TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
Internal Audit of the Rent Approval function of Asset Management Division

Audit Report # 25-003

Executive Summary

The Office of Internal Audit (OIA) performed an audit of the Rent Approval function of Asset Management Division, to assess and evaluate the internal controls over activities related to this function, as well as to evaluate accuracy and compliance of the approval process with applicable rules and regulations.
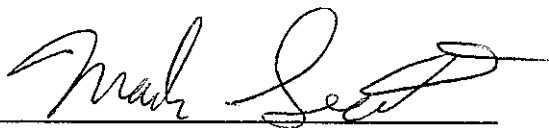
Based on our review and testing, the Rent Approval function seems to be operating effectively in reviewing and approving annual Rent Applications and requests. We identified some areas for improvement and made recommendations to staff. Details of our recommendations, and management responses, are included in the report.

Observations and Recommendations

- OIA recommends that management ensure that an accurate and up-to-date SOP is always available for the function.
- OIA recommends that the Asset Management division establish a secondary review process for a sample of applications that have been reviewed and approved by staff on a quarterly basis, to identify any possible errors or opportunities for training for staff.
- OIA recommends that Asset Management division establish a process in which the Compliance Monitoring section is notified of properties and developments that are out of compliance with Rent Approval requirements on a quarterly or annual basis. This information can be helpful to Compliance division during their annual risk assessment process.
- OIA recommends that management review staff work on a regular basis to ensure consistency and compliance in their response time to developments' applications.
- OIA recommends that Asset Management division regularly review and revise, as necessary, all the information and documents available on its webpage, related to the Rent Approval process, in order to ensure compliance and avoid potential misunderstandings among the developments.

Objective, Scope, and Methodology

Our scope included a review of the Texas Administrative Code (Section 10.403 of the Rules in 10 TAC Chapter 10), applicable CFRs (24 CFR 219, 252, and 302), Post Award Activity manual, and SOP related to Rent Approval activities. We also conducted interviews with several division staff and performed testing and analysis of the processes involved in receiving, reviewing, and approving developments' annual rent requests.

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

5/16/25
Date Signed

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

www.tdhca.state.tx.us

Greg Abbott
GOVERNOR

May 16, 2025

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 Rent Approval function of the Asset Management Division

Dear Board Members:

This report presents the results of the Office of Internal Audit ("OIA") "*Audit of the Rent Approval function of the Asset Management Division at TDHCA*". This audit was conducted in accordance with applicable audit standards. It included the objectives of assessing and evaluating the internal controls of the activities related to this function, as well as accuracy and compliance of the approval process with applicable rules and regulations. The Rent Approval function was identified during the fiscal year 2025 risk assessment and rated high on the risk assessment matrix due to lack of recent audits and its overall importance to the Department's mission.

For this audit, we reviewed applicable Texas Administrative Code, applicable CFRs, function specific SOP, internal documents such as the Post Award Activity manual, and other applicable rules and regulations. We conducted interviews with several division staff and performed testing and analysis of the processes involved in receiving, reviewing, and approving annual rent requests.

Texas Department of Housing and Community Affairs
Internal Audit of the Rent Approval function at TDHCA
Report # 25-003

1

This report includes the following sections:

A. Overall Result
B. Background Information
C. Scope and Methodology
D. Roles and responsibilities
E. Testing and Recommendations

A. Overall Results

Based on our review and testing, the Rent Approval function seems to be operating effectively in reviewing and approving annual rent approval applications and requests. We identified some areas for improvement and made recommendations to the staff. Details of our recommendations and management responses are included in later sections of this report.

B. Background Information

In accordance with the 2013 HOME Final Rule, 24 CFR §92.252(f), TDHCA is required to review and approve or disapprove the proposed rents for TDHCA HOME, Neighborhood Stabilization Program (NSP), TCAP-RF and National Housing Trust Fund (NHTF) Multifamily property rents on an annual basis to ensure compliance with the HOME Rent Limits. The Department is also required by 24 CFR §92.219 and §92.252(d)(2) to approve rents for HOME Match units. In accordance with the CFR, only Direct Loan programs where Commitment of Funds occurred on or after August 23, 2013, and construction is complete are required to submit annual rent approvals.

The Asset Management Division at TDHCA is responsible for monitoring and processing all post-award activities for developments involving Housing Tax Credits, HOME funds, National and State Housing Trust Funds, and Neighborhood Stabilization Program (NSP) funds. If the Development is required to submit annual rent reviews, the request must be submitted to Asset Management division no later than August 1st of each year. Rents will be evaluated and approved based on submission of the Annual Rent Approval Request packet within 30 days of their submission if the application and all required exhibits have been received. A copy of the approval letter will be uploaded to the Development's CMTS profile by the assigned asset manager.

C. Scope and Methodology

Our scope included a review of the Texas Administrative Code (Section 10.403 of the Rules in 10 TAC Chapter 10), applicable CFRs[1] (24 CFR 219, 252, and 302), Post Award Activity manual, and

---

[1] Code of Federal Regulations

Texas Department of Housing and Community Affairs
Internal Audit of the Rent Approval function at TDHCA
Report # 25-003

2

SOP related to Rent Approval activities. We also conducted interviews with several division staff and performed testing and analysis of the processes involved in receiving, reviewing, and approving developments' annual rent requests. The result of our reviews and testing is provided in the Testing section of the report.

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.

At the start of this audit the division did not have a SOP specific to the activities under Rent Approval function. However, the division was able to prepare and provide an executed SOP during the audit.

Observation Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
25-003.01	OIA recommends that management ensure that an accurate and up-to-date SOP is always available for the function.	Ongoing	Rosalio Banuelos / Lee Ann Chance

Management Response

The SOP will be reviewed periodically and updated as necessary to keep it accurate and up to date.

D. Roles and Responsibilities
Development Owners

The 2013 HOME Final Rule (§92.252(f)(2)) requires developer of HOME assisted rental project to seek approval of TDHCA on their opposed rents on annual basis to ensure compliance with the HOME Rent Limits. This process is also required for multifamily properties funded by the Neighborhood Stabilization Program (NSP), the National Housing Trust Fund program (NHTF), and TCAP-RF. Rent requests must be entered for any HOME, NSP, NHTF Development, or TCAP-RF Development where Commitment of Funds occurred on or after August 23, 2013. Rent requests are due for these Developments by no later than August 1st of each year.

Texas Department of Housing and Community Affairs
Internal Audit of the Rent Approval function at TDHCA
Report # 25-003

3

Development Owners must use the Rent Approval Tool Excel file located on the Asset Management webpage, on TDHCA website, to submit their Annual Rent Approval request packet. The annual rent approval packet consists of the completed Excel file and the attachments specified in the Post Award Activities manual. The completed Rent Approval Tool Excel file and required attachments must be submitted to the Department electronically and by the established deadline.

Asset Management division

The Asset Management Division is responsible for monitoring and processing all post-award activities for developments involving Housing Tax Credits, HOME funds, National and State Housing Trust Funds, and Neighborhood Stabilization Program (NSP) funds. The annual rent approval process is an administrative function handled by the asset managers. Currently, the Asset Management Division has 12 employees, consisting of one director, a manager, nine asset managers, and an administrative assistant. The asset managers are further classified by level of seniority. There are two Senior Asset Managers, three Asset Managers, and four Associate Asset Managers. One of the Associate Asset managers positions is currently vacant. Each asset manager is assigned to one or more than one state regions and is responsible for approving rents for the properties in their assigned regions.

After a HOME Rent Review request is submitted by the development, and the required documents are uploaded to Asset Management's webpage, the assigned Asset Manager will review the information and submit an approval or disapproval notification to the contact person identified in the Rent Approval packet within 30 days of receiving all required items. Development owners and representatives are required to maintain copies of all approval letters at the development site to be available for review at the time of Compliance Monitoring reviews. Compliance monitors will conduct an in-depth review of rent and utility allowance practices for each development at the time of compliance monitoring reviews.

Observation Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
25-003.02	OIA recommends that the Asset Management division establish a secondary review process for a sample of applications that have been reviewed and approved by the staff on a quarterly basis to identify any possible errors or opportunities for training for staff.		

Management Response

Adding a secondary review for this function may not be feasible or efficient, especially considering that no errors were identified by this audit based on the sample tested. While a

Texas Department of Housing and Community Affairs
Internal Audit of the Rent Approval function at TDHCA
Report # 25-003

4

second review would provide additional assurance, staff's time must be used efficiently given the large workload of the division.

Compliance Division

The Compliance Monitoring section of the Compliance division is tasked with routine monitoring of the properties under TDHCA's preview to ensure their compliance with appliable rules and regulation. The monitoring efforts are guided by the following objectives: Performance, Expenditure of HTF monies, Compliance, Prevention of Fraud and Abuse, and Quality Workmanship.

The Compliance Division is indirectly involved in the HOME, NSP, NHTF Rent Approval process, as they monitor all the properties in the TDHCA's portfolio on regular basis. They issue their report after each monitoring visit that includes findings of noncompliance, if any, for properties that have not obtained the Department's annual approval for rents. If the development does not comply with the rules in addressing any and all compliance findings, including rent approval, the Compliance monitors will make a referral to the Enforcement Committee for further action. Enforcement Committee has the authority to recommend debarment of a developer after exhausting all available options and determining that the development is out of compliance.

Observation Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
25-003.03	OIA recommends that Asset Management division establish a process in which Compliance Monitoring section is notified of the properties and developments that are out of compliance with Rent Approval requirements on quarterly or annual basis. This information can be helpful to Compliance division during their annual risk assessment process.	12/1/2025	Rosalio Banuelos / Lee Ann Chance

Management Response

Asset Management staff will review the list of properties that need a rent review and notify the Compliance Division annually of developments that are out of compliance with Rent Approval requirements.

E. Testing and Recommendations

For this audit we randomly selected 30 properties that are subject to Rent Approval requirements to review and test for accuracy, completeness, and their compliance with applicable rules and regulations. The review included verification of response time to the development by the staff

Texas Department of Housing and Community Affairs
Internal Audit of the Rent Approval function at TDHCA
Report # 25-003

5

after receipt of Rent Approval packet, Rent limit established for each funding source, Utility allowance, and other necessary documentation included in the packet.

Based on our reviews and testing, we found that in eight cases the staff response time / approval notice to the developments was greater than 30 days, which is the timeline established in the guidelines. In the same sample we identified two developments that were missing Rent Approval packets and approval letters for 2022, four developments for 2023, and two developments for 2024.

In reviewing the rent approval packets and the manual we also identified documents that needed to be revised to reflect the current rules.

Observation Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
25-003-04	OIA recommends that management review staff work on a regular basis to ensure consistency and compliance in their response time to developments' applications.	Ongoing	Rosalio Banuelos / Lee Ann Chance
25-003.05	OIA recommends that Asset Management division regularly review and revise all the information and documents available on its webpage, related to the Rent Approval process, to ensure compliance and avoid potential misunderstandings by the developments.	Ongoing	Rosalio Banuelos / Lee Ann Chance

Management Response

Asset Management division staff will monitor response times to try to remain compliant with the requirements in the rules, and if necessary, the rules will be amended to provide staff additional processing time. Also, the information on the webpage will be reviewed annually to determine if any revisions are needed.

Texas Department of Housing and Community Affairs
Internal Audit of the Rent Approval function at TDHCA
Report # 25-003

6

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

We extend our appreciation to Asset Management division and its staff for their cooperation and assistance during this audit.

Sincerely,

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

MS/NS

Texas Department of Housing and Community Affairs
Internal Audit of the Rent Approval function at TDHCA
Report # 25-003

7