.

3 Issue 145 is relating to costs incurred by the
4 department. There is right at 1.2 million, 1.3 million
5 questioned in administrative costs. The department has
6 provided HUD documentation in support of these costs. HUD
7 has informally accepted some of this documentation and has
8 rejected the balance of it. The department continues to
9 work with HUD in trying to resolve these remaining
10 questioned costs.

11 I don't have that recap on the dollar amount as
12 to how much has been accepted or not, and management may
13 be able to answer any questions in that respect.

14 MS. STINER: I'll let management answer it, but
15 we haven't gotten an official response. These are
16 informal kind of responses back from HUD saying, This
17 looks okay; this doesn't; you'll going to need to work on
18 it some more. So that's -- I'll defer to management. We
19 haven't gotten a formal response back yet from them.
20 Okay.

21 MR. GAINES: One of my concerns about waiting
22 on a formal response is once it's formal they'll formally
23 tell you how much they aren't going to allow, but maybe by
24 then, we'll document something a little bit sooner.

25 MS. STINER: Don't let me categorize the nature

1 of the response. I should do like -- I should defer to
2 those folks. There may be something --

3 MR. GAINES: Absolutely. That's correct, what
4 Ms. Stiner is saying.

5 Issue 146 relates to the subrecipient
6 administrative costs. OIG tested 19 subrecipient files.
7 Of those files, they questioned 424,000 administrative
8 costs that wasn't supported in accordance with federal
9 guidelines, so we submitted information in support of
10 those costs. The first submission, HUD rejected about
11 387,000 of that.

12 So the department again continues to try to
13 work through this. It's informal at this point, and this
14 is where we're at at this point.

15 MR. DAROSS: I can understand what would happen
16 if HUD does not accept some or all of this 1.2 million of
17 the department's administrative expenses, but I'm assuming
18 that subrecipients have already received the funds, and if
19 HUD doesn't accept their allocation to administrative
20 costs, do we then go to them and say, Give us back the
21 money?

22 MR. GAINES: That would be a recourse. I'm
23 pretty confident all the contracts refer to the federal
24 requirements placed on them. That would be a viable
25 recourse.

1 Okay. The next category of issues is really
2 issues 151 through 155, and this is the result of an
3 internal auditing division report that Mr. Daross referred
4 to earlier, and it's a series of recommendations relating
5 to the effectiveness of the HOME monitoring function. The
6 state auditor's office also identified a -- what they call
7 a material weakness in the HOME monitoring function, which
8 is issue 157.

9 So for issues 151 through 157, I've got a brief
10 summary comment relating to the status of those. The
11 department has transferred responsibility for the
12 monitoring of the HOME program from that program to the
13 compliance division. The compliance division is in the
14 process of incorporating those activities within their
15 operations. At the same time, the monitoring function for
16 the CDBG function was transferred also.

17 Again, the compliance division is not only in
18 the process of incorporating those functions and staff --
19 I believe four or five for CDBG were transferred --
20 employees, and two employees from HOME were transferred at
21 this point. In addition to incorporating them, they're
22 also in the process of incorporating the recommendations
23 through that series of recommendations.

24 MR. CONINE: Have they said whether they like
25 working for their new boss yet or not?

1 MR. GAINES: Not publicly.

2 MR. DAROSS: When we discussed this matter
3 before, the question of the role of the compliance
4 division -- I questioned how they fit in with the
5 monitoring. And I was told at that time it was really two
6 completely different functions. Now it sounds like we're
7 applying the monitoring role to the compliance section.
8 Is that accurate --

9 MR. GAINES: That's right.

10 MR. DAROSS: -- and will that require
11 redefining their function?

12 MR. GAINES: Well, previously on high level
13 terms, the monitoring was done by the program areas up to
14 occupancy or the affordability period, if you will, and
15 then compliance division would ensure compliance with the
16 land use restriction agreements. Now that's all one
17 continuous monitoring stream underneath compliance
18 division.

19 MR. DAROSS: Is that going to be able to be
20 accomplished with the FTEs that we've got and that have
21 just now been reassigned?

22 MS. STINER: Ruth Cedillo has taken the
23 responsibility to implement that for the department, so
24 Ruth, do you want to come forward?

25 MS. CEDILLO: Yes. My name is Ruth Cedillo,

1 deputy executive director.

2 One of the reasons that we worked with getting
3 the CDBG program monitoring section combined with the HOME
4 program is that there are a lot of commonalities, and we
5 felt that perhaps at some point we could cross-train the
6 CDBG monitors and the HOME monitors, because it's program
7 monitoring, and that's still their function. The manager
8 of that section -- of the CDBG section went to compliance.

9 And so we're hoping that those two programs
10 will benefit from each other's experience. However, we
11 don't have enough monitors in the HOME program. We're
12 looking at transferring another position from the program
13 area into monitoring. So hopefully that will give us
14 three monitors for HOME program. But we do need more FTEs
15 in the program area, but right now, to fix the monitoring
16 situation, we are transferring one of those FTEs to the
17 monitoring section.

18 As far as the responsibilities of those
19 monitors, they maintain the previous responsibilities.
20 However, they're all in one section. In HOME, the program
21 monitors were with the regional coordinators, and they
22 were all in one section, so in order to separate those
23 responsibilities we took FTEs to create that program
24 monitoring section and put it under compliance. And I
25 think for audit purposes that that's a lot better than

1 having them in the program area.

2 MS. STINER: Bill?

3 MR. DALLY: I think I might have something to
4 add. If you -- one of the things you might remember from
5 David's report was we had monitoring FTEs or positions in
6 the HOME program, but when they were filled, somebody in a
7 regional coordinator or somebody at a better position --
8 that that was the lowest rung on the totem pole in the
9 HOME program was that monitor position, and people were
10 jumping up. And that monitoring position just remained
11 open; the position was there.

12 I think by clustering -- putting this grouping
13 together and saying we're going to have a monitoring skill
14 on a ladder there, it makes a lot of sense to be in that
15 area --

16 MR. DAROSS: Well, I also recall that what was
17 happening was the people who were designated as monitors
18 were doing a lot more things besides monitoring.

19 MR. DALLY: Right. They were being called on,
20 but they were up in that program area and being called on
21 to get allocations and expenditures done and not following
22 up on monitoring, so I think this movement is probably a
23 good idea.

24 MR. DAROSS: I'd agree with that.

25 MS. STINER: Thank you.

1 MR. CONINE: You kind of see a pattern
2 developing here between construction, inspection,
3 monitoring, compliance. We're going to get grouped here
4 before it's all over. Cross-training, isn't that --

5 MR. DAROSS: I just think it was a power play
6 by Ms. Phillips.

7 (General laughter.)

8 MR. CONINE: Could be.

9 MR. GAINES: The third category that I'd refer
10 to is that the state auditor's office in their single
11 audit identified that the department was not complying
12 with the federal reporting requirements relating to
13 federal cash management calculation of interest reporting
14 and the HOME match reporting. They didn't find errors
15 necessarily; they just had problems with us not following
16 the requirements as they were written.

17 They also identified an instance where the
18 department was not complying with the three-day cash
19 limitation, which is you disburse federal funds within
20 three days of receipt.

21 Management has indicated that they've
22 implemented the recommendations relating to these issues
23 and of course, is available if you have any questions.

24 MR. CONINE: This was the stuff behind the
25 green sheet, David? Is that right? Oh, okay. You're

1 still on that chart. I'm sorry.

2 MR. GAINES: The first three pages is a summary
3 and then --

4 MR. CONINE: 158 and 159?

5 MS. WILLIAMS: I just did not understand what
6 it meant when it says, the Department has not accurately
7 recorded HOME matching -- this is more for edification
8 than anything else -- department has not accurately
9 recorded HOME matching requirement information to HUD, and
10 then in parentheses, although records support that the
11 matching requirements for the HOME program has been met.

12 MR. GAINES: If I recall right, I believe what
13 was not in compliance was the time periods. I think we
14 were reporting January to January and their requirements
15 said fiscal year to fiscal year, which would be like
16 September 1 to September 1.

17 MR. DALLY: Yes. The reporting should be on
18 the federal fiscal year, begin October 1 and end September
19 30. And we were reporting January 1 on the program year,
20 and the regulations were a little hard to understand in
21 that they wanted us to report on our program year, but
22 they wanted us to look back. It's sort of like reporting
23 your income taxes January to December in April. That's
24 what they wanted.

25 They wanted to see the federal fiscal year

1 reported by our program year end --

2 MS. WILLIAMS: Okay.

3 MR. DALLY: -- which is in January. And so
4 what essentially happened is we had to take our numbers
5 and re-subdivide them into the federal fiscal years and
6 re-report it.

7 MS. WILLIAMS: Okay. Thank you.

8 MR. CONINE: Moving on?

9 MR. GAINES: The last and final issue here --
10 or issues is the status of audits, and in your book you
11 have a summary status as of today. Of course, we have the
12 sunset that's ongoing. The most recent information we've
13 been provided is that there is -- and the commission will
14 issue its final report -- final decisions in September.

15 I did speak to the project leader on that
16 project, and he said that there was an interim report
17 coming out in mid-July, and all that was going to be was
18 the original report updated for how the commission's voted
19 up to this point in time.

20 And now this last week, I requested a copy. I
21 still haven't received it, so I'm not real sure what that
22 looks like.

23 MR. CONINE: Can I ask a question about the
24 sunset thing, and Dave, you may know something about this
25 too. Kind of like what you said about HUD a minute ago,

1 instead of waiting until the formal one comes out, it
2 might be nice to know what's coming ahead of time. Do you
3 think we're going to get any of that information over the
4 next two or three weeks, or do you think we'll have to
5 wait until September?

6 MR. GAINES: Well, I believe this interim
7 report I spoke to is all we're going to receive prior to
8 the commission resuming. The latest word we have is in
9 September.

10 Is that right, Daisy?

11 MS. STINER: Yes. The latest word we have is
12 in September. We haven't gotten a specific date in terms
13 of when that's going to happen.

14 MR. GAINES: Right.

15 MS. STINER: But I would suspect, not knowing
16 anything, that the interim report will be a restatement of
17 the vote that was taken when we were before Sunset. I
18 don't think we're going to have any further clarification,
19 anything other than was talked about when we met with them
20 last.

21 MR. GAINES: That's the characterization I
22 received from the project leader.

23 The state auditor's office has several projects
24 going right now. The first one, a follow-up on the review
25 of investment practices -- you'll notice my comment here

1 that I'm just going to drop this from the future status
2 reports.

3 The project leader has told me that they don't
4 have any comments relating to us in that, which is good,
5 and I've been carrying this for an extended period of
6 time, updating release dates. So at this point I don't
7 think it's real relevant to the department.

8 The audit of selected housing programs and this
9 audit of ISAS, which is basically the department's
10 accounting system, the department's version of People
11 Soft, is a project that's currently ongoing, and both of
12 these reports are anticipated in November of 2000.

13 KPMG in their annual audits -- they're doing
14 interim work on the revenue bond enterprise fund and
15 they're worthwhile, so I'll include the general purpose
16 financial statements and the computation of the
17 unencumbered fund balance, which they do every year, and
18 that work's pending.

19 On the internal audit reviews, Housing Trust
20 Fund, I presented that earlier. Tax credits, I just
21 presented that. Controls over board awards and contract
22 awards -- originally, we had Housing Trust Fund and HOME
23 also planned on that. I was thinking we could do them all
24 together, but it turned out tax credits was such a
25 different animal I've split those out, and I'd like to

1 talk about that just a little bit further here in a
2 moment.

3 And then single family lien procedures, to
4 assess that -- we have adequate procedures to ensure that
5 we're securing our liens. That's -- we'd started on that,
6 and then I kind of delayed it when we decided we wanted to
7 move right into Housing Trust Fund, and I'd like to just
8 talk about that briefly, too.

9 And that brings us to the final part of that
10 last agenda item and audit status/annual audit plan.
11 Here's the annual audit plan, if you will, and our current
12 status on that. Excuse me for not providing you this
13 earlier. The projects in the left-hand column is
14 basically what we approved for the year, and then a
15 summary status of where we're at on these.

16 If you'll notice just scanning through it, as I
17 just mentioned, board contract awards pending for HOME and
18 Housing Trust Fund, subrecipient monitoring. We'd also
19 had Section 8 in there at one time. Last meeting I
20 proposed that we delay looking at that, and actually, I
21 thought the committee was in general agreement with that
22 to go ahead with the Housing Trust Fund. Once I read the
23 transcript, I realized that's not the way it played out.

24 The way that transcript reads is no, go ahead
25 and do it but again, I'm proposing that we delay that, and

1 we can talk about that as I finish through this.

2 HUD CMIS system -- we presented an oral report
3 to audit committee in March, and we haven't done anything
4 else with that, really don't plan to. I know the DGMS
5 [phonetic] -- well, I'm going to back up on what I know on
6 that, because it's been changing quite a bit, but our
7 original dates for that have been delayed.

8 During that oral report I presented in March
9 there was a series of recommendations that we made to the
10 HOME staff, and I'm not real sure to what extent, if any,
11 those recommendations were adopted and incorporated into
12 their process in trying to clear those exceptions.

13 On single family lien, pending, follow up on
14 prior audit issues is just ongoing. The CMIS policies and
15 procedures under client assistance -- we had two
16 activities. One was to do a review of what they were
17 doing and make recommendations on how they might proceed,
18 and the second was to actually roll up our sleeves and
19 help them out with this. And once we got an understanding
20 of what it involved, I backed off on that.

21 I don't believe we have the resources or would
22 want to take the time to develop the expertise in all the
23 idiosyncrasies that are involved in what's there and
24 what's not. I think that's one of our big problems;
25 nowhere has HUD actually defined for us what a problem is.

1 I believe -- and I don't want to put words in
2 management's mouth, but I think the strategy may be -- it
3 may be the best strategy, is let's move to the new system
4 and load up what we have. Get it as clean as we can
5 before that point in time, and then once we're loaded in
6 the new system clean up the remaining amounts, which if I
7 understand things right -- and Ruth, you may know the
8 answer to this -- under the new system, we'll have direct
9 access to that, to where we can post, adjust, make
10 corrections, while now we're having to send all this to
11 Washington and wait turnaround time.

12 MS. CEDILLO: There was a concern about the
13 numerous corrections that needed to be made on the HOME
14 program, and HUD had sent us this four-inch stack of
15 corrections that were -- some may have been really
16 important, but there was some minor things like where
17 maybe they had S-T instead of S-T-R-E-E-T, so what we
18 decided to do since the Department of Housing and Urban
19 Development has agreed to help us go on IDIS and their
20 target date is August 14, they have sent consultants to
21 train staff on IDIS, and we are going on IDIS.

22 We had been told that we would skip IDIS and go
23 directly into the departmental grants management system
24 that HUD was trying to implement for 104 programs. Their
25 contractor they had for DGMS did not perform. They

1 released that contract, and they're in the process of
2 getting another contractor, so basically they've come back
3 and said, We need you on IDIS; we're spending a lot of
4 money keeping Texas only on the same system that we've
5 been on, and we will do everything we can to help you go
6 on IDIS.

7 So what we did is we took the stack of
8 documents that had been sent by the Fort Worth office,
9 sent it to HUD in Washington. They have agreed that we
10 can transfer HOME without making all of those corrections
11 and they can be made as we move on, because it is an issue
12 right now. We have -- we're short on staff in the HOME
13 program and to stop everything to take care of these,
14 which many are minor things, would be very difficult for
15 the staff, so HUD has agreed that we can go on IDIS
16 without making those changes immediately. They have to be
17 made -- some of them will have to be made eventually.

18 Now, our understanding from HUD is that it may
19 be a little more difficult, but we're not convinced that
20 that is correct at this point.

21 MR. GAINES: The balance of the audit plan --
22 we looked at the quarterly performance measures just for
23 reasonableness: are they clear, concise; do they allow
24 enough prior reports? We'd also had a goal of maybe
25 looking at a particular measure each quarter and assessing

1 the adequacy of the support for that. We have not been
2 able to get around to doing that, but that's an ongoing
3 goal that we strive for.

4 MR. DAROSS: Is that another FTE issue?

5 MR. GAINES: No. What that issue is is we
6 report these performance measures -- oh. In my case?

7 MR. DAROSS: Uh-huh.

8 MR. GAINES: Well, sure.

9 (General laughter.)

10 MR. DAROSS: Good answer.

11 MR. GAINES: Which by the way, I don't know if
12 the committee has been advised. I lost one of my
13 auditors, so I do have an FTE issue, and it's a real
14 tight, competitive market. I've had that posted since, I
15 think, mid-June and I've had three applicants. One I
16 wouldn't even given the time of day to, and I'm not real
17 pleased with the other two.

18 I'll take that back. The other two don't have
19 the background experience that I'm looking for.

20 In continuing with the audit plan, we still
21 have our annual internal auditing plan itself, and that's
22 why I wanted to bring this up. In doing that plan, I
23 solicited input from board members: what we should be
24 doing, what are your concerns, what keeps you awake at
25 night, because that's probably what we should be working

1 on.

2 So I'm letting you know that now so maybe you
3 can think about it and feel free to call me at any time.
4 I would say you bring it up at the next meeting, but the
5 next meeting I need to have the plan put together.

6 So --

7 MS. STINER: Which is in two weeks. Right?

8 MR. GAINES: I'm sorry?

9 MS. STINER: The next meeting.

10 MR. GAINES: The next audit committee meeting,
11 excuse me. Yes, but any time I run into you, just please
12 let me know, or please feel free to call.

13 MS. STINER: No. I'm saying are you saying
14 that you plan to bring the audit plan to the next board
15 meeting?

16 MR. GAINES: Audit committee meeting. I'm
17 sorry.

18 MS. STINER: Audit committee meeting in three
19 months.

20 MR. GAINES: Right.

21 MR. CONINE: I'd like to address that issue, if
22 I might, because -- and I'm speaking kind of globally and
23 wrapping up here, so if any of the other committee members
24 have any comments, please jump in.

25 But in March when we had our meeting and had

1 all that to listen to and a lot of target dates to hit, we
2 were, I think, pretty explicit with not only you, Mr.
3 Gaines, but with management that we wanted to see some
4 stuff fixed and some things going on.

5 We have a lot of target dates and we were going
6 to wait until the July meeting -- or June meeting at that
7 time, I think, that then got pushed to July. And here
8 we -- and this time we get Housing Trust Fund and low
9 income tax credit reports, and we've got target dates set
10 out over the next several months of when management is
11 going to hit this, that, and the other.

12 And, quite frankly, I get confused, because it
13 runs -- this report and that report and what date is
14 supposed to be coming -- what particular issue is supposed
15 to get resolved? And so if I can get consensus with the
16 committee members, I think it might be incumbent upon the
17 audit committee maybe to meet monthly from here on out for
18 the balance of the year and to try to review those items
19 that need to be accomplished by that -- or were to be
20 accomplished by prior to that meeting, whenever it might
21 be, and make sure that the word monitoring gets fixed
22 around here, because that's what I keep hearing time and
23 time again, or at least I have in the last couple of audit
24 committee meetings we've had.

25 And, quite frankly, I have some concerns about

1 us having a pretty good ability to get our programs under
2 it and then the money out the door, but then the follow-up
3 or the monitoring seems to be a problem with a lot -- not
4 only with you, being the internal auditor, but with some
5 external people that keep telling us that.

6 And I'd like to see us, us as a committee, take
7 an active role to make sure that over the next six months,
8 or whatever the time frame needs to be, that the staff is
9 responding to the target dates that they've set and if
10 there is an FTE problem or a budget problem or whatever
11 might be a prohibition into getting some of these things
12 done, that we're made aware of that and we're able to help
13 Daisy and her staff either find resources or whatever the
14 case needs to be.

15 We've got a legislative session coming up and a
16 Sunset Commission review coming -- or report coming out in
17 September. And there's just a lot of stuff coming at us,
18 and I think if the committee has any comments along those
19 lines I'd appreciate them, but I think I'd like to see us
20 meet monthly from here on out.

21 MR. DAROSS: I think that's a great idea.

22 MS. WILLIAMS: I agree.

23 MR. GAINES: And I do, too, with one
24 reservation. I don't have a summary of the planned
25 implementation dates on the reports I released today right

1 in front of me. On the summary here, I have target dates,
2 and I don't believe any of them are prior to September.
3 And so if that's the case, I'm not sure what we'd be
4 following up on.

5 MR. DAROSS: Well, especially when you consider
6 that our August board meeting is two weeks from tomorrow.

7 MR. CONINE: Is that when it is?

8 MR. DAROSS: Yes. So maybe starting September
9 we could have a meeting a month.

10 MR. CONINE: I guess one of my concerns is how
11 are we doing with the HOME monitoring function and getting
12 interim updates, if nothing else, on that process prior to
13 the Sunset Commission's report coming out in September.
14 That's one of my concerns. And if the August meeting is
15 in a couple of weeks, that would be too quick, obviously.

16 Let me just -- I'll visit with the chairman
17 about that, and if we need to call a special meeting in
18 between or something, we can do that for at least that one
19 time.

20 I can't remember what the meeting schedule is
21 for the balance of the year board meeting-wise, because
22 it's been moving around a little bit, and I know since we
23 got a new chairman he's thought about moving some dates.
24 But anyway, we'll check on that and get back to the
25 committee and the staff.

1 MS. WILLIAMS: When is the annual internal
2 auditing plan to be submitted for fiscal year 2001?

3 MR. GAINES: The plan itself -- they say annual
4 but they don't talk about which annual, and so I've taken
5 the liberty to choose my own year, which means pretty much
6 whenever I want to as long as I do it yearly.

7 Now, the annual report which is required of me
8 November 1 is a report of the prior year's activities --
9 fiscal year activities, so November 1 I have to submit a
10 report of our activities for the year ending August 31.

11 And the preliminary report guidelines that are
12 prescribed by the state auditor's office indicate that
13 they would like the annual plan in that report this year,
14 in which case -- they have the authority to prescribe
15 those guidelines, in which case my annual plan needs to be
16 done by November 1, which I'd intended to anyway. but that
17 would be a drop-dead date for me.

18 MS. WILLIAMS: I just didn't know if that could
19 be an agenda item, if there were things that needed to be
20 discussed to be included in the plan. That was the only
21 thing I'm thinking about.

22 MR. GAINES: Yes. And as Mr. Conine was
23 saying, we can meet any time you care to. I currently
24 have -- I'm looking forward to the October meeting is what
25 I'd like to see as our next significant meeting, because

1 I'll have the annual report. I intend on having the
2 annual plan at that time.

3 MR. CONINE: Would it be possible to put
4 together some sort of graph that overlays all your -- all
5 these audit things and target dates the staff's trying to
6 hit into a one or two or three-sheet or a four-sheet, or
7 whatever it takes?

8 MR. GAINES: Could I refer you to that three-
9 page summary right behind Tab B?

10 MR. CONINE: I'm looking at it.

11 MR. GAINES: That target date.

12 MR. CONINE: Uh-huh.

13 MR. GAINES: Is there something you'd like
14 more --

15 MR. CONINE: I think it's the sub-reports that
16 are due, like in the one we just -- the Housing Trust Fund
17 that we just reviewed today for the first time. It's got
18 dates from August 1 until December 31 or maybe even
19 further than that --

20 MR. GAINES: Yes, sir.

21 MR. CONINE: -- and what I'm saying is -- as
22 each month as we have a meeting, I want an update on that
23 particular program and its report. And then you've got
24 low income tax credits and HOME. The HOME thing is
25 voluminous, and --

1 MR. GAINES: Yes. Let me suggest if I may --
2 after this meeting, as a normal course of business, I'll
3 go and input these reports I released today in this
4 tracking system.

5 MR. CONINE: Right.

6 MR. GAINES: So I'll go ahead and do that, and
7 what I need from management is to provide me regular
8 updates, because currently, as you might recall at the
9 last meeting or two, I requested, How about if we do this
10 over six months, because it is a lot of work for people.

11 But -- and we did -- or we agreed at that
12 point, but presenting it every six months and getting
13 updates regularly is two different things, so I just need
14 management to update me as things are done, as these
15 target dates change, and I'll provide you those updates as
16 they're changing.

17 MS. STINER: I think we can speak on behalf of
18 management that if that's the desire of this committee, we
19 certainly will get those updates.

20 MR. CONINE: I think it's important. I really
21 do. And again, back in March when we got -- I'm sure the
22 March HOME report had a bunch of staggered dates in there
23 that we were trying to hit, and one of them may have been
24 in June. And right today I can't tell you whether they
25 got met or not, and I'm just trying --

1 MR. GAINES: Would this summary information --
2 it's not useful? Or do you have any suggestions on what I
3 might do beyond this summary report?

4 Now, one thing this report doesn't have, Mr.
5 Conine, if I can point out to you, that is real useful
6 is -- and the reason it's not here is because we haven't
7 had any changes in target dates, but --

8 MR. CONINE: I think you're confusing the
9 target date that you submit back to us with the target
10 dates that management has said they can do something or
11 other. What I'm trying to monitor is -- or what I'm
12 trying to look after is what management has told us they
13 could do something by a certain date in a particular
14 program.

15 MR. GAINES: And that's what this target
16 date --

17 MR. CONINE: Again, I go back to the Housing
18 Trust Fund we just looked at today.

19 MR. GAINES: Right.

20 MR. CONINE: There's a bunch of different dates
21 in there.

22 MR. GAINES: Yes, sir.

23 MR. CONINE: I just want to monitor
24 management's -- I don't want to monitor. Listen to
25 that -- that's terrible -- I want to review management's

1 attempts to complete whatever those tasks are each of the
2 months as we go along, and then if we need to go backwards
3 and make sure in updates and things -- I just need you to
4 put that together in a little graph, so we'd have a little
5 easier chart to follow than the one we've got.

6 Does that make sense?

7 MR. GAINES: I'll give you a call if I get
8 confused while I'm working on this.

9 MR. CONINE: That's fine.

10 Am I burdening the system too much, Ms. Stiner?

11 MS. STINER: Of course, sir, but -- no, sir, we
12 can comply.

13 MR. CONINE: Well, with all the eyes and ears
14 that are looking at Texas Department of Housing and
15 Community Development right now, I think it's prudent for
16 us to do that.

17 MR. GAINES: Yes, sir.

18 MR. CONINE: Anything else before -- on your
19 report at this point?

20 MR. GAINES: Well, one -- I would like to
21 backtrack if I may, if you'll allow me just a moment --

22 MR. CONINE: Yes, sir.

23 MR. GAINES: -- back to our prior audit issues,
24 because I did overlook one that may be our most
25 significant of all of them, and that relates to the OIG

1 report. It was in my speaking points. I failed to
2 mention it. It was -- I mentioned the 19 subrecipients.

3 HUD has also recommended that we go back and
4 review the administrative costs of all our subrecipients
5 since the beginning of time, and that's such an enormous
6 challenge that I don't think any of us even have an idea
7 how we will proceed with that.

8 They've told us if we cannot support those
9 costs we need to pay them back with non-federal funds, and
10 that could be, or that is a big, dark cloud hanging over
11 us. We've had different negotiations back and forth, but
12 nothing has materialized out of those negotiations at this
13 point.

14 MS. STINER: Ruth has an update.

15 MS. CEDILLO: We did have some discussions with
16 HUD, in fact, today. We have a real concern with going
17 back to about 2,000 subrecipients and whether -- is the
18 time best spent in going back to 2,000 subrecipients or
19 making changes and moving forward with the program? And
20 we're still negotiating with them on the subrecipient
21 administrative funds and also the dollars that were spent
22 on administration for the Office of Colonia Initiatives.

23 Today we agreed that we're going to pursue it,
24 and we have a deadline of November 1. As Ms. Stiner said,
25 we will be getting a letter from HUD, but it's not a

1 letter saying, This is it; you have no more time. But
2 that should be coming in the next week, but we will
3 continue to negotiate.

4 And we're going to send them documentation as
5 we see that they may, after our -- based on our
6 discussions, what we believe they really need, because it
7 seems that we didn't give enough guidance to our
8 subrecipients on what was really needed. So we're going
9 to send a sample to HUD, let them agree on something.
10 Then we'll go back to the 19 subrecipients and try to
11 clear those.

12 MR. CONINE: Can -- what's happening with other
13 states in this arena, with other state housing finance
14 agencies? This is -- seems like a laborious exercise and
15 one which 40 or 50 state agencies called the National
16 Council for the State Housing Finance Agencies could get
17 together and sit down with HUD and negotiate something out
18 if the other states are having the same problem.

19 MS. CEDILLO: Well, there are federal
20 requirements as far as documentation on administrative
21 dollars, whether it's within our agency or subrecipients,
22 so --

23 MS. STINER: I think -- pardon me for
24 interjecting, Ruth, but I think if I follow your
25 question -- that is a good question: are other states

1 besides Texas experiencing the same level of monitoring?

2 Is Suzanne coming forward to --

3 MS. PHILLIPS: Not really.

4 MS. STINER: -- share some roundtable
5 discussions within the NCSHA?

6 MS. PHILLIPS: This past January we were at a
7 monitoring workshop and I asked the question in a Q and A
8 whether other state agencies were having the same problem,
9 and it seemed as if there were -- it depends on the type
10 of agency.

11 A lot of them already have these procedures in
12 place, the type of documentation that they needed for time
13 sheets and things like that, but then there were another
14 group that didn't, and that group that didn't were very,
15 very surprised at the level of review that we were going
16 through.

17 So we had some informal discussions with HUD
18 while we were there about what was going to be acceptable
19 documentation and what would not, and I think that has
20 helped us through this process as we've submitted
21 documents. But the issue on the 2,000, I think Ruth made
22 very clear when we talked on the phone today that we
23 needed to discuss that further, the other subrecipients
24 and going backwards rather than looking forward --

25 MR. CONINE: Yes. I'm a big fan of going

1 forward. I don't have to tell you that, and I'm sure the
2 staff would be too.

3 It is -- in those roundtable discussions that
4 you've had with other state agencies, it is incumbent upon
5 us to learn what they're doing and how to do it better, if
6 we can do it better going forward.

7 MS. PHILLIPS: Right.

8 MR. CONINE: If it becomes a, Let's pick on
9 Texas this year because it's the fun thing to do issue
10 with HUD and it requires a one-time negotiation, I
11 personally would like to be aware of that, because your
12 board may have some resources there to draw upon that we
13 might help in those negotiations.

14 MS. WILLIAMS: What length of time are we
15 talking about? When David says the beginning of time,
16 what is the beginning of time?

17 MS. STINER: 1992.

18 MS. PHILLIPS: And so when they're talking
19 about admin, they're looking at all the admin that we've
20 had through the agency, and from the subrecipients.

21 MS. STINER: Since 1992.

22 MS. WILLIAMS: Is there such a thing as statute
23 of limitations on that --

24 (General laughter.)

25 MS. WILLIAMS: Well, no, I'm very serious about

1 that question.

2 MR. DAROSS: No. Not for something like this.

3 MR. DALLY: Let me kind of frame it. These
4 admin costs are ten cents out of the dollar. And the
5 department keeps six cents, and four cents goes to the
6 subrecipients. And like I said, the program has been here
7 since 1992. This was not looked at or monitored from the
8 HUD staff in Fort Worth. It was the HUD OIG, who I guess
9 is their watchdog, came and looked.

10 In my view , we're being written up for making
11 a failing of looking at our own subrecipients. I think
12 maybe we've been failed, that this has been important in
13 the monitoring to us that we've gone since '92 and the
14 issue has not been raised to us. And we've had -- they
15 come out and look at us every year. We have external
16 auditors, we have -- in other words, just -- no one's
17 brought this up.

18 But I think part of it is just let's remember
19 this is ten cents of a dollar, so I think it's appropriate
20 that all of the focus has been on the 90 cents, and one,
21 our expenditure rates were an issue two or three years
22 ago. We've moved that up. Now that we have people
23 putting things in, now it's the monitoring of what they've
24 done, and then this last piece is our admin cost.

25 And part of it -- I think we still have a good

1 argument yet to make, even on some of these that our
2 initial support they've not accepted in the sense that
3 they still are a little bit focused on -- there's form and
4 there's substance, and the form is they want an A87
5 [phonetic] a certain kind of time sheet and those kind of
6 issues.

7 Well, we said up front when we initially
8 responded that we didn't do time sheets that way, but what
9 we did say was that we had done work -- the Office of
10 Colonia Initiatives and credit underwriting and compliance
11 have done work that benefitted the HOME program, and I
12 think we still have some arguments to make on that.

13 Now, with the Office of Colonia Initiatives,
14 obviously they don't see that in most of the states.
15 That's not something they've seen with a HOME program.
16 That's unique to Texas.

17 So I think we still have an opportunity to make
18 some arguments that way and sway them, but we need to move
19 them off of form and on to substance so that we've
20 actually done some work. And we did. We sent
21 documentation to them, but our response is there's
22 still -- the missing thing is that connection of where
23 were the dollars spent?

24 And I got with Homer and OCI [phonetic] and
25 said, Show me the HOME dollars that you're administering

1 and the expenditures and those rates for down there in
2 that Colonias area. That may be the missing piece that we
3 still need to kind of tie in with their efforts, so I'm
4 still hopeful that we can -- we still have some points to
5 argue with them.

6 And sort of what's happened in this process is
7 in general audits, the auditor comes to your site, you
8 bring him materials, he looks at it, he comes back and
9 questions you, and you kind of go through it, I don't see
10 this; I don't see this, and you have an opportunity. In
11 this particular instance, they've been off site and we've
12 sent material to them. They've looked at it. They've
13 consulted with the IG, but in some instances they haven't
14 necessarily come back to us, and until recently they sent
15 us some e-mails, but I think we still have an opportunity.

16 This is their first round of questions. They
17 still don't see the support, but we need to meet with them
18 and try and answer some more of their questions. But at
19 this point it is true, they're still questioning some of
20 those costs.

21 MR. CONINE: Okay.

22 MR. DALLY: Now, they have accepted some of
23 them, and some of them --

24 MR. CONINE: Just don't wait too long to yell
25 help if you need it.

1 MR. DALLY: Okay.

2 MS. STINER: We won't.

3 MR. CONINE: Okay.

4 MS. STINER: But basically if we have to do
5 2,000 --

6 MR. CONINE: Yes. It's nuts.

7 MS. STINER: -- audit.

8 MR. DALLY: Common sense has got to come to
9 fore somewhere.

10 MS. WILLIAMS: Prevail somewhere.

11 MR. CONINE: Don't count on that. I've dealt
12 with HUD too many years.

13 MR. DALLY: Is there anything else I can add
14 on?

15 MR. CONINE: Any other committee members have
16 any questions?

17 MS. WILLIAMS: No.

18 MR. CONINE: David, are you finished with your
19 wrap up?

20 MR. GAINES: Yes, sir.

21 MR. CONINE: All right. We need to go into
22 executive session, so I want to thank the staff and
23 everyone for coming this evening and spending a little
24 extra time at the office today. Go get you a good meal
25 and a good night's rest because we'll have a long day

1 tomorrow, I'm sure.

2 MR. DAROSS: I'll second that. Thank you.

3 (Discussion was held off the record.)

4 MR. CONINE: -- for the Audit Committee, back
5 into open session. Is there any other business to come
6 before the Audit Committee?

7 (No response.)

8 MR. CONINE: Thank you for coming. We stand
9 adjourned.

10 (Whereupon, at 7:21 p.m., the meeting was
11 adjourned.)

C E R T I F I C A T E

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MEETING OF: TDHCA Audit Committee

LOCATION: Austin, Texas

DATE: July 27, 2000

I do hereby certify that the foregoing pages, numbers 1 through 67, inclusive, are the true, accurate, and complete transcript prepared from the verbal recording made by electronic recording by Sunny Peer before the Texas Department of Housing and Community Affairs.

08/03/00

(Transcriber) (Date)

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