

## TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

### An Internal Audit of the Texas Statewide Homebuyer Education Program (TSHEP) and Homebuyer U, Audit Report # 23-003

#### Executive Summary

The Office of Internal Audit (OIA) performed an audit of the Texas Statewide Homebuyer Education Program (TSHEP) and Homebuyer U, its processes and procedures, as well internal controls and rules and regulations under which it operates. Based on our review and testing, the TSHEP and Homebuyer U appear to be operating effectively in providing counseling services and education to homebuyers. The auditor has identified the following areas that necessitate improvement, all of which have been detailed in the final audit report.

#### Observations and Recommendations

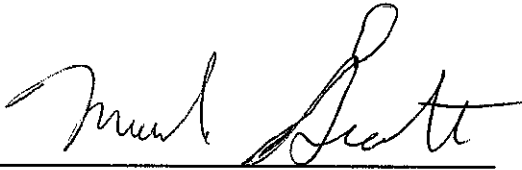
- IA recommends that updates to the TSHEP and Homebuyer U website, Homebuyer U online courses, and counselor list be made to reflect the Department's current offerings and to ensure that all information provided to homebuyers is correct, accessible, easily usable, and current.
- IA recommends that Homebuyer U emphasize in the training that the audio portion of the course is necessary in order to pass the exit assessment, and include more information from audio transcript in slides to make the training easier to follow.
- IA recommends that Homebuyer U exit assessments be updated to accurately reflect the information provided in the online training module.
- IA recommends that TSHEP incorporate HUD resources to better align with government code §2306.253, such as provide additional counselors and additional education resources to homebuyers.
- IA recommends that TSHEP create or adopt clear and concise standards for adding new TDHCA housing counselors and accepting outside homebuyer education certificates in lieu of TDHCA's Homebuyer U.
- IA recommends that the Homebuyer U online training modules be updated to reflect the division standards of procedure provided by the Homebuyer Education National Industry Standards.
- IA recommends that the department institute a regular update schedule for TSHEP and Homebuyer U to ensure that all programs remain current and functional.
- IA recommends that the issuance of homebuyer education certificates be accompanied with a secondary authentication procedure to ensure that the individual providing the certificate as a required document did in fact complete the required education. For example, a percentage of the certificates, rather than all provided, may be authenticated to alleviate staff burdens, if necessary.
- IA recommends that PDF certificates issued by the Homebuyer U program are locked to prevent editing.

## Management Response

Management agreed with our recommendations, and detailed responses are included in the body of the report.

### Objective, Scope and Methodology

Our scope included a review of the Texas Administrative Codes (10 TAC §27.1 - §28.9), TX Government Code §2306.253, the program's website and online training modules, loan issuance records, and other department internal documents and procedures. Testing was conducted on the online training modules accuracy and efficacy and compliance with loan education requirements.



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

8/7/23  
Date Signed



**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS**

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August 7, 2023

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

RE: Internal Audit of the Texas Statewide Homebuyer Education Program and Texas Homebuyer U at TDHCA

Dear Board Members:

This report presents the results of the Office of Internal Audit ("OIA") "*Audit of the Texas Statewide Homebuyer Education Program (TSHEP) and Texas Homebuyer U at TDHCA.*" This audit was conducted in accordance with applicable audit standards and included the objectives to review, assess, and evaluate educational and counseling programs for accuracy and compliance with applicable rules and regulations.

The TSHEP and Texas Homebuyer U programs was identified during the fiscal year 2023 risk assessment. These programs rated high on the risk assessment matrix because of its importance to TDHCA clients and recent management changes.

This report includes the following sections:

- A. Overall Result
- B. Background
- C. Scope and Methodology
- D. Roles and Responsibilities
- E. Testing and Recommendation Part I
- F. Testing and Recommendation Part II

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## **A. Overall Results**

Based on our review and testing, the TSHEP and Texas Homebuyer U appear to be operating effectively in providing counseling services and educational materials to new homebuyers. The auditor has identified some areas that necessitate improvement, all of which have been detailed in this report.

## **B. Background**

In 1997, the TDHCA was charged to develop and implement a Statewide Homebuyer education program to provide information and counseling to prospective homebuyers about the home buying process. After the TDHCA Housing Resource Center designed and implemented the Texas Statewide Homebuyer Education Program (TSHEP) in 1998, the TDHCA Homeownership Division assumed primary responsibility in 2001. Homebuyer U was created based on the National Standards for Homeownership Education and Counseling—national standards that many reputable programs use as a benchmark to create their programs. Today, the Texas Homeownership’s mission is education first, and also to help Texans achieve homeownership. TSHEP contains two main educational programs— Homebuyer U and the Housing Counselor program. The Homebuyer U program includes two online training modules, the “Becoming a Homeowner” course and the “Texas Mortgage Credit Certificate” course. Each online module issues a completion certificate upon the individual passing an exit assessment. The completion of the “Becoming a Homeowner” online training module, or another equivalent external homeownership education course, is required to receive financial assistance from the Texas Homebuyer Program. The “Texas Mortgage Credit Certificate” course is an optional course, but provides helpful insight to prospective applicants regarding the Mortgage Credit Certificate program. The Housing Counselor program refers applicants to specialized counselors that provide 1-on-1 expertise to prospective homebuyers regarding the home-buying process. A list of pre-approved counselors is available on the Texas Homebuyer Program website.

## **C. Scope and Methodology**

Our scope included a review of the Texas Administrative Codes (10 TAC §27.1 - §28.9), TX Government Code §2306.253, the program’s website and online training modules, loan issuance records, and other TDHCA internal documents, policies, and procedures. Testing was conducted

on the online training modules functionality, accuracy, and efficacy, and compliance with loan education requirements.

#### **D. Roles and Responsibilities**

**PROGRAM STAFF:** The education programs are currently overseen by the Texas Home Ownership program staff. Staff updates the Homebuyer U education modules periodically in light of new information regarding the homebuyer process. Staff also adds new counselors to the official TSHEP counselor list on a case-by-case basis, if inquired upon by an outside party.

**VENDORS (I, II, III):** Vendor I, eHousingPlus, handles compliance regarding loan documentation for all Texas Homeowner programs. They verify that a participant in the program took the required educational courses. Vendor II, the Idaho Housing and Finance Association, is the master loan servicer and therefore also assists staff with verifying educational course requirements. Vendor III, Wedu, a digital marketing agency, is the online servicer for both Texas Homebuyer U courses, and updates the course as needed—software limitations permitting-- at the discretion of staff.

**PARTICIPANTS (I AND II):** Participant I in these programs are the homebuyers that apply for mortgage assistance under the Texas Homebuyer program. Homebuyers are required to take a homebuyer educational course before receiving said assistance. It is the responsibility of the homebuyer to provide a certificate of completion to receive financial assistance. Homebuyers also may participate on the counseling program, and can choose their preferred counselor through the Texas Homebuyer program website. Participant II are the homebuyer counselors that take part in the Homebuyer Counseling program, as they elect to give home-buying advice to the general public through TSHEP. Counseling professionals are versed in the home buying process and are able to assist homebuyers on a 1-on-1 basis with specific questions. The majority of counselors listed online were educated through the TSHEP housing counselor training program; however, the program is now defunct due to the COVID-19 pandemic. Counselors that have joined the program since the pandemic have been added on a case-by-case basis at the discretion of staff.

#### **E. Testing and Recommendations Part I**

Testing of the TSHEP and Texas Homebuyer U programs consisted of two main parts: testing of the education programs for functionality, accuracy, and efficacy and compliance testing of education certificates provided in mortgage applications.

Review of the education programs for functionality, accuracy, and efficacy was conducted through multiple angles. The education courses were tested for correctness against information provided by other online home-buyer education sources, including a reputable outside home-buyer educational program. All tools provided within the TSHEP program were tested to ensure functionality. The exit assessments were reviewed against information provided in the training

module to make certain that the questions correspond with information provided in the module. Lastly, the program was reviewed against the Homebuyer Education National Industry Standards, which was adopted by the Department to ensure education touched on key points for homebuyers. The TSHEP program meets the minimum standards set out by Texas Government code and Texas Administrative codes; however, recommendations have been listed below for program improvement:

| <b>Observation Number</b> | <b>Status Pertaining to the Recommendations and Action to be Taken</b>  | <b>Target Completion Date</b> | <b>Responsible Party</b>     |
|---------------------------|---|-------------------------------|------------------------------|
| 23-003.01                 | IA recommends that updates to the TSHEP and Homebuyer U website, Homebuyer U online courses, and counselor list be made to reflect the Department's current offerings and to ensure that all information provided to homebuyers is correct, accessible, easily usable, and current. | 03/1/2024                     | Texas Homeownership Division |
| 23-003.02                 | IA recommends that Homebuyer U emphasize in the training that the audio portion of the course is necessary in order to pass the exit assessment, and include more information from audio transcript in slides to make the training easier to follow.                                | 03/1/2024                     | Texas Homeownership Division |
| 23-003.03                 | IA recommends that Homebuyer U exit assessments be updated to accurately reflect the information provided in the online training module.  | 03/1/2024                     | Texas Homeownership Division |
| 23-003.04                 | IA recommends that TSHEP incorporate HUD resources to better align with government code §2306.253, such as provide additional counselors and additional education resources to homebuyers.  | 03/1/2024                     | Texas Homeownership Division |
| 23-003.05                 | IA recommends that TSHEP create or adopt clear and concise standards for adding new TDHCA housing counselors and accepting outside homebuyer education certificates in lieu of TDHCA's Homebuyer U.   | 03/1/2024                     | Texas Homeownership Division |
| 23-003.06                 | IA recommends that the Homebuyer U online training modules be updated to reflect the division standards of procedure provided by the Homebuyer Education National Industry Standards.   | 03/1/2024                     | Texas Homeownership Division |
| 23-003.07                 | IA recommends that the Department institute a regular update schedule for TSHEP and Homebuyer U to ensure that all programs remain current and functional.  | 03/1/2024                     | Texas Homeownership Division |

**Management Response:**

Please see the table below for management’s response:

| Observation Number | Management Response   |
|--------------------|---|
| 23-003.01          | <i>The Texas Homeownership Division (Division) agrees and will work with current Homebuyer U vendor to ensure accurate, accessible and current content.</i>                               |
| 23-003.02          | <i>The Texas Homeownership Division agrees and will continue to ensure it remains accessible.</i>   |
| 23-003.03          | <i>The Texas Homeownership Division agrees and is currently working on updating the modules.</i>  |
| 23-003.04          | <i>The Texas Homeownership Division agrees and will add additional HUD resources to the Education page on the Texas Homebuyer Program website.</i>  |
| 23-003.05          | <i>The Texas Homeownership Division agrees and will create a Standard Operating Procedure that reflects this recommendation.</i>  |
| 23-003.06          | <i>The Texas Homeownership Division will analyze if this is the best option at this time for the Texas Homebuyer Program with current Homebuyer U vendor.</i>                             |
| 23-003.07          | <i>The Texas Homeownership Division agrees and will create a Standard Operating Procedure that reflects this recommendation, dependent upon Homebuyer U vendor at the time of update.</i> |

#### F. Testing and Recommendations Part II

Compliance testing of education certificates provided in mortgage applications was also conducted. The auditor randomly selected twenty mortgages out of 58,474 applications between January 2020 and May 2023, all of which were reviewed to ensure all borrowers and co-borrowers provided certificates for home-buyer education, whether through TSHEP or an outside education provider. 18 of these certificates were from the “Becoming a Homebuyer” course, and two were issued from outside education providers. These outside providers were contacted to double check the certificate’s authenticity. It appears that the program complies with education requirements; however, it should be noted some co-borrowers were granted education exceptions by previous management due to extenuating circumstances, which the auditor accepted given that current management has demonstrated their diligence with ensuring all borrowers provide the necessary certificates. The following recommendation is made to protect from potential non-compliance risk:

| Observation Number | Status Pertaining to the Recommendations and Action to be Taken  | Target Completion Date | Responsible Party            |
|--------------------|--|------------------------|------------------------------|
| 23-003.08          | IA recommends that the issuance of homebuyer education certificates be accompanied with a secondary authentication procedure to ensure that the individual providing the certificate as a required document did in fact complete the required education. For example, a percentage of the certificates, rather than all provided, may be authenticated to alleviate staff burdens, if necessary. | 03/1/2024              | Texas Homeownership Division |
| 23-003.09          | IA recommends that PDF certificates issued by the Homebuyer U program are locked to prevent editing.   | 03/1/2024              | Texas Homeownership Division |

**Management Response:**

Please see the table below for management's response:

| Observation Number | Management Response   |
|--------------------|---|
| 23-003.08          | <i>The Texas Homeownership Division will analyze and discuss this recommendation with current Homebuyer U vendor and plan for future budget in the instance there are software limitations.</i> |
| 23-003.09          | <i>The Texas Homeownership Division agrees and will work with current Homebuyer U vendor to achieve this goal.</i>  |

OIA extends our appreciation to the Texas Home Ownership program management and staff for their cooperation and assistance during the course of this audit. The auditor would like to note that the staff was diligent in providing paperwork when requested. The auditor would also like to commend staff for maintaining the program through the pandemic and recent management changes.

Sincerely,



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

MS/MM/NS