

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
An Internal Audit of the Compliance Monitoring section of Compliance division at TDHCA,
Audit Report # 24-004

Executive Summary

The Office of Internal Audit (OIA) performed an audit of the Compliance Monitoring section of Compliance division at TDHCA, its processes and procedures, as well as internal controls and applicable rules and regulations under which it operates. Based on our review, evaluation, and observations the Compliance Monitoring section appears to be operating effectively in monitoring properties that are funded through one or more of the programs administered by TDHCA. Our audit indicated that opportunity for improvement exists within Compliance Monitoring Section to strengthen and improve its internal policies and procedures, and to achieve higher standard of consistency as it relates to issuing timely monitoring reports. The areas recommended for improvement are described in detailed in the report.

Observations and Recommendations

- OIA recommends that the Compliance Monitoring section revise and update all the current SOPs to reflect current rules and requirements, as well as division's current practices, to provide clear and concise guidelines.
- OIA recommends that Compliance monitoring management establish a procedure to ensure monitors' compliance with established guidelines and deadlines in performing multifamily compliance monitoring reviews.

Management Response

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

Objective, Scope and Methodology

The audit scope included the monitoring desk reviews and onsite reviews performed by the Compliance Division's Compliance Monitoring section between September 2023 and June 2024. The scope of this audit did not include subrecipient monitoring. The audit methodology included gaining an understanding of the Compliance Monitoring section, and its activities and processes by interviewing division staff and by reviewing related TDHCA documents, applicable Texas Administrative Codes and Federal requirements. OIA identified relevant criteria for evaluating the monitoring processes. OIA tested a random sample of desk and on-sight reviews.



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

____ 11/25/24 ____
Date Signed



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

www.tdhca.texas.gov

Greg Abbott
GOVERNOR

BOARD MEMBERS
Leo Vasquez, *Chair*
Kenny Marchant, *Vice Chair*
Cindy Conroy, *Member*
Anna Maria Fariás, *Member*
Holland Harper, *Member*
Ajay Thomas, *Member*

November 25, 2024

Writer's direct phone # 512.475.3813
Email: mark.scott@tdhca.texas.gov

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

RE: Internal Audit of the Compliance Monitoring section of Compliance division at TDHCA

Dear Board Members:

This report presents the results of the Office of Internal Audit ("OIA") "*Audit of the Compliance Monitoring section of Compliance division at TDHCA.*" This audit was conducted in accordance with applicable audit standards and included the objectives to review, assess and evaluate Compliance Monitoring section's activities related to monitoring of Multifamily programs, and their compliance with applicable rules and standards.

The Compliance Monitoring section was identified during the fiscal year 2024 risk assessment and rated high on the risk assessment matrix due to its importance in ensuring adherence to the rules and regulation by participating individuals and organizations. The Compliance Monitoring section was last audited by the internal audit division in fiscal year 2016.

This report includes the following sections:

- A. Overall Result
- B. Background
- C. Public Facility Corporation (PFC)
- D. Scope and Methodology
- E. Testing and Recommendations

A. Overall Results

Based on our review, evaluation, and observations the Compliance Monitoring section appears to be operating effectively in monitoring properties that are funded through one or more of the programs administered by TDHCA. Our audit indicated that opportunity for improvement exists within Compliance Monitoring Section to strengthen and improve its internal policies and procedures, and to achieve higher standard of consistency as it relates to issuing timely monitoring reports. The areas recommended for improvement are described in detailed in later sections of the report.

B. Background

The objectives of the Compliance Monitoring section in performing regular monitoring of affordable rental housing are to provide for monitoring that meets applicable requirements of U.S. Department of Housing and Urban Development (HUD), the U.S. Department of treasury (Treasury), the Internal Revenue Services (IRS), and applicable state laws and rules. The monitoring activities enable the Department to communicate with responsible persons, report information to the Federal Department (as applicable) and the TDHCA Governing Board regarding the condition and operations of developments, articulate and communicate clear standards to promote the maintenance and operation of development. The section identifies matters of noncompliance, ensures that the responsible persons understand the compliance status of their developments and the implications of such status, and to provide a transparent system of accountability, consistency, and an awareness of the high-quality standards of affordable housing in the State of Texas.

The affordable rental housing programs monitored by the Compliance Division are the Housing Tax Credit Program (HTC), the HOME investment Partnership Program (HOME), the Tax-Exempt Bond Program (BOND), the Housing Trust Fund Program (HTF), the Tax Credit Assistance Program (TCAP), the Tax Credit Exchange Program (Exchange), the Neighborhood Stabilization Program (NSP), and Section 811 program.

TDHCA requires reports to be submitted electronically through the Department's web-based Compliance Monitoring and Tracking System (CMTS). Each development is required to submit an Annual Owner Compliance Report (AOCR) no later than April 30 of each year. The AOCR report consists of four parts, which are:

1. Owner's Certification of Program Compliance.
2. Unit Status Report (USE).
3. Housing for Persons with Disabilities; owners of state or federally assisted housing Developments with twenty (20) or more housing units are required to report information regarding housing units designed for persons with disabilities.
4. Internal Revenue Service (IRS) Form 8703 must be filed by tax exempt bond properties and submit a copy of the filed form to the Department.

A written notice is required to be provided to the Owner of a Development if the Compliance Monitoring division does not receive the AOCR and will specify a thirty (30) day corrective action period. Also, for other noncompliance, other than a violation that imposes an imminent hazard or threat to health and safety, the notice will specify a ninety (90) day corrective action period.

C. Public Facility Corporation (PFC)

The House Bill (HB) 2071 was passed during 88th legislative session in FY23-24. With this bill TDHCA and Compliance Monitoring division's responsibility will be to receive and review annual audit reports that should be prepared by an independent third party procured by the property owners and representative. The audit reports are expected to be sent to TDHCA starting July 1st, 2024. After reviewing the report, the CM division will post a summary of the report on TDHCA's website. The division will notify the PF User of any instances of non-compliance identified in the report and provide possible action plans for addressing them. The division may also recommend a loss of tax-exempt status to the TX Comptroller office.

At the time of this review the division was still in the process of setting up plans and procedures to handle this requirement. No audits have been submitted to the Department yet, therefore no testing or further review were conducted during this audit.

D. Scope and Methodology

The audit scope included the monitoring desk reviews and onsite reviews performed by the Compliance Division's Compliance Monitoring section between September 2023 and June 2024. The scope of this audit did not include subrecipient monitoring. The audit methodology included gaining an understanding of the Compliance Monitoring section, and its activities and processes by interviewing division staff and by reviewing related TDHCA documents, applicable Texas Administrative Codes and Federal requirements. OIA identified relevant criteria for evaluating the monitoring processes. OIA tested a random sample of desk and on-sight reviews.

For this audit we also reviewed all the current SOPs related to the activities under Compliance Monitoring section. We noted that some of the SOPs were very old, and some SOPs did not align with some of the current practices of the division. The Compliance division management

indicated that they're in the process of revising and updating all the current SOPs. OIA plans to review the revised SOPs during the follow up audit of the Compliance Monitoring division.

SOP is intended to be 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, reduce errors, and add value.

Observation Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
24-004.01	OIA recommends that the Compliance Monitoring section revise and update all the current SOPs to reflect the current rules and requirements, as well as division's current practices, to provide clear and concise guidelines.	April 30, 2025	Director of Compliance division

Management Response

The Compliance Division in 2019 and 2020 had updated all Standard Operating Procedures (SOPs) for the Compliance Monitoring Section (CMS). Management agrees that some processes have changed in the monitoring activity due to updates in the rules and monitoring requirements along with new additions of multifamily programs, that the current SOPs should be updated. Given the complexities of the programs, rules, regulations and current monitoring workload for the CMS, the SOPs will be updated by April 30, 2025.

E. Testing and Recommendations

For this audit we randomly selected 20 compliance monitoring that were performed between September 2023 and June 2024 to review for accuracy, consistency, and completeness of files. We reviewed each monitoring's records of the last monitoring review performed, date of the recent monitoring notice that was submitted to the property owners / representatives, date that the monitoring report was issued, content of the monitoring report and whether a follow up was required, corrective action plan submitted by the property (if applicable), and any other records related to compliance monitoring activities.

We found that the files were generally accurate and complete. However, we identified two monitoring reports that were issued beyond the 35 days after the monitoring that is the requirement. One report was issued 43 days after the monitoring date, and the second report was issued 134 days after. Management indicated that both of these two cases were by the same monitor, and it has already been addressed with the staff.

Observation Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
24-003.02	OIA recommends that Compliance monitoring management establish a procedure to ensure monitors' compliance with established guidelines and deadlines in performing multifamily compliance monitoring reviews	Completed	

Management Response

Management strives to ensure all monitoring activities are completed within required timeframes established by federal, state and internal policies. The Manager of Compliance Monitoring will continue to generate monthly reports of staff's work to ensure deadlines are met. The Manager will address in writing any untimely work completion and provide the Director of Multifamily Compliance a monthly update.

We conducted this performance audit in accordance with applicable auditing standards. We provided our findings and recommendation based on evidence obtained through our reviews and based on our audit objectives.

We extend our appreciation to Compliance Monitoring staff and management for their cooperation and assistance during the course of this audit.

Sincerely,



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

MS/NS