TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

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September 24, 2021

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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 Findings and Recommendations, Report # 21-006

Dear Board Members,

The TDHCA Fiscal Year 2021 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, 2020. 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 October 2020:
    1. Internal Audit review of the Complaint Resolution function, Report # 19-006

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

B. Internal Audits reports issued between January and December of 2020:
    1. Internal Audit of the Multifamily Bond program, Report # 20-001
    2. Internal audit of the Purchasing function at TDHCA, Report # 20-003
    3. Internal Audit of the Section 811 PRA program, Report # 20-004
    4. Internal Audit of the Physical Inspection section of the Compliance Monitoring division at TDHCA, Report # 20-005
    5. Internal Audit of the Section 8 program, Report # 20-006

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.

Texas Comptroller's Office
Audit of the Post Payment transactions, Report # 332-21-01

The Texas Government code requires the Texas Comptroller of Public Accounts (Comptroller's office) to audit claims submitted for payment through the Comptroller's office. All payment transactions are subject to audit regardless of amount or materiality. Auditors reviewed a sample of the TDHCA's payroll, purchased / procurement, payment card, and other transactions processed through USAS, CAPPS and SPR from March 1, 2019, through Feb 29, 2020 to determine compliance with applicable state laws.

The audit report was issued on July 27, 2021, and indicated that the Department generally complied with the General Appropriation Act (GAA), relevant to Texas Government code and Texas Administrative Code provisions, and Comptroller requirements. Auditors' findings and

recommendations were related to improvements in purchase / procurement, contracting, payment card, travel and system security processes. The Department has agreed with the recommendations and provided corrective action plan. Internal audit will review the implementation status of the findings during FY 2022 Follow up audit.

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

Sincerely,

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
     Elizabeth Yevich, Director of Housing Resource Center
     Teresa Morales, Director of Multifamily Bonds
     Joe Guevara, Director of Financial Administration
     Larry Mercadel, Director of Information Systems
     Spencer Duran, Director of Section 811 Program
     Michael De Young, Director of Community Affairs

Appendix A

Status of Internal Audit Findings and Recommendations
As of September, 2021

1)   Audit Report # 19-006
Internal Audit of the Complaint Resolution process

OIA Findings and Recommendations:
- TDHCA should 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.

Management's response and reported status:
This referenced improvement project to enhance the Complaint Submission System's capabilities is still in-process by TDHCA'S Information System (IS) division. The system enhancements have been delayed due to the COVID-19 pandemic and the influx of the many new TDHCA programs resulting from the pandemic response. This has resulted in a shift in priority focus within IS and their planned internal system changes.

Finding remains open

Appendix B

Status of Internal Audit Findings and Recommendations
As of September, 2021

1) Audit Report # 20-001
Internal Audit of the Multifamily Bond program, Report issued March 13, 2020

OIA Findings and Recommendations:

I. Internal Audit recommends that the Multifamily Bond program establish signed and dated SOPs to create consistency and efficiency for all parties involved in the program.

II. Internal Audit recommends that a secondary staff be cross trained in the duties and responsibilities of the Director of Multifamily Bond program for the purpose of consistency and continuity of operation of the program.

III. Internal Audit recommends that Financial Administration continue its efforts to cross train others on the key processes such as monthly reconciliation and document the procedures in detailed and approved SOPs.

IV. Internal audit recommends that the Multifamily Bond program establish communication with Financial Administration division to be kept apprised of the results of SOC1 reports.

V. Internal Audit recommends that the evaluation criteria be expanded and additional criteria, such as previous history and relationship of the firm with the Department, be added to the evaluation criteria and scoring.

VI. When implementing the new GASB standard, the Financial Administration team should review the entire process that it completes to determine how best to comply with the standard along with any regulatory requirement in the most efficient manner.

Management's response and reported status:

I. *The SOPs that encompass the MF Bond Program have been signed and will be provided to Internal Audit with the final Audit report*

II. *A new employee was hired on March 3, 2020 who will be assisting the Multifamily Bond Program Director in carrying out certain responsibilities of the division.*

III. *During FY21, another senior bond accountant has been cross trained on the multifamily bond processes and reconciliations for multiple trustees. It is an ongoing process due to the volume and complexity of the transactions. Bond accounting will continue the efforts to cross train and expect to complete 100 percent training of all trustees by the end of the fiscal year. A monthly checklist is used to ensure essential processes are performed*

IV. *Bond Accounting conducted the review of the SOC1 reports, which were viewed by SAO in FY20. All reports received during the fiscal 2020 audit showed an opinion by independent auditors stating internal controls operated effectively to provide reasonable assurance that control objectives were met. A task has been included to Financial Administration's AFR checklist to share SOC1 reports and documentation with the multifamily program area.*

V. *Management acknowledges this recommendation but respectfully disagrees. The prior RFQ responses were evaluated and scored based on the identified scoring criteria and*

responses provided. While it was inferred that the scores given to the Bracewell LLP firm took into account their previous relationship with the Department, their score should also be viewed in the context of the submissions provided by other firms.

VI. *Due to Covid-19, GASB has postponed the implementation of GASB 91 until fiscal 2023. Financial Administration will continue to stay up to date with reporting requirements and guidelines for GASB 91.*

The recommendations have been implemented for Observations and Findings I, II, III, and IV. Management accepts the risk for recommendation V, and recommendation VI remains open.

2)   Audit Report # 20-003
Internal Audit of the Purchasing function at TDHCA, Report issued May 29, 2020

OIA Finding and Recommendation:
I.   OIA recommends that Financial Administration and the Purchasing division establish a procedure to remove employees' names from PeopleSoft upon their separation from TDHCA.

II.   OIA recommends that the Purchasing division establish an improved record keeping system to ensure a complete and more consistent documentation process.

III.   OIA recommends that the Purchasing division establish a procedure for review and reconciliation of monthly credit card statements to improve consistency of the process.

Management's response and reported status:
I.   *Information Systems Division has a process in place to remove access for terminated employees upon separation. A review process is being performed on the list of users of CAPPS to ensure accuracy.*

II.   *Purchasing division has fully transitioned to an electronic filing process. They have updated their RFP/RFQ checklist which facilitates the review of the electronic files for completeness.*

III.   *Purchasing division has established procedures to improve the consistency and documentation of the credit card statement review process.*

All recommendations have been implemented and findings are closed

3)   Audit Report # 20-004
Internal Audit of the Section 811 PRA program, Report Issued June 1, 2020

OIA Finding and Recommendation:
I.   Internal Audit recommends that the Section 811 PRA program establish updated, signed and dated SOPs for key processes to create consistency and efficiency for all parties involved in the program.

II.   Internal Audit recommends the development of a business case for presentation to the IS Steering Committee for certain aspects of the program such as applicant referrals from the waitlist and online applications.

III.   Internal Audit recommends that Information Systems review the current infrastructure that serves as the base for the CMTS Section 811 PRA module to provide upgrade or replacement options.

IV.   Internal Audit recommends that Information Systems determines and implements the best available method of segregating Manufactured Housing employees from access to TDHCA specific program information, especially that which includes private applicant level data.

V.   Internal audit recommends that Information Systems creates a new method of access to the underlying data within the system to limit access to the appropriate users defined by the Program.

VI.   Internal Audit recommends that the process of reviewing and inputting applications ensures that initial rejection letters for age or income are sent to the applicant timely.

VII.   Internal Audit recommends the creation of policy in consultation with HHSC to address appropriate approval of the Verification of Disability.

VIII.   Internal Audit recommends that the application for Section 811 PRA Program assistance be updated and simplified for future applications.

IX.   Internal Audit recommends that the waitlist management process be reviewed and other procedures considered for efficiency and continued effectiveness, such as verification of certain information prior to referral rather than while on the waitlist.

X.   Internal Audit recommends that Financial Administration evaluate automating the manual process of inputting property owner payments utilizing data files provided by Blueprint.

XI.   Internal Audit recommends the periodic review of access lists of critical systems to ensure appropriately restricted access to processing and information.

Management's response and reported status:

I.   *All key process SOPs were reviewed, updated, signed and dated throughout the course of the year.*

II.   *The Section 811 Program is currently working closely with IS staff on a series of updates to CMTS that will allow eligible Referral Agents to submit applications to the program and update critical household information.*

III.   *Since September 2020, Information Systems, with input from the Section 811 Program, have completed several updates to CMTS that improve program operations. Additionally, IS is currently working on creating external user roles that pave the way for the program to accept direct online applications.*

IV.   *Section 811 (S811) and Information Systems Division (ISD) staff worked together to resolve this issue. This issue has been remediated.*

V.   *Section 811 (S811) and Information Systems Division (ISD) staff worked together to resolve this issue. This issue has been remediated.*

VI.   The Section 811 Program is fully staffed and utilizing temporary employees as necessary allowing for timely input of applications and therefore timely rejections as required. Further, the Section 811 Program has closed most waitlists slowing the rate of application submissions; ensuring staff can input, review and take appropriate action in a timely manner on applications.

VII.   On May 19, 2020, the Section 811 PRA Program staff consulted with HHSC and DFPS who have contract authority over the Referral Agents, on crafting guidance to the Referral Agents on how to complete the Verification of Disability form. On May 29, 2020, the Processing Program Applications and Property Lease-Up SOP was updated to provide clarification on who is eligible to sign the Verification of Disability form. Subsequent to the addition of this guidance, the Section 811 Program provided this clarification during live webinar trainings to Referral Agents on the following dates: 7/7/21, 7/15/21, and 8/17/21. On the property side, property management agents retain the right to create their own Verification of Disability form that may be used in place of the TDHCA-provided form.

VIII.   Program application submission process will be greatly streamlined when the program begins allowing direct, online application submissions from Referral Agents. Program staff have reviewed all fields in CMTS as a step in the online application submission conversion. Several fields are being changed to ensure they are current with the information we need to collect. Of the 112 modifiable household fields in CMTS, Referral Agents submitting online applications will only need to fill out 43 fields.

IX.   Program Staff have reviewed and discussed this recommendation and have concluded that the current, two-phase application review is adequate. Additional verifications are not an efficient use of time. Currently, applicant information is verified at these two stages:
1) When households are added to property waiting lists
2) When property managers review the household information after referral to a property.

X.   Program Staff and FA meet quarterly and as-needed as issues arise to better coordinate all Section 811 Program activities. In addition, Program Staff and FA have developed a new system of uploading monthly vouchers to a shared folder for review and the folder is cleared once payments have been made.

XI.   The Serv-U External Access Procedures Standard Operating Procedure ensures only Referral Agents that have completed the training hosted by UT Health San Antonio have access to the secure server. Serv-U access is removed when TDHCA is informed that an eligible user is no longer associated with the Section 811 Program. Further, Serv-U access is limited to each Referral Agent and property agent's own folder

All recommendations have been implemented, except IX. Management accepts the risk for recommendation IX. Findings closed.

4)   Audit Report # 20-005
Internal Audit of the Physical Inspection section of the Compliance Monitoring division at TDHCA, Report Issued August 14, 2020

Due to COVID19 pandemic, Internal Audit was not able to perform site visits and follow up of Physical Inspection audit. The follow up of findings and recommendations will be done in FY2022.

5)   Audit Report # 20-006
Internal Audit of the Section 8 Program, Report issued August 20, 2020

OIA Findings and Recommendations:
I.   OIA recommends that Section 8 program establish written SOPs, signed and dated by management, for consistency and efficiency of the operation.
II.   OIA recommends that the Program establish a process in which the access to the Section 8 electronic folders are monitored and revised regularly to only include authorized staff.
III. OIA recommends that the Program consider establishing secure electronic file transfer procedures for the submission of application and supporting documents by the referring agencies and the Clients.
IV.   OIA recommends that the Program establish a supervisory review process for the processed files to ensure completion and accuracy of electronic files and information.

Management's response and reported status:
I.   Section 8 Program has established written SOPs, signed and dated.
II.   Section 8 program has established a written SOP (Serv-U Hypertext Transfer Protocol Secure) that addresses the electronic transfer of files between clients and referring agencies.
III. Section 8 program has established a written SOP (Serv-U Hypertext Transfer Protocol Secure) that addresses the electronic transfer of files between clients and referring agencies.
IV.   Section 8 program has established written SOP (System Software Quality Control) to address this recommendation.

All recommendations have been implemented and findings are closed.