



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

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To: Board Members of the Texas Department of Housing and Community Affairs ("TDHCA")

RE: Internal Audit Report on the Implementation Status of Prior Audit Recommendations,
Report # 20-007

Dear Board Members,

The TDHCA Fiscal Year 2020 Internal Audit Plan provides for a review of the implementation status of prior audit recommendations. The purpose of this report is to provide information regarding the status of management's efforts to address issues and recommendations noted during both internal and external audit work.

SCOPE AND METHODOLOGY

Our follow-up work covers TDHCA Office of Internal Audit (OIA) open findings and related recommendations made in audit reports dated through December 31st, 2019. An open finding is defined as a finding that was not completely addressed, or for which further action was still required, at the time of this review.

BACKGROUND

The TDHCA undergoes internal and external audits on a regular basis. Internal audits and external audits and reviews may include findings and associated recommendations that require follow-up to ensure that the issues identified during the audits have been addressed. External audits by the State Auditor's Office and federal oversight agencies may also include either formal findings or informally communicated issues that require follow-up. The Institute of Internal Auditors Standards state that "the chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management. The chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.

The internal audit activity must monitor the disposition of results of consulting engagements to the extent agreed upon with the client.”(I.A Standards, IPPF 2500.A1 through 2600)

The following report provides an inventory of internal and external audits, and the related open findings. Findings that have been fully implemented will not be carried forward for future follow up activities.

Internal Audit reports addressed during this follow-up project include:

A. Audit reports with carry-over open findings that were outstanding as of the follow-up report dated August 2019:

1. Internal Audit review of the Low-Income Housing Tax Credit Program, Report # 17-003

For detailed status of each Internal Audit finding and recommendation see **Appendix A**.

B. Internal Audits reports issued between January and December of 2019:

1. Internal Audit Review of TDHCA’s Licensing, Inspection, and Outreach for Migrant Labor Housing, Report # 19-002
2. Internal Audit of the Public Information Request (PIR) function, Report # 19-003
3. Internal Audit of the Construction Cost Certification function, Report # 19-004
4. Internal Audit of the Performance Measures, Report # 19-005
5. Internal Audit of the Complaint Resolution Process, Report # 19-006
6. Internal Audit Follow up Review of the Migrant Labor Housing Facilities, Report # 19-008
7. Internal Audit of the Enforcement Committee, Report # 19-009

For detailed status of each Internal Audit finding and recommendation see **Appendix B**.

External audits

External audits and reviews of TDHCA are conducted by the State auditor’s Office (SAO), the Comptroller’s Office, the Sunset Commission, and other oversight agencies. They are also conducted by Federal Funding agencies, and their various departments such as Inspector General’s Office and program monitoring. Both State and Federal audits track the status of findings related to TDHCA.

CliftonLarsonAllen LLP (CLA)

Low Income Home Energy Assistance Program (LIHEAP), Report No 20-317

For award year October 1, 2018 to September 30, 2019 (Award number – G-1901TXLIEA), TDHCA did not accurately report LIHEAP Performance Data Form, as required under OMB No 0970-0449. Incorrect reporting was due to transcription and calculation errors as data was manually transcribed onto the LIHEAP Performance Data Form.

TDHCA staff have requested automation of the query of the data and implementation of tiered review prior to the submission of next year LIHEAP Performance Data Report. Final reported figures will be verified by the Team Lead and Manager of Fiscal & Reporting prior to submission.

This finding has been closed based on management assertion.

State Auditor Office (SAO)

Audit of Regulatory Activities at the Manufactured Housing (MH) Division, Report # 20-002

The Manufactured Housing Division is administratively attached to TDHCA. It is tasked with regulating the manufactured housing industry in Texas to ensure that manufactured homes are well constructed and safe, that homes are installed correctly, and that consumers are provided fair and effective remedies.

For regulatory activities between September 1, 2017, through March 31, 2019 the manufactured housing division did not have adequate controls to ensure that inspectors conducted installation inspections as required and entered accurate installation information into its tracking system.

According to management assertion all of the findings from this report have been implemented. The SAO may conduct a follow up review of this audit at some point.

We like to express our appreciation to TDHCA management, MH division, and staff for their courtesy and cooperation during this work.

Sincerely,

Mark Scott

Mark E. Scott, CPA, CIA, CISA, CFE, MBA
Director of Internal Audit

Cc: Bobby Wilkinson, Executive Director
Beau Eccles, General Counsel
Jeff Pender, Deputy General Counsel
David Cervantes, Director of Administration
Brooke Boston, Deputy Executive Director of Programs
Homero Cabello, Deputy Executive Director of Program Controls and Oversight
Joe Garcia, Executive Director of Manufacture Housing
Elizabeth Yevich, Director of Housing Resource Center
Rosario Banuelos, Director of MF Asset Management
Cate Tracz, Manager of Fair Housing
Cody Campbell, Manager of Physical Inspections
Patricia Murphy, Director of Compliance

Appendix A

STATUS OF INTERNAL AUDIT RECOMMENDATIONS AS OF SEPTEMBER, 2020

1) Audit Report # 17-004

Internal Audit of Low Income Housing Tax Credit (LIHTC) Program, Report issued on June 5th, 2017

OIA Findings and Recommendations:

- The division should develop a Standard Operating Procedures (SOP)
- Management should implement a filing system that includes consistent sub-files and verification of posted information

Management's response and reported status:

Management accepted the risk and requested that the finding be closed

Findings are closed

Appendix B

STATUS OF INTERNAL AUDIT RECOMMENDATIONS AS OF SEPTEMBER, 2020

1) Audit Report # 19-002

Internal Audit Review of TDHCA's Licensing, Inspection, and Outreach for Migrant Labor Housing, Report issued March 12, 2019

OIA Findings and Recommendations:

- I. OIA recommends that TDHCA maintain a manager level point of contact to serve as liaison between TDHCA and MHD, and to monitor the effectiveness and progress of the program.
- II. All licenses should be supported by valid inspections, and evidence of re-inspections and follow ups (as needed).
- III. The inspection form should include a signature line for the representative of the facility to sign along with inspector's signature, acknowledging that the non-compliant item (s) will be corrected.
- IV. The inspector, or the Department, should provide the facility's representative with a report indicating non-compliant items shortly after the inspection.
- V. Management should study how to evaluate occupancy during inspections. The number of rooms and shower facilities required for summer cotton harvesting will differ from what is required for truck driver' sleeping quarters, for example.
- VI. The program should monitor inspectors' reported hours and travel expenses to ensure that the correct codes and hours are being reported for migrant labor inspection related activities.
- VII. OIA recommends that the logo be revised to include contact information of the Department for any questions and concerns, and additional information such as "Licensed Migrant Labor Housing Facility".

Management's response and reported status:

- I. The previous point of contact retired in July of this year, and the responsibility was assigned to the Manager of Physical Inspections in the Compliance division. Information Systems is currently developing a new database system for the management of licensees and outreach contacts which is substantially alter roles and oversight of the program. The MOU will be reevaluated once the new system is in place.*
- II. For 30 days following the audit, management reviewed each file after the license was issued to ensure that all requirements were met and that the proper documentation was in the file. Following that, a quality control review is performed each month by management on 10 applications processed the previous month.*
- III. The inspection form was modified to include a signature line for the representative of the facility to sign.*
- IV. Following each inspection, the representative of each facility is provided with a copy of the inspection report if non-compliant items were noted.*

- V. *The list of facilities published on the Department's website now includes each facility's capacity. The Department will consider if a new occupancy standard is feasible during the next rule making cycle, which is Summer of 2021.*
- VI. *Due to the pandemic, several staff members from the Physical Inspections division have been assigned work which relates to the Migrant Housing program. These staff members have been directed to accurately report their time working on the program, and the Physical Inspections manager reviews these entries for accurate reporting. In addition, the TDHCA point of contact has requested monthly expenditure reports from accounting and will begin reviewing these once they are received.*
- VII. *The Department has revised §90.6 to require facility owners to post a poster with TDHCA contact information in at least one conspicuous location in a facility or in at least one building per site for a scattered site facility. Compliance is also currently working with DPPA to explore the feasibility of changing the logo or creating a new marketing tool which would include contact information.*

The recommendations have been implemented for findings II, III, and IV.

According to management, no further actions needed for findings I, V, VI, and VII. These items might be re-evaluated by Internal Audit during subsequent reviews.

2) Audit Report # 19-003

Internal Audit of the Public Information Request (PIR) function, Report issued January 9, 2019

OIA Finding and Recommendation:

- I. No current SOPs.
- II. The PIR database includes records that need to be deleted to meet compliance with this requirement. Any PIRs prior to November 2016, which exceed the allowable Record Retention period, should be deleted from the TDHCA PIR database.
- III. The dropdown menu in the PIR database input tab does not contain completely accurate or relevant PIR nature/type choices
- IV. PIR database user list has many names on it with no rights. PIR should review the current PIR database user list and update to hold current users only, removing those who no longer are.
- V. The responsive documents vary substantially in length and content.
- VI. PIR files are in several directory file locations

Management's response and reported status:

- I. *SOP for PIRs was finalized and signed June 2019.*
- II. *Request was made to TDHCA Records Manager, Janet Ellis, in September 2019, to delete PIR records according to the findings of the Internal Audit and records were deleted.*
- III. *Legal is still working with IS on this task. We anticipate completing this by 12/31/2020.*
- IV. *PIR Database User List was streamlined by December 2019.*
- V. *Management decided that this recommendation does not work for PIR. The law requires that we produce all documents that are responsive to a request except for certain*

acceptable redactions and privileged information. Accordingly, we are not able to control the length or content of what we produce. If public documents in our possession are responsive, we produce them regardless of length or content. Also, it is not possible to determine whether the documents we produced are all of the documents responsive. Generally, the requestor will point this out, or we seek clarification from the requestor if we are uncertain of the scope of the request. This process insures the completeness of our responses in whatever scope that is dictated by parameters the PIR itself, which have ranged from one single document to thousands of documents.

- VI. *This finding questions whether it might be better to separate files into archive files and active files. That would be appropriate if closed files were no longer relevant, but that is not the case. The PIR division liaisons refer to them often in responding to new requests. More relevant, however, we need to make certain files available to the liaisons on the Q:drive and keep other files available only within the legal division on the T:drive. That is why we put appropriate some PIR files on the T:drive (Legal only) and others on the Q:drive (agency wide access). Accordingly no additional work is needed to meet this finding.*

Findings are closed

3) Audit Report # 19-004

Internal Audit of the Construction Cost Certification Process, Report Issued June 19, 2019

OIA Finding and Recommendation:

OIA recommends that Asset Management require developers to verify CPA firm's licenses validity, including any restrictions, before hiring the firm to perform the audit.

Management's response and reported status:

A revised Owner's Statement of Certification was added to the Cost Certification application in August of 2019. Under the new Certification, the Development Owner affirms that it verified that the CPA's firm license was in good standing and satisfied any restrictions placed upon the CPA's firm practice by any licensing board before the CPA firm performed the audit.

The recommendation has been implemented and finding is closed.

4) Audit Report # 19-005

Internal Audit of the Performance Measures, Report Issued September 13, 2019

OIA Findings and Recommendations:

- I. Management should develop written policies and procedures and consistent records to be kept at the division level.
- II. Management should require review of the performance measure reports, controls and procedures to ensure accuracy in reporting.
- III. Management should strengthen written policies and procedures to be reviewed and standardized for performance measure preparation.

Management's response and reported status:

- I. *Effective January 17, 2020, SOP 1400.01 "Performance Measure Updates" has been revised to require that divisions develop and maintain written policies and procedures, addressing how backup information will be kept. SOP 1400.01 is attached to this response.*
- II. *Effective January 17, 2020, SOP 1400.01 has been revised to require review of the performance measure reports, controls and procedures to ensure accuracy in reporting. Further, a template has been created to assist divisions with documenting the review process for Performance Measure reports. FHDMMR has reviewed all written policies and procedures received to date from divisions. The "Template for Performance Measures Policies and Procedures for Liaisons" is attached to this response.*
- III. *Effective January 17, 2020, SOP 1400.01 has been revised to strengthen written policies and procedures. Further, as referenced in SOP 1400.01, a template has been created to assist divisions with review and standardization of performance measure preparation. FHDMMR has reviewed all written policies and procedures received to date from divisions.*

All recommendations have been implemented and findings are closed

5) Audit Report # 19-006

Internal Audit of the Complaint Resolution Process, Report issued August 15, 2019

OIA Findings and Recommendations:

- I. OIA recommends that HRC add the requirements of Rule §1.2.c4 to their SOP to ensure compliance with all applicable rules and regulations.
- II. OIA recommends that TDHCA enhance the Complaint Submission System's capabilities to provide complainant with an auto response email confirming receipt of complaint along with language regarding expected time frame for a response from staff. TDHCA should consider adding an upload / attachment feature to the Complaint Submission System so supporting documents can be uploaded by complainants for efficiency.
- III. OIA recommends that TDHCA improve its documentation and record keeping of any information related to public complaints

Management's response and reported status:

- I. *SOP 1270.05 was updated on 9/13/2019 in accordance with recommendations approved at the Audit & Finance Committee of the September 5, 2019 Board meeting.*
- II. *HRC and Compliance staff have been in discussions with the TDHCA's IS division on improvements to the Complaint Submission System as recently as 8/13/2020. This improvement project is still in-process and expected to be until late 2020.*
- III. *The COVID-19 pandemic has altered plans for in-person meetings however, Quarterly Complaints Analysis Updates have been sent out on schedule from HRC to all applicable program/division staff. In addition and upon quarterly request, HRC has supplied FHDMMR with requested Complaint Data for Q1, Q2, and Q3 2020 for the Activity Report (previously known as High Level Report).*

The recommendations have been implemented for findings I and III. Findings II remains open.

6) Audit Report # 19-008

Internal Audit Follow up Review of the Migrant Labor Housing Facilities, Report issued August 23, 2019

No Findings

7) Audit Report # 19-009

Internal Audit of the Enforcement Committee, Report issued November 8, 2019

OIA Findings and Recommendations

- I. OIA recommends that the Enforcement Committee establish Standard Operating Procedures to address internal procedures that would ensure consistency and reliability of the operation for the Committee.
- II. OIA recommends that the Department establish a procedure in which a secondary individual will be cross trained and assigned as the backup for the Secretary.

Management response and reported status:

- I. The committee decided to promulgate its operating procedures in the form of additions to the current enforcement rule because they affect the rights of outside parties. The rule additions are part of the amendments to the enforcement rule going before the Board for publication in the Texas Register on November 5th. A final adoption should occur early next year.*
- II. Considering the amount of turnover in the Legal Division in the last year, we have run out of people to cross train and have come to the conclusion it would be best to develop a "How To" manual that a person could refer to get up to speed quickly. The Secretary is completing a detailed manual on how to do the job of the Secretary of the Committee. The manual is about 50% complete and should be done on or about year end. It would include such things as meeting procedures, contacts, tracking sheets, databases, forms, etc.*

All recommendations have been implemented and findings are closed