TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
A Follow up Internal Audit of the Texas Bootstrap Loan Program,
Audit Report # 23-001

Executive Summary

The Office of Internal Audit (OIA) performed an audit of the Texas Bootstrap Loan Program, its processes and procedures, as well internal controls and rules and regulations under which it operates. Based on our review and testing, the Texas Bootstrap Loan program appears to be operating effectively in assisting very low income Texans to purchase or refinance real property on which to build or repair housing by contributing at least 65% of the labor themselves. We've identified areas for improvement as described in the detailed report.

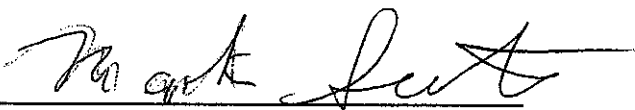### Observations and Recommendations

- IA recommends that a periodic review of the Participants be done, whether as a Compliance visit or a Desk review, to ensure Participants' compliance with all applicable rules and regulations of the program.
- IA recommends that the program review their current forms and documents for consistency and accuracy, and improve their documentation and record keeping process.
- IA recommends that the program establish a procedure to monitor employee access to the program folders that contain applicants' personal information on an ongoing bases, and remove any unnecessary accesses, or to establish password protected documents to limit the access to only those with relevant job function.
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Management Response

Management agreed to two of our recommendations. 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 §24.1 - §24. 12 and 10 TAC §25), TX Government Code §2306 (Subchapter FF), Program's manual and internal controls, and Department's internal policy and procedures. We also conducted testing and analysis of the documents and records.

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

3/6/22
Date Signed

Greg Abbott
GOVERNOR

March 6, 2023

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

RE: Internal Audit of the Texas Bootstrap Loan Program

Dear Board Members:

This report presents the results of the Office of Internal Audit ("OIA") "*Audit of the Texas Bootstrap Loan Program.*" This audit was conducted in accordance with applicable audit standards. It included the objectives to assess and evaluate the internal controls related to the program, as well as accuracy and compliance of loan applications with applicable rules and regulations. The Bootstrap Loan Program was identified during the fiscal year 2023 risk assessment, and rated high on the risk assessment matrix due to lack of recent audits of the program, and its importance in helping very low income individuals during the current economic environment.

For this audit we reviewed the Texas Administrative Code (TAC) Chapter 24 and Chapter 20[1], Government Code 2306 Subchapter FF, and other applicable rules and regulations. We also

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[1] 10 TAC Chapter 24, and 10 TAC Chapter 20

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reviewed and evaluated the Program's internal policies and procedures, including its program manual, as well as internal controls related to program related documentation.

This report includes the following sections:

A. Overall Result
B. Background
C. Scope and Methodology
D. Roles and Responsibilities
E. Testing and Recommendation

A. Overall Results

Based on our review and testing, the Texas Bootstrap Loan program appears to be operating effectively in assisting very low income Texans to purchase or refinance real property on which to build or repair housing by contributing at least 65% of the labor themselves. We've identified areas for improvement as described in the detailed report.

B. Background

The Department administers the Owner-Builder Loan Program, also known as Texas Bootstrap Loan Program. The Bootstrap Program is a self-help housing construction program that assists very low-income households to purchase or refinance real property on which to build or repair housing by contributing the labor themselves. All Owner-Builders are required to provide at least 65% of the labor necessary to build or rehabilitate their housing by working with a state-certified nonprofit Owner-Builder Housing Provider (NOHP) or a Colonia Self-Help Center. The Owner-Builder may contribute the labor personally, or they may receive labor assistance from others.

The Department is required under Texas Government Code Section 2306.753(d), to set aside at least two-thirds of Bootstrap funds for Owner-Builders whose property is in a census tract that has a median household income less than 75% of the median state household income for the most recent year. The program was created by the Texas legislature as a way to help low-income families become homeowners and improve their economic and housing situations. The program has been in operation for more than 20 years and continues to help families achieve homeownership by providing loans to eligible families in Texas.

C. Scope and Methodology

Our scope included a review of the Texas Administrative Codes (10 TAC §24.1 - §24. 12 and 10 TAC §25), TX Government Code §2306 (Subchapter FF), Program's manual and internal controls, and Department's internal policy and procedures. We also conducted testing and analysis of the documents and records.

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For this audit we did not review the program specific SOPs* due to the fact that the program was in the process of revising and replacing all current SOPs. IA plans to review the new SOPs during the follow up audit of the program, and make any recommendations as needed.

- *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*

D. Roles and Responsibilities

Participant (I and II): Participants, also known as Administrators, are non-profit organizations that provide affordable housing options for low-income families through self-help requirements. The administrators have the capacity to administer and manage Texas Bootstrap Loan Program activities, including providing homebuyer education to help families become more financially stable and self-sufficient. The Administrators submit applications on behalf of the owner-builder applicants, verify that they meet all the requirements, and provide the applicants with technical assistance and support throughout the application process until closing and funding of the loan. Administrators are also expected to work with the applicants in delinquency situations, and to bring the loan to current status.

Program staff: Applications for the Texas Bootstrap Loan Program are received and reviewed by the Program staff, and any discrepancies or deficiencies in documentation are resolved prior to moving to reservation status. Program staff work with the Administrator and the applicant in securing other possible sources of funding for the remainder of the cost of the purchase or the construction.

Other Division staff: Multiple other divisions, such as Program Services, Loan Servicing, and Financial Administration are also involved in the Texas Bootstrap Loan Program's funding and servicing of the loan. It appears that the Compliance Division was also involved in performing compliance monitoring of the participants in the past. But in 2018 the decision was made by management to not continue with monitoring visits.

Observation Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
23-001.01	IA recommends that a periodic review of the Participants to be done, whether as a Compliance visit or a Desk review, to ensure Participants" compliance with all applicable rules and regulations of the program.	State Fiscal Year 2024	Subrecipient Monitoring section of the Compliance Division

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Management Response
Management has reviewed the recommendation, and agrees that periodic monitoring of the Texas Bootstrap Loan (Bootstrap) Program administration would be a benefit to the program. Management will work with the Subrecipient Monitoring section of the Compliance Division to implement a monitoring process, which is likely to include desk review of Bootstrap Program activities. We anticipate that this monitoring plan will be in place shortly after activities are completed under the updated system and standard operating procedures are implemented. This transition is expected to be completed by April, 2023, but activities may not be completed until a year from that date, with monitoring anticipated to begin in State Fiscal Year 2024.

E. Testing and Recommendation

As part of our review for this audit we randomly selected six applicants' files, from a total of 12 loan applications that were closed and funded in 2022, to review for accuracy and completeness. We reviewed two applicants' records against the New Reservation checklist, two applicants' records against the Closing checklist, and two applicants' records against the Funding checklist. We also reviewed two randomly selected Participants' agreements and related documents. We found that the files were generally accurate and complete. However, we identified some areas for improvement in filing, documentation, and record keeping.

IA reviewed and tested the employee access to the program folders that contain applicants' personal information and found that a number of employees with no related job function to the Texas Bootstrap Program have view / modify access to these folders.

Observation Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
23-001.02	IA recommends that the program review their current forms and documents for consistency and accuracy, and to improve their documentation and record keeping process.	April 1, 2023	SFHP Director
23-001-03	IA recommends that the program establish a procedure to monitor employee access to the program folders that contain applicants' personal information on an ongoing bases, and to remove any unnecessary accesses. Or to establish password protected documents to limit the access to only those with relevant job function.	N/A	N/A

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Management Response

-While program forms and documents reviewed in the sample for this review were ultimately determined to be complete and correct, one of the forms utilized by the Program, the Information Authorization Form, was mistitled "Privacy Notice." This form has been updated and posted as part of the New Reservation Packet for Bootstrap Program loans. Additionally, the Program area's transition to the Housing Contract System from the current system will allow for records to be retained in the Housing Contract System as they are for other programs administered in the Division. This transition is anticipated to be complete on April 1, 2023.

-While management is sensitive to the issues related to protecting personal information, we do not agree that the Program area holds the responsibility to monitor all TDHCA employee access to the program folders that contain applicants' personal information. This access is already subject to the requirements of TDHCA SOP 1264.01, which details the delegation of responsibility for network access. The alternative recommendation, which is to establish password protection for each file, would create untenable administrative burden and may potentially result in the inability to open and review files as needed since many persons need access to the file and there is not a centralized password manager that could be accessed by many persons.

OIA extends our appreciation to Single Family and Homeless Program management and the staff involved in the Texas Bootstrap Loan Program 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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