



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

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October 31, 2022

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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 # 22-008

Dear Board Members,

The TDHCA Fiscal Year 2022 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 September 2021:

1. Internal Audit review of the Complaint Resolution function, Report # 19-006
2. Internal Audit Multi-family Revenue Bond Program, Report # 20-001

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

B. Internal Audits reports issued between January and December of 2021:

1. Internal audit of the Continuity of Operation Plans (COOP) at TDHCA, Report # 20-002
2. Internal Audit of the Tenant Selection and Affirmative Marketing Plan, Report # 21-001
3. Internal audit of the Management of Non-Performing Loans, Report # 21-002
4. Internal Audit of Ending Homelessness Fund and Homeless Housing and Services Program (HHSP), Report # 21-003
5. Internal Audit of the Multi-family Direct Loan Program, Report # 21-004

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.

State Auditor’s Office (SAO)

Annual Financial Statement Audit, report # 22-555

The SAO conducts the Financial Statement part of the Statewide audit. Their report for Fiscal Year 2021 included a finding. They identified payments that were made through the Texas Rent Relief (TRR) program that should have been classified as vender payments rather than sub-recipient payments.

The Department acknowledged this finding and made the correction to the Financial Statement.

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

Sincerely,



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

Cc: Bobby Wilkinson, Executive Director
Beau Eccles, General Counsel
Brooke Boston, Deputy Executive Director of Programs
Elizabeth Yevich, Director of Housing Resource Center
Teresa Morales, Director of Multifamily Bonds
Joe Guevara, Interim Director of Administration
Cody Campbell, Director of Multifamily Finance
Rosalio Banuelos, Interim Deputy Executive Director of Program Controls and Oversight
Larry Mercadel, Director of Information Systems

Appendix A

Status of Internal Audit Findings and Recommendations As of October, 2022

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 with TDHCA'S Information System (IS) division.

Finding closed

2) Audit Report # 20-001

Internal Audit of Multifamily revenue Bond Program

OIA Findings and Recommendations:

- 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:

The implementation of GASB 91 will impact FY23 year-end reporting. We will start planning the process after we issue FY22 financials and CPA issues their guidance. We anticipate this to take place next October/November and Cristina will be your point of contact going forward.

Finding closed

Appendix B

Status of Internal Audit Findings and Recommendations As of October, 2022

1) Audit Report # 20-002

Internal Audit of the Continuity of Operation Plan (COOP) at TDHCA, Report Issued January 29, 2021

OIA Findings and Recommendations:

- i. OIA recommends that management take steps to update the COOP document as soon as reasonably possible, ensuring all essential programs and processes are included with the inclusion of realistic recovery time objectives.
- ii. Management should establish procedures to ensure that, going forward, the COOP is updated and tested annually, with COOP employee training conducted at hire and annually. An updated copy of COOP should be accessible via intranet and hard copy offsite.
- iii. OIA recommends that management considers selecting a team of individuals to advise and assist in completing and maintaining the COOP document. All Divisions, including the MHD, should be a part of this team to provide necessary input.
- iv. Management should review additional scenarios for COOP that assume loss of key personnel and/or critical systems for a timeframe longer than three business days, to determine any manual workarounds or additional resources required to respond to the disaster and continue processing business.
- v. Management should reassess the designation of space in the building where MHD resides as an alternative site; if continued, the agreement between TDHCA and MHD should be reviewed annually along with COOP.
- vi. OIA recommends that the TDHCA Succession of Authority be reviewed annually for any updates required.
- vii. OIA recommends that the current Disaster Recovery Plan included in the Information Systems Division SOP 1264.04 be updated in tandem with COOP completion and guidance, including critical systems priority and attainable recovery times
- viii. OIA recommends that ISD perform a review and validation of the files to be backed up by DIR at the time of any new server implementation and annually for all critical server files
- ix. OIA recommends that management consider expanding testing the Disaster Recovery Plan in light of COOP requirements for recovery times and involving the Program areas to incorporate business-related COOP functions.

Management's response and reported status:

In general, the environment has been unstable and unpredictable and it placed these initiatives on hold. We believe that it has reached enough stability to address the reevaluation/revision of the COOP and the audit recommendations with a new timeline of 8/31/23.

Findings remain open**2) Audit Report # 21-001**

Internal Audit of the Tenant Selection and Affirmative Marketing Plans, Report issued May 27, 2021

OIA Finding and Recommendation:

- I. OIA recommends that FHDMMR division establish regularly scheduled and routine trainings related to WPP and AFHMP that would be published on TDHCA website
- II. OIA recommends that FHDMMR division add the voluntary review requests that are submitted by property owners to the existing database as soon as they're received to ensure timely response, and to avoid any requests from being missed or overlooked
- III. OIA recommends that FHDMMR division finalizes the revision of the new MOU as early as possible that would align with the current role of the FHDMMR division in the process
- IV. OIA recommends that FHDMMR division start implementing its priority model and selecting properties for review
- V. OIA recommends that FHDMMR division establish written SOPs specific to WPP and AFHMP, signed and dated by management, for consistency and efficiency of the operation.
- VI. OIA recommends that FHDMMR division establish a more precise procedure for review, response, and documentation of the WPPs and AFHMPs

Management's response and reported status:

- I. *Fair Housing training webinars are held regularly and always recorded and posted on TDHCA's website and YouTube Channel available at the following two respective sites: <https://www.tdhca.state.tx.us/fair-housing/presentations.htm> and https://www.youtube.com/playlist?list=PLIW-C-OioJwRaquaFamilyY69QV_r2O8jj For each webinar the training materials include videos, presentation slides, transcripts, and relevant handouts. Standard trainings are held bi-annually each April during Fair Housing Month and six months later each November. Additional trainings are added as needed and upon request.*
- II. *The FH Access database created for this purpose continues to be used to track information that captures all reviews: TDHCA Initiated, Voluntary or Other.*
- III. *As noted in the initial follow-up, the referenced new MOU between TDHCA and TWC had been drafted. That MOU was then finalized, executed and effective July, 7, 2021 which was in advance of the August 31st, 2021 expiration date. The current MOU expires August 31, 2026.*
- IV. *Fair Housing staff continue to identify and prioritize reviews as recommended.*
- V. *The AFHMP and WPP Handbook is still in effect and continues to be regularly updated and serve as the SOP. The recommended signature line has been added and executed.*
- VI. *Fair Housing staff continue to provide timely, high quality trainings and technical assistance.*

All recommendations have been implemented and findings are closed

3) **Audit Report # 20-002**

Internal Audit of the Management of Non-Performing Loans, Report Issued June 4, 2021

OIA Finding and Recommendation:

- I. Because of the current economic environment and increased risk of delinquencies, Internal Audit recommends that management consider a dashboard to monitor loans and delinquency status to take action as necessary
- II. Internal Audit recommends forming a committee composed of management and senior staff from Loan Servicing, Asset Management and Financial Administration that will review all process changes from the MITAS systems upgrade for effectiveness and efficiency, as well as customer service functions including electronic payment processing and account access, and plan implementation accordingly along with additional capital budget requests. User documentation including definition of system codes and statuses, as well as SOPs and training materials, should be updated.
- III. OIA recommends that management review the mail and check posting system to determine if any changes could be made safely to streamline the process
- IV. OIA recommends that the Program Controls and Oversight Division continue its current temporary holds on loan modifications and refinancing until eligible homeowners could be referred for any programs that would assist them as part of the CARES and American Rescue Plan acts. Actions and new policies should be fully documented and approved.
- V. Internal Audit recommends that while coordinating processes during the MITAS upgrade, Asset Management updates its SOPs for consistency and reliability. At that time, the delinquent loans monitoring process and REO management should be formalized including guidelines for document storage for single family REOs

Management's response and reported status:

- I. *Implemented; additional report/data options will be evaluated during the conversion to MITAS Web-based version.*
- II. *The customer service portal has been implemented; the ACH payment option will be "turned on" during the Loan Servicing conversion to MITAS Web-based version. The Accounting conversion has been completed. The Loan Servicing conversion is currently underway with the evaluation of current report/forms usage, comment log usage and noting specialized processes. The Loan Servicing conversion will incorporate all impacted MITAS users in the configuration, implementation and training process.*
- III. *Financial Administration and Staff Services evaluate this process frequently. The processes and controls in place allow for the safeguard and accurate processing of receipts. Currently, this is operating at pre-pandemic conditions. Mail is delivered every day, checks are posted timely, and deposits are made within the 3 day requirement.*
- IV. *Loan Servicing staff continue to work with affected borrowers to apply for assistance through the Homeowner Assistance Fund (HAF); and continue to utilize all available loss mitigation options currently available including trial plans leading to loan modification and refinance for all borrowers.*

- V. *SOPs were updated in December 2021 and finalized by January 2022. The revised SOPs are enclosed.*

All recommendations have been implemented and findings are closed

4) Audit Report # 21-003

Internal Audit of the Ending Homelessness (EH) Fund and Homeless Housing and Services Program (HHSP), Report Issued August 11, 2021

No Findings / Recommendations

5) Audit Report # 21-004

Internal Audit of the Multi Family Direct Loan Program, Report Issued September 13, 2021

OIA Findings and Recommendations:

- I. Internal Audit recommends that a change management tracking system be implemented in administering the loan closing process to track and maintain information on the type of changes coming through the various touchpoints within TDHCA for the MFDL process. By consistently tracking this information on each loan closing, trends and observations could be made to support program improvements.
- II. Construction draw tools, spreadsheets and guidance should be reviewed to determine if they could be simplified. Standards for determining when a certain number of draws may be appropriate could be instructional in working to decrease the amount of documentation review and processing time required.
- III. OIA recommends that the Legal team review the application prior to underwriting when certain conditions are present specifically, other governmental funding in the form of grants, loans or tenant vouchers
- IV. The contract and loan document approval process should be modified to ensure all approvals are tracked and available in a central location. OIA recommends that the process be automated as a routable document rather than email when possible.
- V. Due to the highly complex and manual nature of the MFDL requirements and process, OIA recommends that management consider assigning a "loan officer" or "project manager" to ensure the loan application and documents move smoothly and more quickly through the process
- VI. OIA recommends that Multifamily Finance evaluate the current end-user systems in place for the multifamily uniform application review and loan closing process to determine any future needs for system and application improvements
- VII. Due to the possible retirement of some of the key personnel, the MFDL division should consider documenting their procedures with screenshots that could be used for future training and improving SOPs
- VIII. Because of the complexity of the Multifamily Direct Loans process, OIA recommends that all Divisions create and/or update documented SOPs and process flows, so that the team

can more easily identify process weaknesses and inefficiencies as well as evaluate options for technology solutions

Management's response and reported status:

- I. *Due to the current environment, program management strongly recommends placing this recommendation on hold. Application processing, underwriting, and closing is highly abnormal at this time due to the extraordinary market conditions that are resulting in frequent deviations from the normal flow of a loan throughout TDHCA. No system built or deployed at this time will be coherent once conditions stabilize and processes return to normal.*
- II. *Program management has assigned this task to a team leader within the division, who is doing a full review of the draw process in order to create updated SOPs, identify any potential inefficiencies in the process, and make recommendations to management about how to improve this process moving forward. This process is ongoing.*
- III. *The legal team has begun reviewing applications prior to underwriting.*
- IV. *The complexity and uniqueness of each loan completed by the division prohibits the automation of these documents. This kind of automation requires complete documentation standardization, which would necessitate that TDHCA only offer a standard loan product, which is not current practice. Staff will re-examine this possibility if a standard loan product is offered in the future. Due to the number of signatories to various loan documents, compounded with the fact that some documents require an ink signature rather than electronic, staff did not determine that using DocuSign would create efficiency within the program.*
- V. *Please see the initial management response. In addition to the above response, a project manager or similar position is not feasible at this time due to staff turnover and shortages. This recommendation may be taken into consideration at a later date when staffing has stabilized.*
- VI. *Since the initial audit, the Division has created a Team Leader of Efficiency and Data Management position to assist in finding efficiencies and improving processes. This position is currently reviewing the draw process, and will proceed to evaluate other processes over the coming year. Due to the complex nature of MFDL processes (as well as the volume of work currently being processed by limited staff within the division), the timeframe initially provided for completion is feasible. Management anticipates that this process will continue through 2023. Management further anticipates dedicating even more resources to this recommendation as staffing stabilizes and more resources become available.*
- VII. *Since the initial audit, the Division has created a Team Leader of Efficiency and Data Management position to assist in finding efficiencies and improving processes. This position is currently reviewing the draw process, and will proceed to evaluate other processes over the coming year. Due to the complex nature of MFDL processes (as well as the volume of work currently being processed by limited staff within the division), the timeframe initially provided for completion is feasible. Management anticipates that this process will continue through 2023. Management further anticipates dedicating even*

more resources to this recommendation as staffing stabilizes and more resources become available.

VIII. *Please see the above response - the creation of detailed, current SOPs, including screenshots, has been included in the review of processes by the Team Lead of Efficiency and Data Management.*

IX. *Please see the above response - the creation of detailed, current SOPs, including screenshots, has been included in the review of processes by the Team Lead of Efficiency and Data Management.*

Recommendations I and II remain open, the remaining recommendations are closed.