

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS**  
**An Internal Audit of the Previous Participation Review (PPR) function**  
**Audit Report # 22-002**

**Executive Summary**

The Office of Internal Audit (OIA) reviewed the Previous Participation Review (PPR) function at TDHCA, its role and responsibility in ensuring compliance with applicable rules and regulations, as well as its internal process and procedures that are currently in place. Based on our reviews and testing, the OIA concludes that the Previous Participation Review function is operating effectively in assuring compliance with appropriate rules and regulations in awarding new contracts, renewing existing contracts, or approving transfers, related to programs and funds under TDHCA's purview.

**Observations and Recommendations**

The folder system on the shared drive and the tracking spreadsheet for the PPR function could be improved to a more efficient way of identifying the location of specific folders. Currently the PPR requests on the tracking spreadsheet are listed by their program specific application numbers, which have different formats depending on their funding source program. The tracking spreadsheet doesn't include the type of funding or the program for each of the requests either. The supporting documentation seems to be in multiple locations depending on the program and type of funding.

**Management Response**

*The PPR tracking spreadsheet has been updated to include an area that tracks the type of funds being requested and will be completed by the Review Coordinator (labeled "Source(s) of Funds Requested"). In addition, a field has been added to record where the back-up documentation was stored and will be completed by the PPR designated reviewers (labeled "Stored in Completed Folder"). This information will assist in locating support documentation when multiple sources of funds are requested through a single PPR. This is effective immediately for any PPR requests received or closed on or after March 1, 2022.*

**Objective, Scope and Methodology**

Our scope included a review of the Texas Administrative Code (10 TAC §1.301 and §1.302), TX Government Code §2306.057 and §2306.613, and Department's internal policy and procedures, including specific SOP related to PPR reviews. We also reviewed the PPR's goals, processes, and roles and responsibilities related to ensuring Department's compliance with applicable rules and regulations.



Mark Scott, CPA, CIA, CISA, CFE, MBA  
Director, Internal Audit



Date Signed



**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS**

*www.tdhca.state.tx.us*

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

RE: Internal Audit of the Previous Participation Review (PPR) function

Dear Board Members:

This report presents the results of the Office of Internal Audit ("OIA") "*Review of the Previous Participation Review (PPR) function.*" This audit was conducted in accordance with the applicable audit standards. It included the objectives to evaluate and explain the *PPR* function and its process, and to evaluate its compliance with applicable rules and regulations.

The Previous Participation Review function was identified during the fiscal year 2022 risk assessment, and rated high on the risk assessment due to lack of recent audits of the function, and its role in ensuring compliance with program specific rules and regulations as it relates to awarding contracts to sub recipients and contractors.

This report includes the following sections:

- A. Overall Result
- B. Background
- C. Scope and Methodology
- D. Roles and Responsibilities

- E. Processes and procedure
- F. Testing and Recommendation

### **A. Overall Results**

Based on our review and testing, the Previous Participation Review function is operating effectively in assuring compliance with appropriate rules and regulations in awarding new contracts, renewing existing contracted, or requests for transfers, related to programs and funds under TDHCA purview. We've identified an area for improvement as described in the detailed report.

### **B. Background**

As the state agency responsible for affordable housing, community and energy assistance programs, colonia activities, and regulation of the state's manufactured housing industry, TDHCA (the Department) administers its assigned programs to ensure compliance with state and federal laws that govern housing programs.

The Texas Government Code §2306.057 requires a compliance assessment of any project that is subject to approval by the Board, and prior to its presentation to the Board. Texas Administrative Code (10 TAC §1.301) provides the procedures to be used by the Department to comply with the requirements of the TX Gov't Code as well as 2 CFR §200 and Uniform Grant Management Standard (UGMS).

### **C. Scope and Methodology**

Our scope included a review of the Texas Administrative Code (10 TAC §1.301 and §1.302), TX Government Code §2306.057 and §2306.613, and Department's internal policy and procedures, including specific SOP related to PPR reviews. We also reviewed the PPR's goals, processes, and roles and responsibilities related to ensuring Department's compliance with applicable rules and regulations. We also conducted interviews and meetings with key staff members to better understand the PPR function.

### **D. Previous Participation Review's Role and Responsibilities**

The PPR function's role is to conduct a review of the administrators, sub-recipients, affiliated parties, entities, and responsible parties of the development owners, sub-recipients, and nonprofit organizations that have applied for a new contract, requesting a transfer, or are subject to renewing an existing contract. The PPR review includes identifying any previous participation of the entity with the Department, and associated compliance performances with state and federal laws that govern the programs at TDHCA, and providing their results and findings to the Executive Award Review Advisory Committee (EARAC) for their review and recommendation to the Board.

The Compliance Division collaborates with other divisions, such as Financial Administration and Loan Servicing, in assessing the compliance history of the applicants and their affiliates, the compliance issues associated with the proposed development, and provides the result of their assessment to the EARAC. The list of reviews conducted is provided in the next section.

## **E. Processes and Procedure**

The process is initiated by the program or the division that is subject to the new or the renewed contract, and a request is sent through an email to the designated staff, the Review Coordinator in the Compliance division, along with the backup documentation and necessary information. The Compliance division starts the review process by gathering backup information, and reviewing and documenting compliance history of the applicant with State and Federal programs. Any finding and areas of deficiencies are reported back to the program as well as to the EARAC.

The followings are the main review steps that is followed by PPR function in their review process.

- ***System of Award Management (SAM)***

SAM (SAM.Gov) is the official website of the U.S Government, publically available and accessible, and is used to check on the status of an entity and its exclusion records. The Review Coordinator conducts searches of the identified entities and their members, including all Board members, in the SAM to ensure that no matches with those listed as barred from participation in a Federal Programs.

- ***TDHCA Compliance & Monitoring Tracking System (CMTS)***

The PPR designated reviewers, who are also part of the Compliance Division, conduct searches in the CMTS to identify any previous participation of the applicant with the Department. In the cases of previous participation with the Department, the reviewer will compare the results of the CMTS searches to the information provided by the Applicant to ensure that an accurate depiction of previous participation is captured. Any discrepancies recorded and reported to the management with the result of the review.

- ***Final Order***

Pursuant to the authority granted to TDHCA under Tex Gov't Code §2306.0504 the Department's Board has adopted a policy for the debarment of a person or entity from participation in the Department's programs because of their failure to comply with the conditions imposed by the Department in relation to the administration of its programs. Any person or entity that has been debarred is prohibited from participation in the programs administered by the Department for the term of their debarment unless by its terms the order of debarment permits continuing activity in one or more specified programs.

- ***Single Audit***

The Single Audit Act, previously known as A-133 audit, and the Texas Administrative Code Rule §1.403(e) states that "*Sub-recipients that expend \$750,000 or more in federal and / or state awards or have an outstanding loan balance associated with a federal or state resource of \$750,000 or more with continuing*

*compliance requirements, or a combination thereof must have a Single Audit or program specific audit conducted". Sub-recipients and entities that meet this threshold are required to submit their annual Single Audit report within nine months after the end of the audited fiscal year.*

A Single audit is an organization wide financial statement and Federal awards audit for the purpose of ensuring that a recipient of federal funds is in compliance with the federal program's requirements for how the money can be used. As part of the PPR process the Compliance division reviews the Single Audit reports related to entities under review.

In the event of a finding or a discrepancy in the records, the applicant has the opportunity to address the finding and resolve the discrepancy. Once all the reviews are completed and all the necessary back up information and documentation are gathered, the results are forwarded to the EARAC\* for final decision before presentation at the Board meeting for their approval.

*\*10 TAC §1.303; The Executive Award and Review Advisory Committee (EARAC) is established by Tex. Gov't Code §2306.1112 to make recommendations to the Board regarding funding and allocation decisions related to Low Income Housing Tax Credits and federal housing funds provided to the state under the Cranston Gonzales National Affordable Housing Act. The Department also utilizes EARAC as the body to consider funding and allocation recommendations to the Board related to other programs, and to consider an awardee under the requirements of 2 CFR §200.331(b) and (c), UGMS, and TxGMS, which requires that the Department evaluate an applicant's risk of noncompliance and consider imposing conditions if appropriate prior to awarding funds for certain applicable programs...*

## **STANDARD OPERATING PROCEDURES (SOP)**

An SOP is a procedure specific to the operation of an entity or function that describes the activities necessary to complete tasks in accordance with applicable rules and regulations. It defines expected practices in a process where quality standards exist. SOPs play an important role in any organization and division. They are policies, procedures and standards needed to operate in a successful way. They can create efficiencies, consistency and reliability, fewer errors, and add value.

As part of our audit we reviewed specific SOP related to PPR function, SOP # 2281.09, and found it to be complete and up-to-date. The SOP was signed by the current Director of Compliance Monitoring on 01/21/2021, and it contains clear and complete details of the rules, and steps that needs to be followed, as well as roles and responsibilities of each staff and each division.

## F. Testing and Recommendation

As part of our audit we randomly selected 20 PPRs from the total of 226 PPRs that were completed between 9/1/2021 and 2/2/2022, from the tracking spreadsheet that is maintained by the Compliance Division. Our attributes included verification of compliance with the applicable reviews and research of the applicant, such as SAM and single audit, as well as appropriate approval process.

### OBSERVATION

The PPR function seems to have an adequate system of review and approval related to the review of new or renewed contracts, as well as transfer requests. There seems to be an effective collaboration between the interested divisions in completing the review and providing all the necessary documentation and information to EARAC in a timely manner. However, we did note that the folder system on the shared drive and the tracking spreadsheet could be improved for a more efficient way of identifying the location of specific folders and documents. Currently the PPR requests on the tracking spreadsheet are listed by their program specific application numbers, which have different formats depending on their funding program. The tracking spreadsheet doesn't include the type of funding or the program for each of the requests either. The supporting documentation seem to be in multiple locations depending on the program and type of funding.

### MANAGEMENT RESPONSE

*The PPR tracking spreadsheet has been updated to include an area that tracks the type of funds being requested and will be completed by the Review Coordinator (labeled "Source(s) of Funds Requested"). In addition, a field has been added to record where the back-up documentation was stored and will be completed by the PPR designated reviewers (labeled "Stored in Completed Folder"). This information will assist in locating support documentation when multiple sources of funds are requested through a single PPR. This is effective immediately for any PPR requests received or closed on or after March 1, 2022.*

OIA extends our appreciation to Compliance Monitoring management and the staff involved in the Previous Participation Review function for their cooperation and assistance during the course of this audit.

Sincerely,



Mark Scott, CPA, CIA, CISA, CFE, MBA  
Internal Audit Director

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