



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

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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 # 26-006

Dear Board Members,

The TDHCA Fiscal Year 2026 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, 2024. 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 2025:

No Carry-over findings

B. Internal Audits reports issued between January and December of 2025:

1. Internal Audit of the Amy Young Barrier Removal program, Report # 25-001
2. Internal Audit of the Davis Bacon Labor Standards Act, Report # 25-002
3. Internal Audit of HOME-NSP-NHTF Rent Approval function at Asset Management division, Report # 25-003
4. Internal Audit of the Travel activities at TDHCA, Report # 25-004
5. Internal Audit of the Single-Family Mortgage Revenue Bond program, Report # 25-005
6. Internal Audit of the Real Estate Analysis division, Report # 25-006

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

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 # 25-555

The SAO conducts the Financial Statement part of the Statewide audit. The Financial Statement portion of the FY 2026 SAO statewide audit had no findings related to TDHCA.

Federal compliance portion of Statewide audit, report # 26-318

The federal compliance portion of the statewide audit for Texas, SAO Report #26-318, cited findings for TDHCA related to the Low-Income Home Energy Assistance Program (LIHEAP) related to cash management and reporting of obligated funds.

- For Fiscal Year 2025, Finding 2025-017 identified a deficiency in the Low-Income Home Energy Assistance Program (LIHEAP) related to cash management. Specifically, the finding concerned insufficient documentation supporting the clearance pattern used to calculate interest due to the federal government. This finding has been corrected.
- For Fiscal Year 2025, Finding 2025-018 identified a deficiency in the Low-Income Home Energy Assistance Program (LIHEAP) related to the reporting of obligated funds. This finding has been corrected.

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
Scott Fletcher, Deputy Executive Director-Housing Finance
David Cervantes, Director of Administration
Jeanna Adams, Director of Real Estate Analysis division
Joe Guevara, Director of Financial Administration
Wendy Quackenbush, Director of Multifamily Compliance
Earnest Hunt, Director of Subrecipient Monitoring section
Rosario Banuelos, Director of Multifamily Asset Management
Cody Campbell, Director of Multifamily program
Abigail Versyp, Director of Single-family Homeless programs
Lisa Johnson, Director of Texas Home Ownership program

Appendix A

Status of Internal Audit Findings and Recommendations As of September 2025

1) Audit Report # 25-001

Internal Audit of Amy Young Barrier Removal program

No findings.

2) Audit Report # 25-002

Internal Audit of the Davis Bacon Labor Standards Act.

OIA Finding and Recommendation:

- I. OIA recommends that the MFDL staff document and retain proof of "Contractor eligibility verification" from SAM.gov for each contractor subject to Davis Bacon Labor Standards.
- II. OIA recommends that the Compliance Monitoring section obtain and retain the sample documents that they review and test during each monitoring review for future Audit reviews.

Management's response and reported status:

- I. Management agrees with this recommendation.
- II. Compliance Subrecipient Monitoring (CMSM) accepts the observation. CMSM staff were provided quarterly assignments for the last quarter of fiscal year 2025 on June 4, 2025. Four multifamily contracts were assigned with Davis Bacon for review. For these assignments and going forward, CMSM will retain all review documentation for future audit reviews.

Findings closed

3) Audit Report # 25-003

Internal Audit of the HOME-NSP-NHTF Rent Approval function at Asset Management division.

OIA Findings and Recommendations:

- I. OIA recommends that management ensure that an accurate and up-to-date SOP is always available for the function.

- II. 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.
- III. 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.
- IV. OIA recommends that management review staff work on a regular basis to ensure consistency and compliance in their response time to developments' applications.
- V. 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

Management's response and reported status:

- I. The SOP will be reviewed periodically and updated as necessary to keep it accurate and up to date.
- II. 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 second review would provide additional assurance, staff's time must be used efficiently given the large workload of the division.
- III. 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.
- IV. 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 with additional processing time.
- V. Asset Management division staff will review the information on the webpage annually to determine if any revisions are needed.

Findings closed

4) Audit Report # 25-004

Internal Audit of the Travel activities at TDHCA.

OIA Findings and Recommendations:

- I. OIA recommends that management review and revise all available materials related to travel expenses on regular and on-going basis and offer more in-depth trainings to staff.

Management's response and reported status:

- I. Management acknowledges the observation regarding the need for more in-depth training for staff on travel expense documentation and the importance of maintaining updated materials on the intranet. Management will expedite the development of updated training materials and ensure that all relevant links and resources are current and accessible to staff. Additionally, management will reinforce the importance of submitting complete and accurate travel documentation to reduce the frequency of corrections and streamline the review process.

Findings closed.

5) Audit Report # 25-005

Internal Audit of the Single-Family Mortgage Revenue Bond program

OIA Findings and Recommendations:

- I. Management should ensure that all contracts and agreements are valid and renewed on time as needed.
- II. OIA recommends that management includes a cybersecurity clause in the contracts with the program vendors to ensure vendor's compliance with TDHCA's standard in cybersecurity

Management's response and reported status:

- I. Management agrees with this observation. Bond Finance has identified a methodology which will enable Purchasing/Procurement to track all contracts that do not require a Purchase Requisition (PR). Bond Finance will review all current agreements, coordinate with Purchasing/Procurement, and submit PRs on all outstanding agreements by September 30, 2025.
- II. Management agrees with Observation Number 25-005.02 and will include language to ensure vendor's compliance with TDHCA standards on cybersecurity in all new contracts.

Findings closed.

6) Audit Report # 25-006

Internal Audit of the Real Estate Analysis division

OIA Findings and Recommendations:

- I. OIA recommends that management establish a uniform and consistent review and documentation process for Team managers to avoid risk of overlooking errors in underwriting reports.
- II. OIA recommends that management consider either amending QAP to remove the requirements, or to update their process to include them in the decision process.

Management's response and reported status:

- I. Since we now have three managers doing reviews, standardizing the review process is a good idea. We will develop a comprehensive manager review checklist.
- II. The reviews required in this section of the QAP are performed by other divisions in the Department, including Compliance and Asset Management. REA will have to discuss QAP change with those divisions and TDHCA executive team. These changes will have to be memorialized in the 2027 QAP.

Findings closed.