

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
AUDIT AND FINANCE COMMITTEE MEETING**

**AGENDA
08:00 AM
December 9, 2021**

**John H. Reagan Building, JHR 140
1400 Congress Avenue
Austin, Texas 78701**

CALL TO ORDER

ROLL CALL

Ajay Thomas, Chair

CERTIFICATION OF QUORUM

The Audit and Finance Committee of the Governing Board of the Texas Department of Housing and Community Affairs (TDHCA) will meet to consider and may act on any of the following:

ACTION ITEMS:

ITEM 1: Presentation, discussion, and possible action to approve the Audit and Finance Committee Minutes Summary for June 17, 2021

Mark Scott
Director of Internal
Audit

ITEM 2: Presentation, discussion, and possible action to approve Fiscal Year 2022 Internal Audit Annual Work plan

REPORT ITEMS:

ITEM 1: Presentation and discussion of Internal Audit of the Multi Family Direct Loans

Mark Scott
Director of Internal
Audit

ITEM 2: Presentation and discussion of Internal Audit of the Ending Homelessness Fund and Homeless Housing and Services Programs

ITEM 3: Presentation and discussion of Internal audit of the Housing Resource Center Division

ITEM 4: Presentation and discussion of Internal audit review of the implementation status of prior audit findings and recommendation

ITEM 5: Presentation and discussion of Internal audit report on the Self-assessment

ITEM 6: Presentation and discussion of Internal Audit Annual Report

ITEM 7: Report on the status of the Internal and External Audit activities

**PUBLIC COMMENT ON MATTERS OTHER THAN ITEMS FOR WHICH THERE WERE POSTED
AGENDA ITEMS**

EXECUTIVE SESSION

The Committee may go into Executive Session (close its meeting to the public) on any agenda item if appropriate and authorized by the Open Meetings Act, Tex. Gov't Code, Chapter 551 and

under Tex. Gov't Code, §2306.039.

Pursuant to Tex. Gov't Code, §551.074 the Audit Committee may go into Executive Session for the purposes of discussing personnel matters including to deliberate the appointment, employment, evaluation, reassignment, duties, discipline, or dismissal of a public officer or employee.

Pursuant to Tex. Gov't Code, §551.071(1) the Committee may go into executive session to seek the advice of its attorney about pending or contemplated litigation or a settlement offer.

Pursuant to Tex. Gov't Code, §551.071(2) the Committee may go into executive session for the purpose of seeking the advice of its attorney about a matter in which the duty of the attorney to the governmental body under the Texas Disciplinary Rules of Professional Conduct of the State Bar of Texas clearly conflicts with Tex. Gov't Code, Chapter 551.

Pursuant to Tex. Gov't Code, §2306.039(c) the Committee may go into executive session to receive reports from the Department's internal auditor, fraud prevention coordinator, or ethics advisor regarding issues related to fraud, waste, or abuse.

OPEN SESSION

If there is an Executive Session, the Committee will reconvene in Open Session and may take action on any items taken up in Executive Session. Except as specifically authorized by applicable law, the Audit Committee may not take any actions in Executive Session.

ADJOURN

To access this agenda and details on each agenda item in the board book, please visit our website at www.tdhca.state.tx.us or contact Mark Scott, TDHCA Internal Audit Director, 221 East 11th Street Austin, Texas 78701-2410, 512-475-3813 and request the information.

Individuals who require auxiliary aids, services or sign language interpreters for this meeting should contact Terri Roeber, ADA Responsible Employee, at 512-475-3959 or Relay Texas at 1-800-735-2989, at least five days before the meeting so that appropriate arrangements can be made.

Non-English speaking individuals who require interpreters for this meeting should contact Elena Peinado, 512-475-3814, at least five days before the meeting so that appropriate arrangements can be made.

Personas que hablan español y requieren un intérprete, favor de llamar a Elena Peinado, al siguiente número 512-475-3814 por lo menos cinco días antes de la junta para hacer los preparativos apropiados.

NOTICE AS TO HANDGUN PROHIBITION DURING THE OPEN MEETING OF A GOVERNMENTAL ENTITY IN THIS ROOM ON THIS DATE:

Pursuant to Section 30.06, Penal Code (trespass by license holder with a concealed handgun), a person licensed under Subchapter H, Chapter 411, Government Code (handgun licensing law), may not enter this property with a concealed handgun.

De acuerdo con la sección 30.06 del código penal (ingreso sin autorización de un titular de una licencia con una pistola oculta), una persona con licencia según el subcapítulo h, capítulo 411, código del gobierno (ley sobre licencias para portar pistolas), no puede ingresar a esta

propiedad con una pistola oculta.

Pursuant to Section 30.07, Penal Code (trespass by license holder with an openly carried handgun), a person licensed under Subchapter H, Chapter 411, Government Code (handgun licensing law), may not enter this property with a handgun that is carried openly.

De acuerdo con la sección 30.07 del código penal (ingreso sin autorización de un titular de una licencia con una pistola a la vista), una persona con licencia según el subcapítulo h, capítulo 411, código del gobierno (ley sobre licencias para portar pistolas), no puede ingresar a esta propiedad con una pistola a la vista.

NONE OF THESE RESTRICTIONS EXTEND BEYOND THIS ROOM ON THIS DATE AND DURING THE MEETING OF THE AUDIT COMMITTEE OF THE TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS.

Action Item

1

AUDIT AND FINANCE COMMITTEE ACTION REQUEST

INTERNAL AUDIT DIVISION

December 9, 2021

Presentation, discussion and possible action on Audit and Finance Committee Meeting Minutes Summary for June 17, 2021

RECOMMENDED ACTION

RESOLVED, that the Audit and Finance Committee Meeting Minutes Summary for June 17, 2021 are hereby approved as presented.

**MINUTES OF THE AUDIT AND FINANCE COMMITTEE MEETING
OF THE GOVERNING BOARD OF THE
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS**

On Thursday, June 17, 2021, at 8:00 a.m. the meeting of the Audit and Finance Committee (the "Committee") of the Governing Board (the "Board") of the Texas Department of Housing and Community Affairs ("TDHCA" or the "Department") was held via telephone and web link (GoToWebinar). Committee Chair Sharon Thomason, and Committee members Leo Vasquez and Paul A. Braden, and Ajay Thomas were present and represented a quorum for the committee meeting.

The first action item on the agenda was approval of the minutes of the March 11, 2021 meeting of the Committee. Minutes were adopted as presented, and were approved

The next action item of the agenda was the "*presentation, discussion, and possible action on the FY 2022 Operating Budget*", and was presented by Joe Guevara, Director of Financial Administration. Mr. Guevara explained their process of developing an internal budget for fiscal year 2022, which was in collaboration with division directors and managers. The budget is within the spending limits in Senate Bill 1 of the 87th Texas Legislature Regular Session, which will become the General Appropriations Act for the 2022-2023 biennium. In addition, this budget outlines temporary growth to support programs created in response to the coronavirus pandemic funded through the CARES Act, the Consolidated Appropriation Act, and the recent American Rescue Plan Act. In Summary, the 2022 proposed budget is \$106 million. This represents a \$77.2 million increase. The structure of this budget can be divided into three components: temporary funding, ongoing permanent activities, and the capital budget.

At the conclusion of his presentation Mr. Guevara offered to answer any questions that the Committee members may have. Mr. Braden inquired about the rent associated with the Twin Tower location. Mr. Guevara explained that it was a temporary extension of the lease due to the current circumstances. Eventually the IS staff that are occupying that building will be joining the rest of the TDHCA employees in H.W. Bush building once it is complete.

Mr. Vasquez then inquired about the budget staying flat so far in regards to regular activities. Mr. Guevara responded that our budget remained fairly consistent, and that majority of the increase in the budget was due to temporary programs which will be phased out in the next couple of years. With no other questions, Mrs. Thomason asked for a motion to recommend to the full Board the approval of the fiscal year 2022 operating budget. Mr. Thomas moved to approve the budget and Mr. Braden seconded that motion. The motion was approved.

Next action item was *“Presentation, discussion, and possible action on the fiscal year 2022 Housing Finance Division Budget”*, and was presented by Mr. Guevara. Mr. Guevara started his presentation by explaining that this item is a subset of the internal operating budget, and is in relation to the Housing Finance budget that the agency is required to submit under Texas Government Code and in compliance with the General Appropriations Act. This subset of the budget is specific to the fees that are generated and referred to as Housing Finance Division of the Department.

Mr. Guevara offered to answer any questions related to the Housing Finance Division budget. Mr. Vasquez inquired whether we are staying consistent based on the projects that are underway. Mr. Guevara said yes, the majority of the growth in appropriated receipts or the Housing Finance budget is related to our capital projects for the upgrade of CMTS, and some additional FTEs for some multifamily activity needs, which are pretty consistent. With no other questions from the Committee members, Mrs. Thomason asked for a motion to recommend to the full Board approval of FY 2022 Housing Finance Division budget as presented. The motion was made by Mr. Braden, and seconded by Mr. Vasquez. The motion was passed.

Mrs. Thomason then moved to the three report items. The first report item was the *“Presentation and discussion of Internal Audit of the Tenant Selection Criteria and Affirmative Marketing Plans”*, and was presented by Mr. Mark Scott, Director of Internal Audit. Mr. Scott stated that these functions were recently transferred from TDHCA Compliance Monitoring Division to the Fair Housing Data Management and Reporting (FHDMR) Division. Since the transfer of these functions to the FHDMR division, the TDHCA staff have provided training and technical assistance to property owners and their representatives for meeting the requirements of the Fair Housing Act.

Internal Audit made some recommendations for improvements in recordkeeping and consistency of reviews. Additionally, internal audit plans on performing additional testing during the follow-up audit next year to review areas that were still in transition phase during this audit. Overall, internal audit found that the division is providing clear and adequate support and training to the property owners and their representatives. Mr. Scott then offered to answer any questions that the Committee members may have. With no questions, Mrs. Thomason moved to the next report item; *“Presentation and discussion of Internal Audit of the Management of the Nonperforming loans at TDHCA”*, which was presented by Mr. Scott.

Mr. Scott said that Internal Audit reviewed the Nonperforming loans to determine where delinquencies may exist and how they are managed, how they’re reported, and how TDHCA makes allowance for losses related to loan defaults. Two types of loans were reviewed; Bond-funded and direct loans. Based on this review, OIA found that the function of the Management

of the Nonperforming loans is performing effectively overall, with some suggestions for consistency and efficiency.

Mr. Scott offered to answer questions on this audit. Mr. Vasquez asked about any available statistics on how this portfolio performs relative to other similar states or organizations. Mr. Guevara said that we don't have any consistent comparing, but our process is evaluating our delinquencies with our own portfolio, and every year it is also reviewed by our external auditors to make sure it is reasonable. And at this point the experience in write offs does not exceed our allowance for the following year, so it seems right in line with our estimates. Mr. Wilkinson, the executive director, also stated that he's not aware of how TDHCA is performing compare to other states.

Mrs. Nelson, internal audit project manager, said that what we compared the data against was the delinquencies that are in the loans underlying the single family mortgage bonds, and those delinquencies run at about 76% current and 24% delinquent. So compared to those underlying loans TDHCA is actually outperforming. With no other questions, Mrs. Thomason moved to the third and the final report item on the agenda; "*Report on the status of the Internal and External Audit activities*", which was presented by Mr. Scott.

Mr. Scott said that the big item coming up next year is on the statewide single audit, which is done every year. This year it will be done by CliftonLarsonAllen (CLA), which does the federal compliance component of the statewide audit. CLA will be auditing the Coronavirus Relief fund. The amount of money that TDHCA received for coronavirus relief caused it to be selected for review in the federal audit of the state's 2021 financial statements. They will be testing basic compliance supplement requirements such as eligibility, allowable costs, reporting,... etc, along with any special provisions, and will also conduct general information systems reviews. We had our entrance conference with CLA on May 24th.

That concluded Mr. Scott's presentation and he offered to answer any questions for the Committee members. With no questions from the Committee, Mrs. Thomason adjourned the meeting at 8:24am.

Action Item

2

AUDIT and FINANCE COMMITTEE ACTION REQUEST

INTERNAL AUDIT DIVISION

December 9, 2021

Presentation, discussion, and possible approval of the Fiscal Year 2022 Internal Audit Work Plan

RECOMMENDED ACTION

WHEREAS, the Tex. Gov't Code §2306.073(b), the Internal Auditing Act and audit standards require the Department's Governing Board to approve an annual audit work plan that outlines the internal audit projects planned for the fiscal year;

WHEREAS, Staff has presented a Fiscal Year 2022 Internal Audit Work Plan that is acceptable to the Audit and Finance Committee; and

NOW, therefore, it is hereby

RESOLVED, the Audit and Finance Committee of the Board recommends approval of the Internal Audit Work Plan for Fiscal Year 2022 by the Governing Board as presented.

BACKGROUND

The annual internal audit work plan is required by the Tex. Gov't Code §2306.073(b), the Texas Internal Auditing Act (Tex. Gov't Code Chapter 2102) and by the International Standards for the Professional Practice of Internal Auditing (Standards). The plan is prepared by the internal auditor based on an agency-wide risk assessment as well as input from the Department's Governing Board and executive management. The plan identifies the individual audits to be conducted during Fiscal Year 2022. The plan also outlines other planned activities that will be performed by the Internal Audit Division.



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

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Ajay Thomas, *Member*
Sharon Thomason, *Member*

Texas Department of Housing and Community Affairs Office of Internal Audit Audit Plan for Fiscal Year 2022

Statutory and Professional Standards Requirement

The Texas Internal Auditing Act (Texas Government Code, §2102.005) requires state agencies to conduct a program of internal auditing. The *International Standards for the Professional Practice of Internal Auditing (IA Standards)* define Internal Auditing as an “independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.”

The Texas Government Code and the *IA Standards* require internal auditors to develop an annual audit plan, using risk assessment techniques, that identifies individual audits to be conducted during the year. The Code requires that the plan be approved by the state agency's governing board or by its administrator, if the agency has no governing board.

The program of internal auditing is carried out by the Office of Internal Audit (OIA) which serves at the direction of the Governing Board. The OIA has prepared this audit plan for consideration and approval by the Governing Board.

Development of the Annual Audit Plan

The Fiscal Year 2022 plan is designed to cover areas of highest risk to the State and the agency; however, it does not cover all risks. TDHCA management should utilize internal controls and other appropriate methodologies to mitigate residual risks not covered by the audit plan.

The annual audit plan was developed using a risk based methodology which included:



- Obtaining management's and the Governing Board's perspectives through surveys and discussions.
- Consulting with the State Auditor's Office and other oversight bodies.
- Reviewing prior TDHCA meeting minutes, audit report findings and recommendations, and budgetary information.
- Evaluating information about key agency business areas, processes, and systems.
- Considering input from internal audit staff.
- Utilizing a matrix whereby identified auditable units were ranked according to standard risk factors.

The budgeted hours for all projects are based on two staff auditors and the Director of Internal Audit.

Projects for Fiscal Year 2022 Annual Audit Plan

We have identified the following projects for inclusion in the 2022 Annual Audit Plan based on our annual risk assessment of the auditable units. The project numbers are for identification purposes and may not correspond to the order in which the projects are performed. Also included below is a brief description of functions to be reviewed.

New Audit Projects:

1. Texas Rent Relief Program (TRR) – Procurement of Administrative Contracts

The Texas Rent Relief Program provides rental and utility assistance to qualifying applicants to prevent housing instability, potential eviction, utility disconnections, and financial hardships for tenants and landlords as a result of the COVID-19 pandemic. The funding for this program is part of the Coronavirus stimulus bill passed by Congress. As part of this program, the State of Texas received initially approximately \$1.3 billion to assist landlords and tenants through the Texas Rent Relief Program. Local communities in Texas with populations greater than 200,000 had an opportunity to receive roughly \$700 million in additional direct allocations of these funds.

This program was launched in Feb 2021. The SAO and Clifton-Larson-Anderson (CLA) will include this program in the statewide audit of the Texas financial statements. They will audit requirements in the federal compliance supplement, such as payments and eligibility. The internal audit department will audit operational aspects, primarily procurement of the administrative contracts.

2. Previous Participation Review (PPR)

The Previous Participation Review function evaluates contractors and sub recipients when TDHCA is considering whether to award them a new contract for the following fiscal year. The function is involved with new and renewed contracts for several different programs and has not been audited before.



3. I.T General Controls

The Internal Auditing Act requires periodic audits of an agency's information systems. TDHCA's technology is delivered by internal TDHCA Information Systems staff with support from the Department of Information Resources. The audit will primarily focus on the functions of internal TDHCA IS staff and will consider areas such as governance, systems development life cycle controls, physical and logical access to critical hardware and software, backup and recovery, programming change management procedures, and computer operation controls.

4. I.T Application Controls

Application controls are related specifically to critical information systems software programs and are necessary for the accurate and proper processing of critical business functions on the software. The audit would include areas such as input and access controls, file and data processing controls, output controls and master files and data controls. Application controls will be reviewed for selected applications used by TDHCA to manage Program and administrative data and activity.

5. MH Installation Inspection / Physical Inspection

Manufactured Housing Division (MHD) of the Texas Department of Housing and Community Affairs administers the Texas Manufactured Housing Standards Act. Because of its regulatory nature, MHD has its own board and executive director, but is administratively attached to TDHCA and receives audit related services from OIA at TDHCA.

The Physical Inspection section of Compliance Monitoring Division was selected for Audit during FY20, and a report was issued on August 14, 2020. However, due to a scope limitation imposed by COVID19 pandemic, this unit will be reviewed more comprehensively during FY22. And since the inspections are performed by MHD similar to those performed by Physical inspection at TDHCA, OIA will conduct these audits together to achieve some economy of scale.

During the course of this audit, OIA also plans to conduct follow up work on the Migrant Labor housing audit that was conducted in 2019, as well as follow up work on the audit of MHD that was performed by SAO in 2020.

6. Texas Homeownership Program

The Texas Home Ownership program helps eligible Texas homebuyers by providing financial assistance, such as down payment assistance, low interest rate mortgage, and Mortgage Credit Certificate (MCC). The program also offers technical assistance and educational resources for first-time homebuyers throughout the process. This program rated high on our risk assessment due to lack of any prior audits by OIA.

Carry Over Project

Physical Inspection

The Physical Inspection section of Compliance division performs and administers inspections for developments monitored by the Department throughout the compliance period. The section ensures developments are habitable, well maintained, and ready for occupancy, follow appropriate accessibility standards, and comply with applicable program rules and regulations. The section also administers inspections performed by the Department's contracted inspection firms.

The Physical Inspection section of Compliance Monitoring Division was selected for Audit during FY20, and a report was issued on August 14, 2020. However, due to scope limitations imposed by COVID19 pandemic, OIA had planned to review this unit more comprehensively during FY2021. As noted earlier, this unit will be reviewed along with the audit of Manufactured Housing Division's inspections and follow up work of the Migrant Labor Housing audit during FY2022.

Administrative and Statutory Projects:

- Review of TDHCA compliance with appropriation riders and other requirements of the Government Code
- Annual Audit Plan and reporting
- Annual tracking of the implementation status of prior audit recommendations
- Coordination and review of complaints related to possible Fraud, Waste, and Abuse

Consulting Projects and External Audit Coordination

Pursuant to the TDHCA internal audit charter, the OIA performs consulting activities for the agency. For fiscal year 2022, OIA is providing consulting services related to the new Grant Guidance in 2 CFR 200, as well as subrecipient monitoring.

OIA also coordinates and advises on external audit activities.

Sincerely,

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

MS/NS



Report Item

1

AUDIT AND FINANCE COMMITTEE REPORT ITEM

INTERNAL AUDIT DIVISION

December 9, 2021

Presentation and discussion of Internal Audit report of the Multi Family Direct Loans, Report # 21-004

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
An Internal Audit of the Multifamily Direct Loan Program
Audit Report # 21-004

Executive Summary

OIA reviewed the Multifamily Direct Loan Program and found it has been consistently successful in committing federal funds and repayment funds when allocated through the published Notice of Funding Availability (NOFA) process. From 2016, the program has funded approximately \$152M in MFDLs, representing a mix of federal funds from the HOME Investments Partnership Program and the National Housing Trust Fund, as well as some Neighborhood Stabilization Program (NSP) funds and Tax Credit Allocation Program (TCAP) amounts. The repayments of the TCAP represents available funding that carries fewer restrictions in the application and loan due diligence process as well as post-construction compliance.

Based on our reviews the Multifamily Direct Loans Program is performing effectively overall with some suggestions for consistency and efficiency. The following summarizes OIA's recommendations:

Observations and Recommendations

1. Internal Audit recommends that a change management tracking system be implemented in administering the loan closing process to track, and maintain information on the type of changes coming through the various touchpoints within TDHCA for the MFDL process. By consistently tracking this information on each loan closing, trends and observations could be made to support program improvements.
2. Construction draw tools, spreadsheets and guidance should be reviewed to determine if they could be simplified. Standards for determining when a certain number of draws may be appropriate could be instructional in working to decrease the amount of documentation review and processing time required.
3. OIA recommends that the Legal team review the application prior to underwriting when certain conditions are present specifically, other governmental funding in the form of grants, loans or tenant vouchers.
4. The contract and loan document approval process should be modified to ensure all approvals are tracked and available in a central location. OIA recommends that the process be automated as a routable document rather than email when possible.
5. Due to the highly complex and manual nature of the MFDL requirements and process, OIA recommends that management consider assigning a "loan officer" or "project manager" to ensure the loan application and documents move smoothly and more quickly through the process.
6. OIA recommends that Multifamily Finance evaluate the current end-user systems in place for the multifamily uniform application review and loan closing process to determine any future needs for system and application improvements.
7. Due to the possible retirement of some of the key personnel, the MFDL division should consider documenting their procedures with screenshots that could be used for future training and improving SOPs.
8. Because of the complexity of the Multifamily Direct Loans process, OIA recommends that all Divisions create and/or update documented SOPs and process flows, so that the team can more easily identify process weaknesses and inefficiencies as well as evaluate options for technology solutions.

Management Response

Management agreed with our recommendations. Detailed responses are included in the body of the report.

Objectives, Scope and Methodology

OIA's scope included a review of applicable portions of the Texas Governmental Code §2306 Texas Department of Housing and Community Affairs; Texas Administrative Code Title 10, Chapter 11 Qualified Allocation Plan and Chapter 13 Multifamily Direct Loans Rule; TDHCA Board resolutions including those providing authority for commitment of multifamily direct loans and amendments as required, and the Standard Operating Procedures (SOP) of Divisions tasked with originating and maintaining Multifamily Direct Loans. Based upon our preliminary understanding of the Multifamily Direct Loans Program we identified critical points and risk to develop audit objectives and a methodology reflected in the detailed audit program. Based on our reviews the function of the Multifamily Direct Loans Program is performing effectively overall with some suggestions for improved consistency and efficiency.



Mark Scott, CPA, CIA, CISA, CFE, MBA
Director, OIA

9/13/2021
Date Signed



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Sharon Thomason, Member

September 13, 2021

Writer's direct phone # 512.475.3813
Email: mark.scott@tdhca.state.tx.us

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

RE: INTERNAL AUDIT OF THE MULTIFAMILY DIRECT LOANS PROGRAM

Dear Board Members:

This report presents the results of the Office of Internal Audit ("OIA") "*Review of the Multifamily Direct Loans Program*". This audit was conducted in accordance with applicable audit standards. It included the objectives to review the effectiveness and efficiency of the Multifamily Direct Loan Program processes across functional divisions and to evaluate the administrative and internal control procedures in place.

The Multifamily Direct Loan (MFDL) Program rated high on the risk assessment and was included in the approved Fiscal Year 2021 audit work plan and was selected for audit due to lack of recent audits, complexity of transactions and interest expressed from both the program area and legal division to review the flow of loan document preparation and routing.

This report includes the following sections:

- A. Audit results
- B. Background
- C. Scope and methodology
- D. Types of Multifamily Direct Loans made by TDHCA
- E. Processes and flow of transactions
- F. Staffing
- G. Testing and review

A) AUDIT RESULTS

OIA reviewed the Multifamily Direct Loan Program and found it has been consistently successful in committing federal funds and repayment funds when allocated through the published Notice of Funding Availability (NOFA) process. From 2016 the program has funded approximately \$152M in MFDLs, representing a mix of federal funds from the HOME Investments Partnership Program and the National Housing Trust Fund, as well as some Neighborhood Stabilization Program (NSP) funds and Tax Credit Allocation Program (TCAP) amounts. The repayments of the TCAP represents available funding that carries fewer restrictions in the application and loan due diligence process as well as post-construction compliance.

OIA tested the loan application routing and approval process throughout different divisions and different stages of the application, as well as contracts and draw requests. Our attributes included verification of timely and accurate review of applications by each division, and verification of compliance with current rules and regulations during the application process as well as during the draw requests and prior to funds being released to the developers.

As part of the review to determine external views of the Multifamily Direct Loan Program, OIA initiated a short customer service and open text type survey that was sent to almost 150 developers and consultants. The results of this survey were closed as of August 10, 2021. Overall, the survey results were positive regarding the team members, their commitment to the Program, and the existence of the Program to provide gap financing. 13 of the 23 participants (56%) who answered the survey indicated that the program was good or excellent, with many useful comments provided in the open text questions.

B) BACKGROUND

The Multifamily Direct Loan Program provides funding to nonprofit and for-profit entities for the new construction or rehabilitation of affordable multifamily rental developments. Funding is typically provided in the form of low interest rate, repayable construction-to-permanent loans. Multifamily developments funded through the Department's Multifamily Direct Loan Program must comply with long-term rent and income restrictions and are typically layered with additional Department funding sources such as Housing Tax Credits.

Texas Government Code §2306 authorizes the TDHCA Governing Board to make loans to have funds available for multifamily affordable rental developments. The funds utilized by TDHCA are primarily federal funds from the HOME and National Housing Trust Fund programs (NHTF), as well as Neighborhood Stabilization Program (NSP) and Tax Credit Assistance Program (TCAP) Repayment Funds (RF). Both HOME and NHTF funds are allocated annually from the US Department of Housing and Urban Development (HUD); however, while HOME funds are annually appropriated to HUD by Congress through the budgetary process, the source of the NHTF funds is 65% of statutorily designated fees generated by Fannie Mae and Freddie Mac (chartered private companies serving the public purpose of providing liquidity, stability and affordability in the US housing market). NSP and TCAP are older programs that had provided a source of loans in the past and repayments that come back to the Department may be used for making new loans. TCAP Repayment Funds (RF) are not restricted by the many complex federal requirements.

C) SCOPE AND METHODOLOGY

OIA's scope included a review of applicable portions of the Texas Governmental Code §2306 Texas Department of Housing and Community Affairs; Texas Administrative Code Title 10, Chapter 11 Qualified Allocation Plan and Chapter 13 Multifamily Direct Loans Rule; TDHCA Board resolutions including those providing authority for commitment of multifamily direct loans and amendments as required, and the Standard Operating Procedures (SOP) of Divisions tasked with originating and maintaining Multifamily Direct Loans. Based upon our preliminary understanding of the Multifamily Direct Loans Program we identified critical points and risk to develop audit objectives and a methodology reflected in the detailed audit program.

We surveyed key external customers to the Multifamily Direct Loans Program regarding the effectiveness of the Program. We reviewed the Program functionally and across divisions to determine the functions, goals and underlying processes, and divisional roles and responsibilities; we included the review of workflow between divisions. We reviewed the controls related to the Multifamily Direct Loans Program and tested certain transactions and controls described throughout Sections E and F of this report. The Texas Internal Auditing Act, Tex. Gov't Code §2102.005 requires auditing of a state agency's major programs and systems.

D) TYPES OF MULTIFAMILY LOANS MADE BY TDHCA

- **Multifamily Direct Loan – HOME funds**

HOME funds are allocated directly from the federal government budget and have less restrictive guidelines than NHTF in terms of unit mix and income levels. HOME funds allow for a limit of 80% of AMI (Area Median Income); however, HOME funds come with more stringent labor standards during construction (Davis Bacon), so there is a trade-off and a need for staff to understand the underlying federal requirements on a detailed basis. While the developer is ultimately responsible for meeting the federal requirements, TDHCA provides technical guidance and ensures that the contract includes all necessary language to hold the developer responsible for this function.

- **Multifamily Direct Loan – NHTF funds**

NHTF funds are allocated through HUD from the Fannie Mae and Freddie Mac activity on an annual basis. These allocations are related directly to activity in the mortgage security market, so the annual allocation to the Department depends on those volumes and amounts. For example, because of high activity in the market over the past two years, TDHCA received an allocation for 2021 that far exceeded anything received before. The NHTF funds, though not subject to Davis Bacon, are further restricted by unit mix and income levels and are meant to focus on extremely low income tenants, or those earning no greater than 30% AMI.

- **Multifamily Direct Loan – TCAP RF**

The TCAP repayment funds are the most flexible funding source currently utilized by TDHCA for MFDL. These funds do not carry the federal requirements of the other sources, therefore they can be utilized for more unit mixes and income levels. These funds also do not require adherence to Uniform Relocation Act rules or the stringent environmental review requirements of HOME and NHTF.

E) PROCESSES AND FLOW OF TRANSACTIONS

Multifamily Direct Loans Application

The MFDL application is included within the Multifamily Uniform Application; in most cases the direct loans are layered with other funding sources such as 4% or 9% Low Income Housing Tax Credits (LIHTC). Between the layering of funding, including primary funding such as revenue bonds or conventional loans, the process of evaluating the application and determining the amount of the loan can become quite complex. As such, the accuracy and timeliness of information on the application is paramount, as much of the data is utilized as input to the Real Estate Analysis (REA), also known as underwriting.

Once the application has been reviewed and any administrative deficiencies are cleared by MF Division staff, the application is submitted to REA for review. At this time, only MFDL personnel review the application prior to REA's review. MFDL staff primarily ensure that the application adheres to the rules provided within the applicable sections of Texas Administrative Code. MFDL staff also evaluates site and neighborhood criteria, initially reviews relocation requirements, and requests the Previous Participation Review (PPR) from the Compliance Division. The PPR is a statutorily required rating system that assesses the ongoing compliance of Applicants that have participated in TDHCA Programs in the past. Both the submission of the application and review are highly manually processes and intensive in nature requiring multiple reviews and verification, with the MFDL Manager signing off as final reviewer.

Once received, REA reviews the application, imports data from one spreadsheet into another spreadsheet, then applies the standards identified in the rules and in the published NOFA to determine the financial feasibility of the development for the loan amount and terms including interest rate, years to repay, and type of repayment. For example: monthly set amounts or annual payment based on cash flow from the development. The output from this initial review includes a list of the pre-closing requirements that will be required of the Applicant and remains valid until the loan closing if there are no material changes; however as the superior (primary funding) financing for the development is solidified, changes often occur that affect the Department's underwriting outcome. These changes may generate from any of the Divisions that are engaged in the MFDL process, as there are many points of contact for the Developers. At times the REA function may not be notified timely of changes.

Once the REA underwriting report is complete and PPR has been completed, as applicable, the deal is approved by the Executive Award and Review Advisory Committee (EARAC) prior to presentation to the TDHCA Governing Board. Once the Board has approved the loan award, MFDL issue a Commitment, staff starts the contracting process, and also initiates procedures relating to Davis Bacon and Uniform Relocation Act. Program Services also begins its process of due diligence for federal requirements such as Environmental Clearance and Section 3 requirements.

Multifamily Direct Loans Contracting and Loan Documents

Generally speaking, within the TDHCA there is a clear delineation between the Program divisions and the Program Control and Oversight divisions. The Program teams are involved with rule making, announcing and programming funding opportunities, evaluating applications against rules, providing technical assistance regarding the Programs, presenting actions to the Board, and ensuring all funds are committed on a timely

basis. The Programs Services group has been traditionally tasked with performing quality assurance for the Program's disbursements and more recently performing closing functions. The Compliance Division is responsible for contract and/or property compliance reviews and administration after funds have been disbursed by monitoring Developments' compliance with federal and state rules and regulations.

In the MFDL process, pre-closing activities including due diligence and gathering of closing documents were transferred to the Program Services team several years ago to add a separation of duties and to mitigate risk. Because of the multiple and sometimes overlapping responsibilities between the various Divisions that are involved, OIA also noted that underlying documentation for the process exists in many different places on the network drive, on HCS and in the Compliance Management Tracking System (CMTS); different logs and tracking mechanisms are utilized for various parts of the process. The process should be better coordinated to ensure that overlapping responsibilities and a unified process is in place with the inputs from other Divisions; currently, as the loan moves through the process it is "owned" by different Divisions.

Loan documents are prepared only after the federal funds contract has been signed per Legal requirement based on Texas Government Code § 2306, Texas Administrative Code Chapter 11, Qualified Allocation Plan and Chapter 13, Multifamily Direct Loan Rule. Final due diligence begins after the contract is signed, with many sub-processes running concurrently to culminate in the final loan agreements, attachments, and the myriad legal documentation necessary to ensure the development is accountable for the committed low income units and that risks of repayment of funds have been mitigated.

OIA found that while the contracts were routed for approval by the appropriate internal parties prior to execution, evidence of these approvals currently exists on email and is not saved in a central location. Emails are currently being utilized in place of the manual paper routing form, which is consistent with other TDHCA processes during the Pandemic; however, OIA recommends that with likely telecommuting being a regular part of the Department's future operations that an automated approval process, such as DocuSign, be established to better document the approvals and any contract revisions.

Based on OIA's review, changes come in to the deal at many different times in the process. Developers may change their financing arrangements; another government grant or loan might be awarded or rescinded; additional federal funding may be received through project-based vouchers; or application data may be updated. There is a lack of understanding between Divisions as to what changes materially impact the need to rework and make changes to the underlying documentation. These impacts should be understood and brought into the process of managing expectations of the Developers / Borrowers in terms of a reasonable closing date.

The impact of these changes that arise prior to closing primarily affect Real Estate Analysis, which must reevaluate the development each time if the change requires, and the Legal Division to complete revised or new loan documents. Real Estate Analysis, in particular, could benefit from additional technology support to enhance their review process. The Divisions that jointly work on MF loans should work together to educate one another on the impacts of changes and review any technology solutions that could reduce rework. In turn, MF Division and Program Services Division staff, as relationship managers to the Developers / Borrowers, should augment their role as the training and technical support that is inherently required by such a complex and federally regulated process. This scenario is similar to that in the financial services and banking industries that require multiple layers of process management, both upfront and within the compliance (usually loan) period.

Multifamily Direct Loan Construction Draws

The Construction Draw process is complex and manually intensive. The Draws can be started as table funding, which allows the Developers to draw up to 50% of the loan amount if costs have been incurred and accounted for at the time of loan closing. If the project has not started construction or does not have enough eligible costs at the time of closing, then the Developer will request the initial Draw in some other eligible amount. Certain information is also required such as the total budget with hard and soft costs identified, as well as final sources of funds, and evidence of required match. Statute requires that a retainage of 10% of construction hard costs be withheld during the draw process.

OIA observed that there are no standard draw schedules or required number of draws; some developments had up to 13 draws, though not the norm. The workbook for requesting a draw is very confusing and lengthy; the detailed amounts requested by the Developer that is input to the spreadsheet actually represents an amount that is net of retainage. As such, the detailed requests reflect the Developer's original request less retainage, although in another place in the worksheet the original request is presented in total. The spreadsheet should be reviewed and even possibly reconstructed for easier use by the Developer as well as internally.

There is only one staff member in MFDL who processes Construction Draws; when that team member is unavailable there is little backup support causing delays. Entry into systems such as CMTS and HCS that are not complete due to lack of information at the time of entry, must be finalized by staff prior to inputting the Draw thereby requiring more time spent and increased delay in paying funds.

Team members in both MF and Program Services should provide ongoing training in small groups of approved MFDL awardees to help Developers' staff through the process; the more simple the process to the Developer, the less difficulty MFDL staff should have with processing the Draws.

The OIA offers the following observations and recommendations for the Multifamily Direct Loan Program application and draw processes.

Observations:

Observation Number	Status Pertaining to the Observations and Actions to be Taken	Target Completion Date	Responsible Party
21-004.01	Internal Audit recommends that a change management tracking system be implemented in administering the loan closing process to track and maintain information on the type of changes coming through the various touchpoints within TDHCA for the MFDL process. By consistently tracking this information on each loan closing, trends and observations could be made to support program improvements.	9/1/2022	MFDL, REA, Program Services, Legal

Observation Number	Status Pertaining to the Observations and Actions to be Taken	Target Completion Date	Responsible Party
21-004.02	Construction draw tools, spreadsheets and guidance should be reviewed to determine if they could be simplified. Standards for determining when a certain number of draws may be appropriate could be instructional in working to decrease the amount of documentation review and processing time required.	2/1/22	MFDL, Program Services
21-004.03	OIA recommends that the Legal team review the application prior to underwriting when certain conditions are present specifically, other governmental funding in the form of grants, loans or tenant vouchers.	12/1/21	MFDL, Legal
21-004.04	The contract and loan document approval process should be modified to ensure all approvals are tracked and available in a central location. OIA recommends that the process be automated as a routable document rather than email when possible.	10/1/22	MFDL

Management Responses:

Program Management appreciates the opportunity to provide comment on observations included in this report. Comments are organized by Observation Number. Program Services concurs with these responses and will work towards implementing the recommendations.

21-004.01. *MF Program Management concurs with this recommendation. MFDL staff are currently engaged in creating a tracking system for contracts and other documents for which MFDL holds primary responsibility, and welcomes the expansion of this effort to cover the entire loan closing process. MFDL, REA, Program Services and Legal all receive and process revisions made after Board approval. A global change management tracking system for the loan closing process would reduce administrative time spent coordinating and notifying each participant for each revision, and will provide valuable reference points for further observation and improvement in the loan closing process. All teams engaged in the MFDL process look forward to working together to review currently owned and available, affordable software that can be beneficial to tracking and managing changes occurring during the loan closing process. Program Management envisions the review, selection and implementation of this process to be completed by September 1, 2022.*

21-004.02. *Program Management concurs with this recommendation, and is currently implementing cross-training within MFDL, and engaging MFDL and Program Services staff as a group to explore ways to simplify and automate the MFDL draw process without compromising its integrity. Program Management estimates completion by February 1, 2022.*

21-004.03. *Program Management concurs with this recommendation, and has recently revised its internal review process to engage Federal Compliance Counsel and subject matter specialists upon application receipt and prior to referring the file to REA for underwriting. Current review forms and checklists will be updated to reflect this revision by December 1, 2021.*

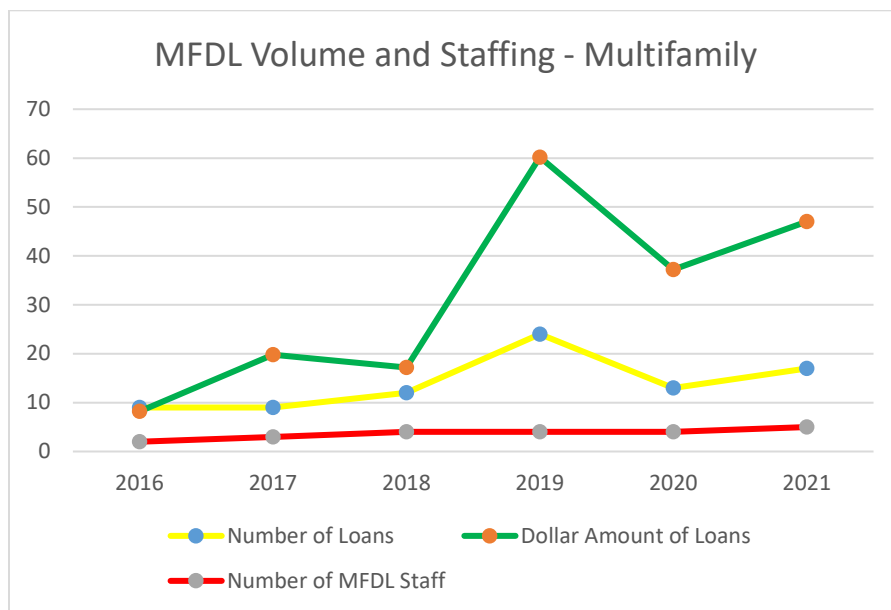
21-004.04. Program Management concurs with the recommendation to automate the award (commitment) and contract documents (but is not committing to automating loan closing documents). Program Management will review and evaluate secure software such as DocuSign for this purpose and make recommendations to the Multifamily Finance Director based on security, costs, and compatibility by October 1, 2022.

F) STAFFING

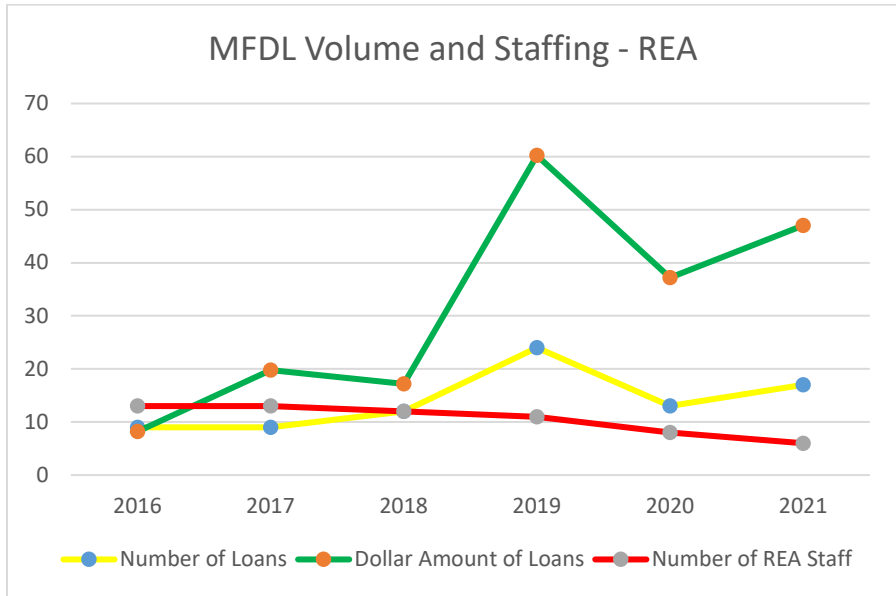
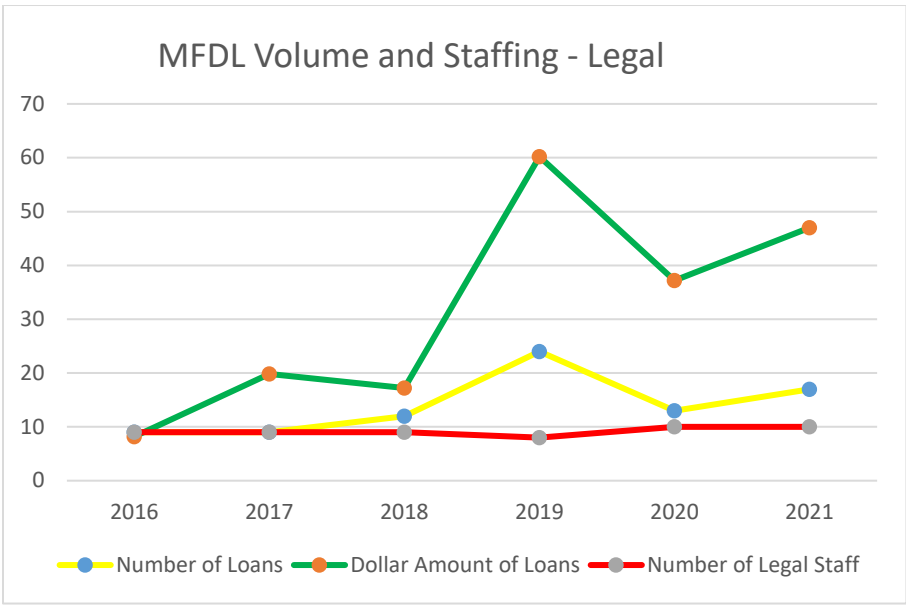
While the MFDL Program has been able to fully commit funds available to it, the Program has experienced increased growth in funding with a limited increase in resources or technology tools. The amount of growth requires that the process be reviewed in the context of the additional growth to streamline procedures; determine time frames for various types of deals; better manage expectations with external parties; better educate and assist external parties through the complexities of the process; and as a result provide better outcomes throughout the process and ensure reviews can be completed timely. For example, since TCAP RF is less restrictive, the loan should be able to be closed faster. OIA noted that management has allocated three full-time equivalents (FTEs) to the entire Multifamily Finance Division for FY2022, but those may not be fully focused on Multifamily Direct Loans.

Staff in the Program Services Division includes a Multifamily Loan Closer (100% MFDL), a Senior Environmental Specialist that dedicates approximately 15% time, two Quality Assurance Specialists that dedicate approximately 5% to 7% time, a Section 3 Specialist dedicating less than 5% time; and a Manager dedicating approximately 5% time to MFDL.

As seen in the charts below, the MFDL Program experienced growth of almost three times the funding volumes with little increase in staffing in related programs and divisions¹. Real Estate Analysis appears to be in the most resource constrained situation where staffing is at half the level in 2021 compared to 2016. In the charts below, staffing levels are reflected; for the Real Estate Analysis and Legal Division staffing represents total staffing, as it is a shared service among many Programs, and the Multifamily Finance staffing is based on only the staff dedicated to MFDLs within the Program area.



¹ These statistics were provided by the Multifamily Finance and Human Resources Divisions.



After responsibility for loan closing was transitioned to Program Services, the areas jointly implemented a weekly MFDL pipeline (activity) discussion which has been successful in managing internal issues. However, the team as a whole, including both internal and external parties, should consider project management techniques such as weekly status calls, task and date tracking, and having standards in place to acknowledge the effect of changes and missed dates. As a full team, they should practice weekly prioritization and scheduling of loan closing and predecessor activity required dates.

In addition, OIA noted the use of numerous checklists and spreadsheets that could be automated and may allow staff to review exceptions and look for issues, as opposed to manually calculating every application. More automated processes can also decrease the possibility of human error. OIA also noted that a few of the key personnel involved in the MFDL process might be retiring. Succession plans for these positions is critical to mitigate the risk of disruption to the program operation.

Observation Item Number	Status Pertaining to the Observations and Actions to be Taken	Target Completion Date	Responsible Party
21-004.05	Due to the highly complex and manual nature of the MFDL requirements and process, OIA recommends that management consider assigning a “loan officer” or “project manager” to ensure the loan application and documents move smoothly and more quickly through the process.	Unknown TBD	MFDL
21-004.06	OIA recommends that Multifamily Finance evaluate the current end-user systems in place for the multifamily uniform application review and loan closing process to determine any future needs for system and application improvements.	9/1/22	MFDL
21-004.07	Due to the possible retirement of some of the key personnel, the MFDL division should consider documenting their procedures with screenshots that could be used for future training and improving SOPs.	2/1/22	MFDL

Management Response

Program Management appreciates the opportunity to provide comment on observations included in this report. Comments are organized by Observation Number. Program Services concurs with these responses and will work towards implementing the recommendations.

21-004.05. *Program Management concurs that this recommendation could provide a more consistent process for borrowers, but cautions that implementing this recommendation may require a greater reorganization than can be agreed to at this time by management. For MFDL, the loan closing process is organized along points in the overall lending process, such as application review, underwriting, award/contract, due diligence, closing and draw, with the exception of subject matter specialists who ensure compliance with federal cross-cutting requirements throughout the process. MFDL Program Management acknowledges that the loan officer/project manager workflow organization is the standard practice in the commercial lending industry and may enhance customer service; however, significant cross-training and reorganization of not only MFDL staff, but also other Multifamily Finance, Program Services, and REA staff would be required to implement this revision. Additionally, because of the complexity of the federal regulations governing these federal funds, subject matter specialists would still be needed to provide expert technical assistance. Given the number of departments impacted and level of cross-training that would be required, and subject to input from other departments, this observation will be taken into consideration with future hiring or other organizational changes, however, no specific actions are committed to being taken.*

21-004.06. Program Management concurs with this recommendation, particularly as loan volume continues to increase. MFDL staff has commenced organization and evaluation of internal systems in order to improve and simplify them, and is notably being assisted in this effort by internal data management experts. Recommendations for revisions and improvements to current systems are expected to be available by December 31, 2021, to be fully implemented by September 1, 2022 or earlier, depending on available staff time.

21-005.07. Program Management concurs with this recommendation, and is in the process of revising and updating SOPs for draws, cross-cutting requirements, and the Integrated Disbursement and Information System, which should be completed by December 1, 2021. SOPs for awards and contracts are largely contained in the checklists specialists use to complete their duties, and have undergone recent revision. These can be incorporated into SOPs by February 1, 2022.

E) TESTING AND REVIEW

As part of the audit, OIA held multiple interviews with management and staff and reviewed samples of transactions selected either randomly or judgmentally based on the ability to stratify and normalize the population. Transactions included those in the Application, Contracting and Loan Document Preparation, and Construction Draws sub-processes. Detailed transactions were reviewed for timely monitoring and resolution within the various options by tracking them within the processes noted above, ensuring appropriate authorization and verification at key control points. In addition, as noted in Section B, OIA reviewed applicable Texas Government Code and Texas Administrative Code, and Division level SOPs to confirm uniformity. Based on our reviews the function of the Multifamily Direct Loans Program is performing effectively overall with some suggestions for improved consistency and efficiency.

As a part of the review to determine external views of the Multifamily Direct Loan Program, OIA initiated a short customer service and open text type survey that was sent to almost 150 developers and consultants. The results of this survey were closed as of August 10, 2021; 28 participants provided feedback (19% response rate). Overall, the survey results were positive regarding the team members, their commitment to the Program, and the existence of the Program to provide gap financing. 13 of the 23 participants (56%) who answered the question indicated that the program was good or excellent, with many useful comments provided in the open text questions.

An SOP defines expected practices in a process where quality standards exist and plays an important role in any 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 to the Division. In our review we noted that the MFDL division did not have current SOPs in place, and that other divisions' SOPs seemed to have not been revised and updated in several years.

Observation Item Number	Status Pertaining to the Observations and Actions to be Taken	Target Completion Date	Responsible Party
21-004.08	Because of the complexity of the Multifamily Direct Loans process, OIA recommends that all Divisions create and/or update documented SOPs and process flows, so that the team can more easily identify process weaknesses and inefficiencies as well as evaluate options for technology solutions.	12/31/22	MFDL, Legal

Management Response:

21-004.08. *MF Program Management and Program Services concur with this recommendation, and have created process flows to assist in improving processes for which it is responsible. These processes are currently grouped generally as follows: application review, award/contracting, and draws. Other hallmarks such as Site & Neighborhood reviews, Uniform Relocation and Davis Bacon, are woven into these general categories for purposes of coherence. The next step, currently underway, is to update or create SOPs for the named hallmarks and general processes for review and further input by all impacted departments. This is an ongoing effort that should be completed by December 31, 2022.*

Program Management appreciates the Internal Audit department's professionalism and quick grasp of the complex processes that make up MFDL, as well as the proactive recommendations offered to improve performance. Thank you.

OIA extends our sincere appreciation to Multifamily Finance, Program Services Section, the Legal, Information Systems and the Financial Administration Divisions for their cooperation and assistance during the course of this audit.

Sincerely,



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

Report Item

2

AUDIT AND FINANCE COMMITTEE REPORT ITEM

INTERNAL AUDIT DIVISION

December 9, 2021

Presentation and discussion of Internal Audit report of the Ending Homelessness Fund and Homeless Housing and Services Program, Report # 21-003

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

An Internal Audit of the Ending Homelessness (EH) Fund and Homeless Housing and Services Program (HHSP)

Audit Report # 21-003

Executive Summary

The Office of Internal Audit (OIA) reviewed the Ending Homelessness (EH) Fund and Homeless Housing and Services Program (HHSP), its internal controls, and policies and procedures that are currently in place. Based on our review and testing, we found that the EH Fund and HHSP provide good services and housing activities to local cities and municipalities in combating homelessness, and to encourage self-sufficiency and help the homeless secure stable housing.

Findings and Recommendations

OIA did not identify any findings or instances of non-compliance

Objective, Scope and Methodology

Our scope included a review of the TDHCA's internal policy and procedures, Texas Administrative Codes (TAC) Chapter 7, Subchapter A, B, and D, TAC Chapter 1, Subchapter C, the relevant portion of Texas Government Code 2306, and other applicable rules and regulations. In addition, we reviewed the internal accesses to Housing Contract System (HCS) that houses the contracts, draw requests, and other documents related to management of HHSP contracts.

Based upon our preliminary understanding of the EH Fund and HHSP we identified critical points and risks to develop audit objectives and an audit program including methodology. We reviewed the EH Funds and HHSP's goals, processes, and roles and responsibilities. We reviewed the controls related to each and tested certain transactions and controls

Mark Scott

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

August 11, 2021

Date Signed



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

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August 11, 2021

Writer's direct phone # 512.475.3813
Email: mark.scott@tdhca.state.tx.us

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

RE: Internal Audit of the Ending Homelessness Fund and Homeless Housing and Services Program (HHSP)

Dear Board Members:

This report presents the results of the Office of Internal Audit (OIA) review of the Ending Homelessness (EH) Fund and Homeless Housing and Services Program (HHSP). This audit was included in the Fiscal Year 2021 Annual Audit Plan and was conducted in accordance with applicable audit standards. Ending Homelessness Fund and Homeless Housing and Services Program rated high on the annual risk assessment due to legislative interest, as well as the economic effects of current pandemic on low income individuals. This is also the first internal audit of the Ending Homelessness fund and Homeless Housing and Services Program.

This report includes the following sections:

- A. Overall Result
- B. Background
- C. Scope and Methodology
- D. Processes and Procedures
- E. Monthly and Annual Reporting Requirements

- F. Testing
- G. Program Achievements

A. Overall Results

Based on our review and testing, the EH Fund and HHSP provide good services and housing activities to local cities and municipalities in combating homelessness, and to encourage self-sufficiency and help the homeless secure stable housing.

B. Background

The Single Family and Homeless Programs Division awards funds to assist units of general local governments, public housing authorities, nonprofits, and local agencies in the provision of assistance to low-income Texans, with a focus on housing and housing-related assistance and services. The Ending Homelessness program is a statewide program to benefit persons experiencing or those at risk of homelessness, and has its own designated fund.

Ending Homelessness (EH) Fund was established through 85th Texas Legislature which was enacted to be effective on September 1, 2017. This act gives Texas vehicle owners an opportunity to donate to the State's Ending Homelessness Fund. Donated funds are sent by the assessor collector to the Comptroller, and held in a trust to be administered by the Department as trustee. The funds are utilized to provide grants to counties and municipalities to combat homelessness. Contributions to the EH Fund help enhance the number and quality of emergency shelters, prevent families and individuals from becoming homeless, encourage self-sufficiency behaviors and secure stable housing.

According to the **2020 Annual Homeless Assessment Report**, on a given night in January in Texas

- 21,115 person were homeless
- 1,408 Unaccompanied youth (under the age 25) were homeless
- 1,948 Veterans were homeless
- 6,154 People in families with children were homeless

Homeless Housing and Services Program (HHSP) was established during the 81st Texas Legislative session in 2009 through an appropriation rider and was codified during the 82nd Texas Legislature. Through HHSP, the state provides funding to the large cities with over 285,500 in population. Currently there are nine large cities in Texas that meet this criteria and receive HHSP in support of services to homeless individuals and families. These cities include Arlington, Austin, Corpus Christi, Dallas, El Paso, Fort Worth, Houston, Plano, and San Antonino.

The activities that are allowed under this program include construction, development, or procurement of housing for homeless persons, rehabilitation of structures targeted to serving homeless persons or persons at-risk of homelessness, provision of direct services and case management to homeless persons

or persons at risk of homelessness, and other homelessness related activities as approved by the Department.

C. Scope and Methodology

Our scope included a review of the TDHCA’s internal policy and procedures, Texas Administrative Codes (TAC) Chapter 7, Subchapter A, B, and D, TAC Chapter 1, Subchapter C, the relevant portion of Texas Government Code 2306, and other applicable rules and regulations. In addition, we reviewed the internal accesses to Housing Contract System (HCS) that houses the contracts, draw requests, and other documents related to management of HHSP contracts.

Based upon our preliminary understanding of the EH Fund and HHSP we identified critical points and risks to develop audit objectives and an audit program including methodology. We reviewed the EH Funds and HHSP’s goals, processes, and roles and responsibilities. We reviewed the controls related to each and tested certain transactions and controls.

D. Processes and Procedures

The HHSP funds are set through appropriation from the state legislature, and are made available to municipalities of cities with population of 285,000¹ or more. The funds are distributed in accordance with the Allocation Formula that is calculated each year. The formula takes into account the proportion of the following factors²:

1. Population of the municipality
2. Poverty
3. Population of Homeless persons
4. Population of Homeless veterans
5. Population of Homeless Unaccompanied Youth
6. Population of persons with disabilities
7. Incidents of family violence

The municipality can apply to administer the funds directly or can designate a private nonprofit organization to apply for and administer the funds on their behalf. The municipalities that are designating an entity to administer the funds within their jurisdiction are required to provide a notification to the Department within 60 days of notification of the allocated amount.

Each participating municipality submits to the Department an application along with other required documents. These documents include an HHSP Sub-recipient Program Description for General Set-Aside as well as Youth Set-Aside, HSSP General Set-Aside Budget and Youth Set-Aside Budget, and Proposed

¹ Tex. Gov’t Code §2306.2585

² Texas Administrative Code, Chapter 7, SubCh B, Rule § 7.23

performance target. A Sub-recipient of HSSP is also subject to the Department’s Previous Participation Rule³. Once the applications and all the required documentation are received by the Department, the final amount of the allocation for each municipality is determined and a contract is created and routed for approval and signature to authorized parties.

The EH Fund is made available once per fiscal year to eligible applicants based on the amount of available funding, and the balance of the EH fund determines the distribution method. If the annual balance does not exceed \$500,000 as of the end of the state fiscal year, the total amount of available EH funds will be distributed equally among the eligible entities that wish to participate in the program. For an annual balance that exceeds \$500,000, the total amount of the available EH fund may be made available through Notice of Funding Availability (NOFA). As of the current fiscal year, the EH Fund has not reached the \$500,000 threshold, and therefore no NOFA has been issued.

EH Fund contracts will generally have an initial period of 12 months for fund expenditure, and extension of a contract term is considered on a case-by-case basis. EH Funds awarded are not subject to any Match requirements, but may be used as match for other programs that do require match.⁴

E. Monthly and Annual Reporting requirements

Monthly Expenditure Report (MER) and Monthly Performance Report (MPR)

The Sub-recipients of the HHSP must submit a Monthly Performance Report (MPR) and a Monthly Expenditure Report (MER) through the Department’s web-based Housing Contract System (HCS). The Department uses the financial and performance information submitted through these monthly reports to understand the success and improve the administration of the program, and to report performance data to the Texas Legislature. The MPRs and MERs are due on or before the last day of each month of the Contract Term, following the reporting month. In our review we have noted that some Sub-recipients frequently missed the deadline for submitting their monthly reports. This condition could affect the accuracy and effectiveness of the reporting by the program and the Department to the Texas Legislature. The program management is consistently working with the sub-recipients to support and assist them in meeting their deadlines.

The MPR and MER comprise the HHSP Draw Request. The MER collects monthly expenditures of HHSP funds, and the Sub-recipient may be reimbursed for the amount of actual cash disbursements as reflected in MER. The MPR collects demographic data of persons assisted through TDHCA HHSP funded program components, as well as information on outputs and outcomes achieved. Any program participants must be reported only once during the program year in a particular program component event if they receive the same service more than once.

³ Texas Administrative Code, Chapter 1, SubCh C, Rule §1.302

⁴ Texas Administrative Code, Chapter 7, SubCh D

Single Audit Report

The Single Audit Act, and the Texas Administrative Code Rule §1.403(e) states that “*Sub-recipients that expend \$750,000 or more in federal and / or state awards or have an outstanding loan balance associated with a federal or state resource of \$750,000 or more with continuing compliance requirements, or a combination thereof must have a Single Audit or program specific audit conducted*”. Sub-recipients and entities that meet this threshold are required to submit their annual Single Audit report within nine months after the end of the audited fiscal year.

The Single Audit reports are submitted by the Sub-recipients to the Federal Clearinghouse, and the Compliance Monitoring staff is tasked with reviewing these reports for areas of non-compliance as well as entities’ action plans (if any) related to any findings. The Compliance staff informs the HHSP management team of the result of their review, and the results are taken into consideration for any potential Previous Participation Review for the municipalities or entities designated to administer HHSP funds.

As part of our audit, we reviewed the Single Audits of the cities within our Contract testing sample. We found that the Single Audit report requirements were met and appropriate actions were taken to address any variance.

F. Testing

According to the Housing Contract System (HCS), TDHCA had entered into contract with eleven sub-recipients in 2020 and ten sub-recipients in 2021 to administer HHSP and EH funds. We selected a sample of seven contracts, which consisted of two contracts from 2020 and five contracts from 2021, to review and test. We reviewed the selected contracts for completion, accuracy, and consistency. In addition, we reviewed the draw requests and approvals associated with each of the selected contracts. We found the contracts to be complete and accurate, the draw requests showed proper approval process, and no exceptions were noted in our samples.

Furthermore, we reviewed the list of all of the TDHCA employees with internal access to HCS to verify their job function and the need for access to HCS. We verified that all of the current accesses are to valid employees of TDHCA, and five of the Texas General Land Office (GLO) employees, with job function related HCS. No unauthorized accesses were identified during our review.

G. Program Achievements

In fiscal year 2020, six Sub-recipients received Ending Homelessness funds to provide services to individuals and families facing homelessness. The six cities were able to provide assistance and services to a total of 487 individual, for a total of 437 households.

The following chart reflects the data reported by the eleven sub-recipients of HHSP for FY 2019 through beginning August of 2021. The FY 2021 HHSP contracts are still active, and therefore the data reported does not reflect the entire year.

As shown in this chart, the program has been growing each year and providing assistance to more individuals and households in most of the cities, such as Austin and San Antonio, that participate in the program.

Sub-recipient	Persons Served		Households Served	
	2019 & 2020	2021 (as of Aug 2021)	2019 & 2020	2021 (as of Aug 2021)
City of Arlington	238	34	92	19
City of Austin	362	214	256	149
City of Dallas	1063	206	1063	206
City of El Paso	925	319	368	143
City of Fort Worth	114	85	84	67
City of Houston	3937	0	3050	0
City of Plano	76	25	45	11
City San Antonio	189	220	188	220
Haven for Hope of Bexar County (City of San Antonio)	6443	1040	3156	660
Mother Teresa Shelter (City of Corpus Christi)	1091	0	909	0
United Way of Tarrant County (City of Fort Worth)	111	0	85	0
Total	14549	2143	9296	1475

OIA extends our appreciation to management and staff of the Single Family and Homeless program for their time and cooperation during the course of this audit.

Sincerely,

Mark Scott

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

MS/NS

Report Item

3

AUDIT AND FINANCE COMMITTEE REPORT ITEM

INTERNAL AUDIT DIVISION

December 9, 2021

Presentation and discussion of Internal Audit report of the Housing Resource Center Division, Report # 21-005

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
An Internal Audit of the Housing Resource Center Division
Audit Report # 21-005

Executive Summary

The Office of Internal Audit (OIA) reviewed the Housing Resource Center division (HRC) and found its processes are effective and efficient. OIA reviewed and tested the HRC's federal and state consolidated reporting processes, customer service and technical assistance activities, federal grants registration, interagency workgroups, and Board and Committee meeting agenda and book coordination. Our attribute testing included verification of compliance with current rules and regulations for the many statutorily required functions for reporting, workgroups and Board meetings along with evidencing appropriate approvals and verifications by HRC and Program management, where applicable. OIA also reviewed call logs and requests for assistance in HRC's customer service and technical assistance processes for timely and accurate completion.

OIA had some suggestions for consistency and efficiency relating to the Complaints process for the Texas Rent Relief Program (TRR). The following summarizes OIA's recommendations:

Observations and Recommendations

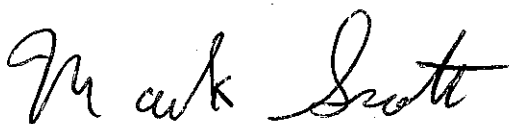
1. The HRC and TRR Program should complete their coordination of policies and procedures in order to comply with Texas Administrative Code and TDHCA SOP 1270.05 (Customer Complaints).
2. OIA recommends that the process of transferring calls from the TDHCA HRC phone line to the TRR Program be enhanced to automatically send TRR related calls directly to the TRR Call Center for customer service resolution.
3. OIA recommends that Tenant and Landlord Certification Forms posted to the TRR website be updated to indicate contact information for the TRR Call Center rather than TDHCA's general contact information (both phone and email). Additional messaging and prompts defined and implemented on the TDHCA website would also assist in guiding customers to the TRR Call Center directly.

Management Response

Management agreed with our recommendations. Detailed responses are included in the body of the report.

Objectives, Scope and Methodology

OIA's scope included a review of applicable portions of the Texas Governmental Code (TGC) including but not limited to §2306.252 Housing Resource Center; §2306.0721 Low Income Housing Plan and related Sections regarding state-required reporting; 24 Code of Federal Regulations Chapter 91 for federal reporting requirements to the US Department of Housing and Urban Development (HUD); Texas Administrative Code as it relates to required federal and state reporting, rule changes and deadlines for Board and Committee material posting; TDHCA Board resolutions including those approving key reports and rule changes, and the Standard Operating Procedures (SOP) of the Housing Resource Center Division. Based upon our preliminary understanding of the HRC we identified critical points and risk to develop audit objectives and a methodology reflected in the detailed audit program. Based on our reviews the function of the Housing Resource Center Division is performing effectively overall with some suggestions for improved consistency and efficiency as it relates to TRR.



Mark Scott, CPA, CIA, CISA, CFE, MBA
Director, OIA

11/30/2021
Date Signed



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

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November 30, 2021

Writer's direct phone # 512.475.3813
Email: mark.scott@tdhca.state.tx.us

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

RE: INTERNAL AUDIT OF THE HOUSING RESOURCE CENTER DIVISION

Dear Board Members:

This report presents the results of the Office of Internal Audit ("OIA") "*Audit of the Housing Resource Center Division*". This audit was conducted in accordance with applicable audit standards. It included the objectives to review the effectiveness and efficiency of the Housing Resource Center processes at TDHCA ("*the Department*") and to evaluate the administrative and internal control procedures in place.

The Housing Resource Center Division (HRC) rated high on the risk assessment and was included in the approved Fiscal Year 2021 audit work plan. The Division was selected for audit due to lack of recent audits as well as the breadth of statutorily required activities related to plans and reports for both Federal and State authorities, customer service functions, coordination of key workgroups and compilation of Board and Committee meeting materials.

This report includes the following sections:

- A. Audit Results
 - B. Background
 - C. Scope and Methodology
 - D. Process Review and Testing
 - E. Other Audit Work
- Appendix A - Critical Reporting Compiled by Housing Resource Center

A) AUDIT RESULTS

OIA reviewed the Housing Resource Center division and found its processes are effective and efficient. OIA reviewed and tested the HRC's federal and state consolidated reporting processes, customer service and technical assistance activities, federal grants registration, interagency workgroups, and Board and Committee meeting agenda and book coordination. Our attribute testing included verification of compliance with current rules and regulations for the many statutorily required functions for reporting, workgroups and Board meetings along with evidencing appropriate approvals and verifications by HRC and Program management, where applicable. OIA also reviewed call logs and requests for assistance in HRC's customer service and technical assistance processes for timely and accurate completion. Further details regarding testing procedures may be found in Section D, Process Review and Testing.

B) BACKGROUND

Texas Government Code §2306.252 *Housing Resource Center* specifically outlines duties and responsibilities fulfilled by TDHCA's Housing Resource Center. Per the TDHCA website, the Housing Resource Center provides educational materials and technical assistance to the public, community-based housing development organizations, nonprofit housing developers, and other state and federal agencies. This assistance helps providers determine local housing needs, access appropriate housing programs, and identify available funding sources needed to increase the stock of affordable housing. Other responsibilities of the Housing Resource Center include offering assistance to the general public in locating the appropriate service providers in their community, processing complaints regarding Program activity, and being responsible for plans and reports that TDHCA is required to submit in compliance with state and federal government regulations.

HRC staff responds to public inquiries about available TDHCA assistance resources. The division facilitates this public involvement in the Department's programs through the use of the Help for Texans/Resources database when handling calls received through several of TDHCA's public phone tree lines (800-525-0657); when responding to TDHCA's general email address (info@tdhca.state.tx.us); when monitoring the public complaint processing system and, prior to March 2020, when assisting any persons who arrived at the 211 East 11th Street building seeking housing assistance. The HRC division also handles the System Award Management (SAM) active status requirement for the Department when programs necessitate this service through the grant application process. SAM tracks all registrations for federal grants and awards, and active status is necessary to receive funding.

Through all these systems, HRC maintains conversations with interested Texans and advocates about the Department's programs. These conversations then play a key role in TDHCA's strategic planning process, which HRC aides by compiling and developing many of the Department's both federal and state required plans and reports. Examples of such planning and reporting documents include the State of Texas Low Income Housing Plan and Annual Report (SLIHP); the State of Texas 5-Year Consolidated Plan (Con Plan); the Regional Allocation Formula (RAF); the Housing and Health Services Coordination Council Biennial Plan and Report (HHSCC); and the Biennial State of Texas Customer Service Report. In addition to plans and reports, HRC often provides policy research and data analysis for TDHCA's ad hoc special projects and programming. The division also compiles the TDHCA Agenda and Book for both full Board and Committee meetings (such as Audit and Finance and Rules Committees) and are responsible for posting all documents as required on the TDHCA website and Texas Register.

With the breadth of customer service and reporting functions managed by the HRC, the division's success depends on both excellent customer service skills and a high level of organization. Both reporting completed for governmental authorities and attending to customers, whether they are members of the public or organizations, are highly time-sensitive; the HRC uses project management methods and detailed documentation to accomplish the tasks. The HRC has successfully implemented structured timelines and repeatable, straightforward processes using widely available end-user technology tools such as Excel. The management of repeated tasks in this way allows the HRC division to work on special projects and additional responsibilities as allocated to HRC by senior management.

At the end of audit fieldwork in October 2021, TDHCA management merged the Fair Housing and Data Management Reporting (FHDMR) functions into the Housing Resource Center division. These processes include training and technical assistance to property owners as it relates to Fair Housing; generating operational data and reporting; and monitoring TDHCA-funded property owners' Tenant Selection and Affirmative Marketing Plans.

C) SCOPE AND METHODOLOGY

OIA's scope included a review of applicable portions of the Texas Governmental Code (TGC) including but not limited to §2306.252 Housing Resource Center; §2306.0721 Low Income Housing Plan and related Sections regarding state-required reporting; 24 Code of Federal Regulations Chapter 91 for federal reporting requirements to the US Department of Housing and Urban Development (HUD); Texas Administrative Code as it relates to required federal and state reporting (see detailed Code reference in **Appendix A – Critical Reports Compiled by HRC**), rule changes and deadlines for Board and Committee material posting (see detailed Code reference in Section D below); TDHCA Board resolutions including those approving key reports and rule changes, and the Standard Operating Procedures (SOP) of the Housing Resource Center. Based upon our preliminary understanding of the HRC we identified critical points and risk to develop audit objectives and a methodology reflected in the detailed audit program.

We reviewed the HRC Division to determine the functions, goals and underlying processes, and divisional roles and responsibilities; we included the review of workflow between divisions that provide input to HRC's processes. We reviewed the controls related to the Housing Resource Center and tested certain reports, activities and controls described throughout the following section below.

D) PROCESS REVIEW AND TESTING

Federal and State Reporting and Federal Grants Registration

The HRC Division manages the process of coordinating and compiling information from the appropriate Program areas to include in the various statutory plans and reports. All Program related data utilized in the reporting is provided and validated by the Program areas; survey and census data may be summarized by the HRC.

Because these reports have specific deadlines codified by law, the HRC uses project management techniques such as a tabbed spreadsheet for all reports that lists the target dates for each part of the process. Additionally, HRC staff documents the communications and approvals as well as final documents using a detailed and consistent method, creating a repeatable process.

To validate the HRC's federal and state reporting function, OIA reviewed the final reports for Program and State Fiscal Years 2020 and 2021, as appropriate, listed above that were posted on the TDHCA website or HUD Exchange to ensure compliance with current regulations and rules. These regulations include areas such as public

participation requirements, housing needs assessments, plans for funds distribution, performance to goals and strategies, along with many other requirements. OIA also verified that critical reports were submitted and accepted by the appropriate authority by the statutory due dates. OIA noted approvals and review throughout the process as required. There were no exceptions noted during testing.

In order to qualify for federal grant awards, TDHCA must maintain registrations with various federal websites. The HRC manages these registrations and assists the Program areas as needed to track grant awards. OIA reviewed the maintenance of these registrations and validated that they are current and maintained as required.

Customer Service and Technical Assistance

The Pandemic upended the HRC when it comes to customer service. In March 2020 when staff was directed to work from home, the HRC lost its ability to utilize both the internal phone system and its Resources Access database that staff relies upon to research information enabling them to provide individuals, nonprofits, and other organizations with assistance.

In order to provide the service required, the team implemented additional technology from current vendor Cisco (telephonic service) called Jabber to allow for staff to use their computer with a dedicated phone line (their work phone) to answer calls remotely. Cisco and Jabber are both managed through TDHCA's relationship with the Texas Department of Information Resources (DIR).

Currently, Information Services is collaborating with the HRC to create a more robust platform for the data resident in the Resources Access database that can also be accessible by remote teams. This project will enhance service across the entire Department by allowing anyone on the Intranet to use the database to assist TDHCA's customers should they receive calls outside the normal call tree (a call tree on a voice phone line directs calls to a specific group or person based on caller selection of predefined options).

It was also noted that HRC customer service duties increased exponentially during early 2021 due to Winter Storm Uri and the implementation of the Texas Rent Relief Program (TRR), which occurred simultaneously. The HRC Division had lost personnel who transferred to TRR and was staffing back up, including hiring temporary resources. While this additional support was required, HRC continued to manage overall duties regarding customer service and technical assistance.

OIA interviewed HRC team members regarding their processes for handling customer service inquiries, reporting call information, and providing various avenues of technical assistance offered. OIA reviewed in detail, responses from the HRC to customers for both phone calls and email inquiries for which HRC is responsible for coordinating with the Program areas during FY2021; and found them to be addressed timely and appropriately, except for some calls and complaints related to the Texas Rent Relief Program (TRR). The tracking database noted that calls and complaints were received and information forwarded to TRR Program personnel for resolution; however many TRR related customer calls did not include the date that the call or complaint was resolved. See additional detail regarding TRR customer service coordination below.

Texas Rent Relief Program Coordination

The Texas Rent Relief Program provides rental and utility assistance to qualifying applicants to prevent housing instability, potential eviction, utility disconnections, and financial hardships for tenants and landlords affected by the COVID-19 pandemic. At the time the Program was implemented in February 2021, HRC provided support to

the Program by fielding and redirecting calls to the "TRR Call Center", which is a support structure separate from TDHCA operations utilizing external vendors to handle both incoming calls for assistance and complaints. Typically, HRC will assist new Programs with customer service or design, then hand off the tasks to the new Program management once the new Program can absorb customer calls and emails or respond to customers. During the period under review, the TRR Call Center received most of the customer service calls, which grew to up to 210,000 calls a week; due to the high volume of calls, some individuals reached out to other avenues such as the TDHCA general email and phone number. OIA found that the TRR tenant and landlord certification forms posted on the TRR website include the TDHCA general email and phone number as part of the official TDHCA footer at the bottom of each document. During OIA's review, it was noted that some individuals submitted these forms to the TDHCA general email.

Because of the overwhelming demand for assistance and increase in call volumes, individuals also logged many complaints related to TRR on the TDHCA public complaint system, increasing efforts put forth by HRC. For context, during 2021, all of TDHCA's programs excluding TRR logged 630 complaints, while over 500 complaints regarding TRR were logged into the TDHCA Complaint Management System. As it became clear that TRR complaint resolution would take longer than the specified 15 business days*, the letter or email to those individuals was updated to 45 days. Due to the backlog of calls and complaints, individuals requesting assistance also reached out to external parties, resulting in additional and unplanned efforts to escalate and resolve the complaints.

* Texas Administrative Code *Title 10 §1.2 Department Complaint System to the Department* states that "the Department shall either notify the complainant of the resolution of the Complaint within 15 business days after the date the Complaint was received by the Department, or notify the complainant, within such period, of the date the complainant can expect a response to the Complaint." The TDHCA SOP 1270.05 Consumer Complaints details the procedures currently utilized by HRC.

OIA selected a sample of TRR related complaints and tested for compliance with TAC *Title 10 §1.2 Department Complaint System to the Department* and TDHCA SOP 1270.05 Customer Complaints. At the time fieldwork was complete, individuals had been notified that their complaint was received and will be resolved within a specified period; resolved TRR complaints in the sample reviewed by OIA were appropriately escalated to the TRR Call Center queue for resolution. Because improvements to the complaint process continued at the time of audit reporting, OIA will follow up with TRR staff on implementation during FY2022 during the *Follow Up Audit of Prior Audit Findings and Recommendations*. At the time of this report, there were approximately 300 outstanding unresolved TRR complaints to which the TRR staff are responding.

OIA offers the following recommendations regarding TRR customer service calls and complaints management:

Observation Item Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
21-005.01	The HRC and TRR Program should complete their coordination of policies and procedures in order to comply with Texas Administrative Code and TDHCA SOP 1270.05 (Customer Complaints).	November 16, 2021*	TRR Director and HRC Director
21-005.02	OIA recommends that the process of transferring calls from the TDHCA HRC phone line to the TRR Program be enhanced to automatically send TRR related calls directly to the TRR Call Center for customer service resolution.	November 30, 2021	TRR Director

Observation Item Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
21-005.03	OIA recommends that Tenant and Landlord Certification Forms posted to the TRR website be updated to indicate contact information for the TRR Call Center rather than TDHCA's general contact information (both phone and email). Additional messaging and prompts defined and implemented on the TDHCA website would also assist in guiding customers to the TRR Call Center directly.	November 30, 2021	TRR Director

*as noted above, completion of the TRR complaint management process will be reviewed during the FY2022 *Follow Up of Prior Audit Findings and Recommendations*

Management Responses

21-005.01: *The discrepancy in unresolved TRR complaints is due primarily to volume. For context, as of November 3, 2021, TRR was processing more than 210,000 active applications for assistance and had received approximately 530 complaints since February 2021. In contrast, the rest of the Department's programs received approximately 650 complaints combined in that same timeframe.*

TRR staff has developed a new complaint system that is designed to be compliant with the requirements established in the Texas Administrative Code and that will operate separately from the Public Complaint Tracking System managed by HRC. Staff expects that use of this system will improve the capacity of HRC and TRR to fulfill their respective responsibilities as they relate to complaints, as this form eliminates the need to coordinate via email between HRC and TRR and will provide TRR applicants a better avenue to submit a complaint with more specific details needed for staff to investigate the complaint. Department leadership has approved the use of this alternate system and approved TRR to manage program complaints outside of the process established in TDHCA SOP 1270.05 (Customer Complaints), knowing that it meets the requirements laid out in 10 TAC.

21-005.02: *TRR management will work with the Director of External Affairs who oversees TDHCA's phone line 'tree' and Staff Services who will place the necessary work orders with Texas Department of Information Resources (DIR) to include a new call line in the call tree that states "Texas Rent Relief". A new TRR line would then automatically direct TRR related callers to the TRR Call Center as recommended. HRC can work to assist this effort as needed. Note: there is already a call line on TDHCA's call tree that says "Emergency Rental Assistance". HRC staff respond to this line. This line will remain in use for incoming callers who are seeking rental and/or emergency assistance resources that may be available through TDHCA's non-TRR assistance programs.*

21-005.03: *The vast majority of applicants complete the certification online as part of their application in the application system. Contact information for the TRR Call Center is featured prominently on the TRR website and in most documents and public-facing communications prepared by TRR program staff. TRR management will update the forms on the website with the appropriate contact information for the TRR Call Center.*

Report on Customer Service and Technical Assistance

Biennially the HRC is required to submit the Report on Customer Service to the Office of the Governor. OIA reviewed the process and method utilized by HRC to gather the data and present in the report released FY2020 and found it to be comprehensive and timely submitted.

The Department communicates technical assistance to the public, nonprofits, developers, advocates and other interested parties through the TDHCA website and resource information provided via email or verbally in response to emails or calls; these resources are maintained in the Help for Texans Resources Database ("*Resources*"). OIA reviewed the website in detail to determine if the information is accessible and usable, as well as updated and easily understood. Other than a few minor updates that have already been completed by HRC and Information Services, the website appears to meet the needs for general requests for information. In addition, during the customer service phase of testing, OIA reviewed the structure and functionality of the current end user created *Resources Access* database and noted that it will be replaced by an IS created and supported application accessible to all personnel in the near future.

Interagency Workgroups and Board Meeting Materials

The HRC represents TDHCA on various interagency workgroups that input to TDHCA's overall strategy for providing cost-burdened, low-income and very low-income Texans with options for affordable housing. Two key interagency groups, required by Texas Government Code (TGC), are supported administratively by the HRC as meeting coordinators and record keepers. These workgroups are the Housing and Health Services Coordination Council (reference TGC §2306.1091 – 1098 *Housing and Health Services Coordination Council*) and the Texas Interagency Council for the Homeless (reference TGC §2306.901 – 910, *Interagency Council for the Homeless*). Both groups seek to coordinate the various services provided by state agencies for housing support for key, targeted vulnerable populations, and solicit community input regarding the services provided.

OIA reviewed meetings and related documentation generated including minutes, transcripts and official reports submitted to authorities to ensure compliance with the TGC references noted above. The attributes addressed timeliness of scheduled meetings, required composition of the group, reporting requirements, and the prescribed planning and reporting processes. Based on our review, HRC's administrative process appears to be functioning effectively and adhering to Code requirements.

In 2020, the HRC took responsibility for Board and Committee meetings materials coordination. For each meeting, HRC staff begin soliciting agenda items and explanations well before the meeting. The agendas are finalized and approved by executive management for posting to the website and Texas Register at least seven days before the meeting as prescribed in TGC §551 *Open Meetings*. The detailed material, primarily in the form of Board Action Requests, consent approvals, and management reporting, is due for posting to the TDHCA website within seven days of the meeting; amendments and updates are posted within three business days of the meeting.

OIA reviewed Board and Committee meeting material submissions and communications during FY2020 and FY2021 and found that one Board meeting agenda was not posted to the Texas Register. Per discussion with management, this instance was a result of human error and additional procedures have been put in place within the process to ensure posting timely. To verify, OIA reviewed all eleven Board and Committee meeting Texas Register postings for FY2021 and found no other exceptions.

Standard Operating Procedures (SOP)

A SOP is a procedure specific to the operation of a division 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 to the Division. OIA found that the TDHCA Board Book SOP 1100.17 is not fully updated; however, the process has changed throughout the past year, so management has decided to update the SOP when procedures are finalized. As of the end of our fieldwork phase, the division had very detailed internal procedures for critical processes that provide consistency; they are only in need of minor updates including current management and staff contacts and final signoff from management. With the recent merger of Fair Housing and Data Management reporting with the HRC division, the Director of HRC is reviewing all staff duties, classifications, roles, and responsibilities that could impact these procedures and will update documentation as appropriate.

F) OTHER AUDIT WORK

OIA conducted an audit of the Complaints Resolution Processes at TDHCA in FY 2019, which is under the purview of the HRC division, as well as an audit of the Performance Measures, also in FY 2019. We reviewed the results of those audits in the context of reviewing the Housing Resource Center division; therefore, these functions were not included within our current detailed scope, except for TRR Complaints as the Program was not in existence at the time of the 2019 audit. This audit targeted the division's processes and controls that surround the compilation of key reports; the underlying data is consistently generated and approved by Program management and was not validated by OIA on a detailed level as to its accuracy.

OIA extends our sincere appreciation to the Housing Resource Center, Texas Rent Relief Program, and Information Systems divisions management and staff for their cooperation and assistance during the course of this audit.

Sincerely,



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

MS/SN

APPENDIX A - CRITICAL REPORTING COMPILED BY HRC

Report Name	Governing Authority	Frequency	Description
Consolidated Plan (Con Plan)	Federal / HUD	Every five years	HUD reporting requirements for the following programs: the Community Development Block Grant Program (CDBG), the HOME Investment Partnerships Program (HOME), the Emergency Solutions Grants (ESG) program, the Housing Opportunities for Persons with AIDS program (HOPWA), and the National Housing Trust Fund (NHTF). The Con Plan outlines allocations and actions planned for the next 5 years for TDHCA and interagency partners such as Texas Department of Agriculture and Health and Human Services Commission as it relates to affordable housing strategy coordinated with health care and community support. Regulated by 24 Code of Federal Regulations Chapter 91.
Consolidated Annual Performance and Evaluation Report (CAPER)	Federal / HUD	Annual	HUD reporting requirements consistent with the Con Plan, the CAPER reports on the State's performance to the plan as outlined for the past Program year.
One Year Action Plan (OYAP)	Federal / HUD	Annual	HUD reporting requirements consistent with the Con Plan, the OYAP communicates the State's plan to meet the goals as outlined in the Con Plan in the upcoming Program year.
TDHCA Report on Customer Service	State	Biennial	Prepared in accordance with State Strategic Planning guidelines, the report evaluates TDHCA's facilities, staff, communications, Website, complaint process, service timelines and printed information. Meets requirements of TGC Chapter 2114.
Housing and Health Services Coordination Council (HHSCC) Biennial Plan and Report	State	Biennial	Plan used by HHSCC members to direct the activities of the Council as specified in TGC §2306.1096 (a). The report is separated into two different documents: §2306.1096 (b) The Biennial Plan and §2306.1096 (c) The Biennial Report of Findings and Recommendations.
State Low Income Housing Plan and Annual Report (SLIHP)	State	Annual	Provides an overview of statewide housing needs and reports on the administration, funding levels, performance measures and the distribution of TDHCA's resources from the previous fiscal year. Meets requirements of TGC §2306.071 - §2306.0724 and Texas Administrative Code Title 10 Rule §1.23
Housing Sponsor Report	State	Annual	Provides property and occupant profiles of reporting properties receiving assistance from TDHCA. Meets requirements of TGC §2306.071 - §2306.0724.

Report Name	Governing Authority	Frequency	Description
Regional Allocation Formula	State	Annual	\$2306.111 of TGC requires TDHCA to develop and use a formula to regionally allocate its HOME, Housing Trust Fund (HTF), and Housing Tax Credit (HTC) program funding. The resulting Regional Allocation Formula (RAF) determines how this funding will be distributed among the urban and rural areas of the 13 service regions used by TDHCA for planning purposes.
Rural / Urban Designation	State	Annual	The Rural / Urban designation is utilized to determine certain set-asides and targeted programs for rural areas.
Housing Finance Corporation (HFC) Report	State	Annual	Required by Title 12 of the Texas Local Government Code, the report presents data regarding single family mortgage loan activity of HFCs and demographic information for persons residing in HFC-financed multifamily units.
Performance Measures	State	Quarterly	Required by the Legislature, reports on performance of Agency goals, objectives, and strategies for available affordable housing funds.
Federal Funding Report	State	Quarterly	Required by the Office of the Governor, reports awards of funding from the Federal Government.
Rider 6 Reporting	State	Quarterly	Required by the Legislature, reports on activity of Contracts for Deeds.

Report Item

4

AUDIT AND FINANCE COMMITTEE REPORT ITEM

INTERNAL AUDIT DIVISION

December 9, 2021

Presentation and discussion of Internal Audit review of the implementation status of prior audit findings and recommendations, Report # 21-006



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

www.tdhca.state.tx.us

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September 24, 2021

Writer's direct phone # 512.475.3813
Email: mark.scott@tdhca.state.tx.us

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 # 21-006

Dear Board Members,

The TDHCA Fiscal Year 2021 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, 2020. 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 October 2020:

1. Internal Audit review of the Complaint Resolution function, Report # 19-006

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

B. Internal Audits reports issued between January and December of 2020:

1. Internal Audit of the Multifamily Bond program, Report # 20-001
2. Internal audit of the Purchasing function at TDHCA, Report # 20-003
3. Internal Audit of the Section 811 PRA program, Report # 20-004
4. Internal Audit of the Physical Inspection section of the Compliance Monitoring division at TDHCA, Report # 20-005
5. Internal Audit of the Section 8 program, Report # 20-006

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

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.

Texas Comptroller’s Office

Audit of the Post Payment transactions, Report # 332-21-01

The Texas Government code requires the Texas Comptroller of Public Accounts (Comptroller’s office) to audit claims submitted for payment through the Comptroller’s office. All payment transactions are subject to audit regardless of amount or materiality. Auditors reviewed a sample of the TDHCA’s payroll, purchased / procurement, payment card, and other transactions processed through USAS, CAPPs and SPR from March 1, 2019, through Feb 29, 2020 to determine compliance with applicable state laws.

The audit report was issued on July 27, 2021, and indicated that the Department generally complied with the General Appropriation Act (GAA), relevant to Texas Government code and Texas Administrative Code provisions, and Comptroller requirements. Auditors’ findings and

recommendations were related to improvements in purchase / procurement, contracting, payment card, travel and system security processes. The Department has agreed with the recommendations and provided corrective action plan. Internal audit will review the implementation status of the findings during FY 2022 Follow up audit.

We would like to express our appreciation to TDHCA management and staff for their courtesy and cooperation during this work.

Sincerely,



Mark E. Scott, CPA, CIA, CISA, CFE, MBA
Director of Internal Audit

Cc: Bobby Wilkinson, Executive Director
Beau Eccles, General Counsel
Jeff Pender, Deputy General Counsel
David Cervantes, Director of Administration
Brooke Boston, Deputy Executive Director of Programs
Homero Cabello, Deputy Executive Director of Program Controls and Oversight
Elizabeth Yevich, Director of Housing Resource Center
Teresa Morales, Director of Multifamily Bonds
Joe Guevara, Director of Financial Administration
Larry Mercadel, Director of Information Systems
Spencer Duran, Director of Section 811 Program
Michael De Young, Director of Community Affairs

Appendix A

Status of Internal Audit Findings and Recommendations As of September, 2021

1) Audit Report # 19-006

Internal Audit of the Complaint Resolution process

OIA Findings and Recommendations:

- TDHCA should enhance the Complaint Submission System's capabilities to provide complainant with an auto response email confirming receipt of complaint along with language regarding expected time frame for a response from staff.
- TDHCA should consider adding an upload / attachment feature to the Complaint Submission System so supporting documents can be uploaded by complainants.

Management's response and reported status:

This referenced improvement project to enhance the Complaint Submission System's capabilities is still in-process by TDHCA'S Information System (IS) division. The system enhancements have been delayed due to the COVID-19 pandemic and the influx of the many new TDHCA programs resulting from the pandemic response. This has resulted in a shift in priority focus within IS and their planned internal system changes.

Finding remains open

Appendix B

Status of Internal Audit Findings and Recommendations As of September, 2021

1) Audit Report # 20-001

Internal Audit of the Multifamily Bond program, Report issued March 13, 2020

OIA Findings and Recommendations:

- I. Internal Audit recommends that the Multifamily Bond program establish signed and dated SOPs to create consistency and efficiency for all parties involved in the program.
- II. Internal Audit recommends that a secondary staff be cross trained in the duties and responsibilities of the Director of Multifamily Bond program for the purpose of consistency and continuity of operation of the program.
- III. Internal Audit recommends that Financial Administration continue its efforts to cross train others on the key processes such as monthly reconciliation and document the procedures in detailed and approved SOPs.
- IV. Internal audit recommends that the Multifamily Bond program establish communication with Financial Administration division to be kept apprised of the results of SOC1 reports.
- V. Internal Audit recommends that the evaluation criteria be expanded and additional criteria, such as previous history and relationship of the firm with the Department, be added to the evaluation criteria and scoring.
- VI. When implementing the new GASB standard, the Financial Administration team should review the entire process that it completes to determine how best to comply with the standard along with any regulatory requirement in the most efficient manner.

Management's response and reported status:

- I. *The SOPs that encompass the MF Bond Program have been signed and will be provided to Internal Audit with the final Audit report*
- II. *A new employee was hired on March 3, 2020 who will be assisting the Multifamily Bond Program Director in carrying out certain responsibilities of the division.*
- III. *During FY21, another senior bond accountant has been cross trained on the multifamily bond processes and reconciliations for multiple trustees. It is an ongoing process due to the volume and complexity of the transactions. Bond accounting will continue the efforts to cross train and expect to complete 100 percent training of all trustees by the end of the fiscal year. A monthly checklist is used to ensure essential processes are performed*
- IV. *Bond Accounting conducted the review of the SOC1 reports, which were viewed by SAO in FY20. All reports received during the fiscal 2020 audit showed an opinion by independent auditors stating internal controls operated effectively to provide reasonable assurance that control objectives were met. A task has been included to Financial Administration's AFR checklist to share SOC1 reports and documentation with the multifamily program area.*
- V. *Management acknowledges this recommendation but respectfully disagrees. The prior RFQ responses were evaluated and scored based on the identified scoring criteria and*

responses provided. While it was inferred that the scores given to the Bracewell LLP firm took into account their previous relationship with the Department, their score should also be viewed in the context of the submissions provided by other firms.

- VI. *Due to Covid-19, GASB has postponed the implementation of GASB 91 until fiscal 2023. Financial Administration will continue to stay up to date with reporting requirements and guidelines for GASB 91.*

The recommendations have been implemented for Observations and Findings I, II, III, and IV. Management accepts the risk for recommendation V, and recommendation VI remains open.

2) Audit Report # 20-003

Internal Audit of the Purchasing function at TDHCA, Report issued May 29, 2020

OIA Finding and Recommendation:

- I. OIA recommends that Financial Administration and the Purchasing division establish a procedure to remove employees' names from PeopleSoft upon their separation from TDHCA.
- II. OIA recommends that the Purchasing division establish an improved record keeping system to ensure a complete and more consistent documentation process.
- III. OIA recommends that the Purchasing division establish a procedure for review and reconciliation of monthly credit card statements to improve consistency of the process.

Management's response and reported status:

- I. *Information Systems Division has a process in place to remove access for terminated employees upon separation. A review process is being performed on the list of users of CAPPs to ensure accuracy.*
- II. *Purchasing division has fully transitioned to an electronic filing process. They have updated their RFP/RFQ checklist which facilitates the review of the electronic files for completeness.*
- III. *Purchasing division has established procedures to improve the consistency and documentation of the credit card statement review process.*

All recommendations have been implemented and findings are closed

3) Audit Report # 20-004

Internal Audit of the Section 811 PRA program, Report Issued June 1, 2020

OIA Finding and Recommendation:

- I. Internal Audit recommends that the Section 811 PRA program establish updated, signed and dated SOPs for key processes to create consistency and efficiency for all parties involved in the program.

- II. Internal Audit recommends the development of a business case for presentation to the IS Steering Committee for certain aspects of the program such as applicant referrals from the waitlist and online applications.
- III. Internal Audit recommends that Information Systems review the current infrastructure that serves as the base for the CMTS Section 811 PRA module to provide upgrade or replacement options.
- IV. Internal Audit recommends that Information Systems determines and implements the best available method of segregating Manufactured Housing employees from access to TDHCA specific program information, especially that which includes private applicant level data.
- V. Internal audit recommends that Information Systems creates a new method of access to the underlying data within the system to limit access to the appropriate users defined by the Program.
- VI. Internal Audit recommends that the process of reviewing and inputting applications ensures that initial rejection letters for age or income are sent to the applicant timely.
- VII. Internal Audit recommends the creation of policy in consultation with HHSC to address appropriate approval of the Verification of Disability.
- VIII. Internal Audit recommends that the application for Section 811 PRA Program assistance be updated and simplified for future applications.
- IX. Internal Audit recommends that the waitlist management process be reviewed and other procedures considered for efficiency and continued effectiveness, such as verification of certain information prior to referral rather than while on the waitlist.
- X. Internal Audit recommends that Financial Administration evaluate automating the manual process of inputting property owner payments utilizing data files provided by Blueprint.
- XI. Internal Audit recommends the periodic review of access lists of critical systems to ensure appropriately restricted access to processing and information.

Management's response and reported status:

- I. *All key process SOPs were reviewed, updated, signed and dated throughout the course of the year.*
- II. *The Section 811 Program is currently working closely with IS staff on a series of updates to CMTS that will allow eligible Referral Agents to submit applications to the program and update critical household information.*
- III. *Since September 2020, Information Systems, with input from the Section 811 Program, have completed several updates to CMTS that improve program operations. Additionally, IS is currently working on creating external user roles that pave the way for the program to accept direct online applications.*
- IV. *Section 811 (S811) and Information Systems Division (ISD) staff worked together to resolve this issue. This issue has been remediated.*
- V. *Section 811 (S811) and Information Systems Division (ISD) staff worked together to resolve this issue. This issue has been remediated.*

- VI. *The Section 811 Program is fully staffed and utilizing temporary employees as necessary allowing for timely input of applications and therefore timely rejections as required. Further, the Section 811 Program has closed most waitlists slowing the rate of application submissions; ensuring staff can input, review and take appropriate action in a timely manner on applications.*
- VII. *On May 19, 2020, the Section 811 PRA Program staff consulted with HHSC and DFPS who have contract authority over the Referral Agents, on crafting guidance to the Referral Agents on how to complete the Verification of Disability form. On May 29, 2020, the Processing Program Applications and Property Lease-Up SOP was updated to provide clarification on who is eligible to sign the Verification of Disability form. Subsequent to the addition of this guidance, the Section 811 Program provided this clarification during live webinar trainings to Referral Agents on the following dates: 7/7/21, 7/15/21, and 8/17/21. On the property side, property management agents retain the right to create their own Verification of Disability form that may be used in place of the TDHCA-provided form.*
- VIII. *Program application submission process will be greatly streamlined when the program begins allowing direct, online application submissions from Referral Agents. Program staff have reviewed all fields in CMTS as a step in the online application submission conversion. Several fields are being changed to ensure they are current with the information we need to collect. Of the 112 modifiable household fields in CMTS, Referral Agents submitting online applications will only need to fill out 43 fields.*
- IX. *Program Staff have reviewed and discussed this recommendation and have concluded that the current, two-phase application review is adequate. Additional verifications are not an efficient use of time. Currently, applicant information is verified at these two stages:
 - 1) *When households are added to property waiting lists*
 - 2) *When property managers review the household information after referral to a property.**
- X. *Program Staff and FA meet quarterly and as-needed as issues arise to better coordinate all Section 811 Program activities. In addition, Program Staff and FA have developed a new system of uploading monthly vouchers to a shared folder for review and the folder is cleared once payments have been made.*
- XI. *The Serv-U External Access Procedures Standard Operating Procedure ensures only Referral Agents that have completed the training hosted by UT Health San Antonio have access to the secure server. Serv-U access is removed when TDHCA is informed that an eligible user is no longer associated with the Section 811 Program. Further, Serv-U access is limited to each Referral Agent and property agent's own folder*

All recommendations have been implemented, except IX. Management accepts the risk for recommendation IX. Findings closed.

4) Audit Report # 20-005

Internal Audit of the Physical Inspection section of the Compliance Monitoring division at TDHCA, Report Issued August 14, 2020

Due to COVID19 pandemic, Internal Audit was not able to perform site visits and follow up of Physical Inspection audit. The follow up of findings and recommendations will be done in FY2022.

5) Audit Report # 20-006

Internal Audit of the Section 8 Program, Report issued August 20, 2020

OIA Findings and Recommendations:

- I. OIA recommends that Section 8 program establish written SOPs, signed and dated by management, for consistency and efficiency of the operation.
- II. OIA recommends that the Program establish a process in which the access to the Section 8 electronic folders are monitored and revised regularly to only include authorized staff.
- III. OIA recommends that the Program consider establishing secure electronic file transfer procedures for the submission of application and supporting documents by the referring agencies and the Clients.
- IV. OIA recommends that the Program establish a supervisory review process for the processed files to ensure completion and accuracy of electronic files and information.

Management's response and reported status:

- I. Section 8 Program has established written SOPs, signed and dated.
- II. Section 8 program has established a written SOP (Serv-U Hypertext Transfer Protocol Secure) that addresses the electronic transfer of files between clients and referring agencies.
- III. Section 8 program has established a written SOP (Serv-U Hypertext Transfer Protocol Secure) that addresses the electronic transfer of files between clients and referring agencies.
- IV. Section 8 program has established written SOP (System Software Quality Control) to address this recommendation.

All recommendations have been implemented and findings are closed.

Report Item

5

AUDIT AND FINANCE COMMITTEE REPORT ITEM

INTERNAL AUDIT DIVISION

December 9, 2021

Presentation and discussion of Internal Audit report on the Self-assessment, Report # 21-007



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

www.tdhca.state.tx.us

Greg Abbott
GOVERNOR

BOARD MEMBERS
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Brandon Batch, Member
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Ajay Thomas, Member
Sharon Thomason, Member

November 18, 2021

Writer's direct phone # 512.475.3813

Email: mark.scott@tdhca.state.tx.us

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

RE: Internal Audit Division's Quality Assurance and Improvement Program (Self-assessment)

Dear Board Members:

This is the Office of Internal Audit (OIA) report (report # 21-007) on the self-assessment of the TDHCA internal audit function. This project was identified in the FY 2020 internal audit plan. It is part of the quality assurance program required by the Texas Internal Auditing Act, and a required deliverable for an external assessment of the internal auditing program.

The Institute of Internal auditor's *International Standards for the Professional Practice of Internal Auditing* requires that the director of Internal Audit develop and maintain a quality assurance and improvement program. The objective of the internal assessments is to evaluate the internal audit activity's conformance with the Institute of Internal Auditors: Definition of internal auditing, the Standards and the Code of Ethics. These standards require:

- 1300 – Quality Assurance / Improvement Program
 - 1311 – Internal Assessments
 - Periodic review performed through self-assessment or by other persons within the organization with sufficient knowledge of internal audit practices.

In conducting the self-assessment of internal auditing at TDHCA, OIA utilized the peer review manual developed by the State Agency Internal Audit Forum (SAIAF), a work group comprised of internal auditors in Texas State government. This manual includes a checklist which covers the Institute of Internal Auditors International Professional Practices Framework (IPPF), or "Red Book", including Code of Ethics, Attribute Standards, and Performance Standards. (See Exhibit A)

Our self-assessment of internal audit work quality included an evaluation of the audit project An Internal Audit of the Continuity of Operation (COOP), Report # 21-007, issued in January 2021. Our self-assessment of OIA indicated general compliance with the standards. For each of the standards, we have noted documents that demonstrate compliance with the standard. These include audit charters, audit reports, and various types of audit working papers, as well as internal Standard Operating Procedures (SOPs).

We noted opportunities for improvement in the following areas:

Findings from Work-paper Review

As part of the peer review preparation, the SAIAF work paper review tool was utilized to review one complete set of audit working papers, for the audit of Continuity of Operation (COOP). The COOP audit included evaluation of business continuity planning and disaster recovery readiness. State requirements for COOP are in the Texas Labor Code and the Texas Administrative Code. The following issues were noted in the work paper review:

1. The auditor did not document notes from all of the meetings that were held with management as procedure steps.
2. The Pre-planning and Planning folders did not contain all of the necessary background documents.
3. The Test worksheets did not include the "Results" of the testing that was conducted.

The issues identified during this self-assessment will be included as part of audit close-out and quality assurance review, for future audits.

This self-assessment and the accompanying work papers and review tools will be provided to the external quality assurance team.

Sincerely,



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

MS/NS

Report Item

6

AUDIT AND FINANCE COMMITTEE REPORT ITEM

INTERNAL AUDIT DIVISION

December 9, 2021

Report on the Internal Audit Annual Report



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

www.tdhca.state.tx.us

Greg Abbott
GOVERNOR

BOARD MEMBERS
Leo Vasquez, *Chair*
Paul A. Braden, *Vice Chair*
Brandon Batch, *Member*
Kenny Marchant, *Member*
Ajay Thomas, *Member*
Sharon Thomason, *Member*

October 29, 2021

Writer's direct phone # 512.475.3813
Email: mark.scott@tdhca.state.tx.us

State Auditor's Office
Robert E. Johnson Building
1501 North Congress Avenue, Suite 4.224
Austin, TX 78701

RE: ANNUAL INTERNAL AUDIT REPORT FOR FISCAL YEAR 2021

Internal Audit Coordinator:

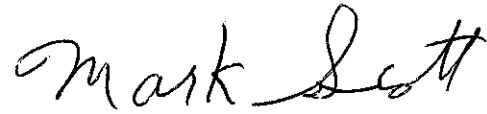
The attached report on the activities of the Texas Department of Housing and Community Affairs' (the Department) Internal Audit Division (Division) for Fiscal Year 2021 fulfills the requirements of the Texas Internal Auditing Act (Texas Government Code, Chapter 2102). The purpose of this report is to provide information on the benefits and effectiveness of the Department's internal audit function as well as on our compliance with House Bill 16. In addition, the annual report assists oversight agencies in planning their work and coordinating their efforts.

During Fiscal Year 2021, the work of the Division contributed to an increase in the effectiveness of the Department's operations. In addition, the Department underwent other audits and reviews by its external auditors, oversight agencies and funding source agencies.

Our internal audit work plan for Fiscal Year 2022 will be presented to the Department's governing board for approval at the December 9, 2021 Board meeting. A draft copy of the 2022 audit work plan is included in the attached report. Both the fiscal year 2022 audit work plan and this report will be posted to the Division's internet web page as required by House Bill 16 (after board approval of annual audit plan). We appreciate the opportunity to provide this information. If you have any questions about this report, please contact me at (512) 475-3813.



Sincerely,

A handwritten signature in black ink that reads "Mark Scott". The signature is written in a cursive style with a large, looped "M" and a stylized "S".

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

NS / MS

cc: Bobby Wilkinson, Executive Director
Sarah Hicks, Governor's Office of Budget, Planning and Policy
Christopher Mattsson, Legislative Budget Board
Jennifer Jones, Sunset Advisory Commission
Internal Audit Coordinator, State Auditor's office

Texas Department of Housing and Community Affairs
Internal Audit Annual Report – Fiscal Year 2021

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**Texas Department of Housing and Community Affairs
Internal Audit Annual Report – Fiscal Year 2021**

I. Compliance with Texas Government Code, Section 2102.015: Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit Information on Internet Web Site

The Internal Audit Division’s internet web page (<http://www.tdhca.state.tx.us/internal-audit.htm>) includes:

- An overview of the Internal Audit Division and its mission statement,
- The Internal Audit Division’s most recent peer review (October 2017),
- Standards, statutes and rules governing the operation of the Internal Audit Division:
 - Texas Government Code Chapter 2102: Texas Internal Auditing Act (www.statutes.legis.state.tx.us),
 - Texas Government Code 2306.073: Internal Audit (www.statutes.legis.state.tx.us),
 - Internal Audit Charter (updated June 2018), and
 - Internal Audit Board Resolutions (amended January 2014),
- Internal Audit Annual Plan for Fiscal Year 2022 (Pending Board approval)¹,
- Internal Audit Annual Report for Fiscal Year 2021, and
- Internal Audit Reports.

Findings noted while performing the Fiscal Year 2021 audit plan are included in the respective Fiscal Year 2021 audit reports. The actions taken by the agency to address the noted concerns are also included in those reports.

II. Internal Audit Plan for Fiscal Year 2021

Project / Audit Title	Report Number	Completed	Report Date
Tenant Selection and Affirmative Marketing Plans	21-001	Yes	May 27, 2021
Management of Non-performing Loans	21-002	Yes	June, 4, 2021
Ending Homelessness fund and Homeless Housing and Services Program	21-003	Yes	August 11, 2021
Multifamily Direct Loan Program	21-004	Yes	September 13, 2021
Housing Resource Center	21-005	No	In Reporting phase

**Texas Department of Housing and Community Affairs
Internal Audit Annual Report – Fiscal Year 2021**

Follow up Audit of prior audit findings and recommendations	21-006	Yes	September 24, 2021
Annual Self-Assessment	21-007	Yes	In Reporting phase

III. Consulting Engagements and Non-audit Services Completed

Consulting Project Related to Subrecipient Monitoring

This project has included regular meetings for the Internal Audit Director to provide management with advice on Single Audits (formerly referred to as A-133 audits) of TDHCA subrecipients. The group meets, as needed, to go over single audits that have findings and/or other issues, and to prepare the management responses to the audits that are required by the Single Audit Act.

Coordination of External Audit Activities

There have been several external audits and monitoring reviews of TDHCA during the past year, and the Office of Internal Audit provides coordination services during the course of these audits. The most recent audits were the SAO audits of the TDHCA's Annual Financial Statements, Annual audit of bond activity and compliance with Public Investment act, and SAO audits of HUD data, including an "in relation to" financial data audit and an internal control audit. In addition, CliftonLarsonAllen LLP (CLA), performed follow up audit work of Low Income Housing Energy Assistance Program (LIHEAP) and Community Services Block Grant (CSBG).

IV. External Quality Assurance Review (Peer Review)

The Department's Internal Audit Division received its most recent peer review in Fiscal Year 2018. The peer review was started in September 2017 and completed in October 2017. The following excerpt is from the executive summary of that report.

"It is our overall opinion that the Internal Audit Department at TDHCA generally conforms to the IIA's Standards and the Code of Ethics for the period of January 1, 2016 through September 30, 2017. There were no opportunities for improvement identified that would be considered reportable items.

The IIA's quality Assessment Manual for the Internal Audit Activity suggests a scale of three rankings when opining on the internal audit activity: "Generally Conforms," "Partially Conforms," and "Does Not Conform." The ranking of "Generally Conforms" means that an internal audit activity has a charter, policies, and processes that are judged to be in conformance with the Standards and the Code of Ethics.

**Texas Department of Housing and Community Affairs
Internal Audit Annual Report – Fiscal Year 2021**

The Internal Audit Department is independent, objective and has unrestricted access to systems and records. The Internal Audit management and staff are professional and possess the appropriate skills to effectively perform their audits. Internal Audit projects are effectively executed and results are communicated timely.”

The Office of Internal Audit plans to procure an external team in 2022 to perform a peer review assessment.

V. Internal Audit Plan for Fiscal Year 2022 (Pending Board Approval)

Activity/Program/Division	Comments
Texas Rent Relief Program – Procurement of Administrative Contracts	The specific project objective(s) and scope will be determined by the detailed assessment of relative risks identified during the project planning process.
Previous Participation Review (PPR)	
IT General Controls	
IT Application Controls	
MH Installation Inspection / Physical Inspection / and Follow up work on the Migrant Labor Housing	
Texas Homeownership program	
Management Requests or Special Projects	As requested
Duties related to Fraud, Waste, and Abuse allegations	Internal Audit is responsible for reviewing allegations of fraud, waste and abuse.
Prior Audit Issues Tracking, Follow Up and Disposition	Required by the Audit Standards
Annual Risk Assessment and Audit Plan Development	Required by the Audit Standards and the Texas Internal Auditing Act
Continuing Professional Education and Staff Development	Required by the Audit Standards
Quality Assurance Self-Assessment Review	Required by the Audit Standards
Coordination with External Auditors and Oversight Agencies	Ongoing requirement
Preparation and Submission of the Annual Internal Audit Report	Required by the Texas Internal Auditing Act
Annual Review and Revision of Internal Audit Charter	Required by the Audit Standards

The audit plan is a dynamic document that may change during the fiscal year as circumstances change. Requests from management, changes in audit resources and changes in the agency’s organization or operations could result in changes to the plan. Significant changes will be presented to management, the Audit and Finance Committee and the Governing Board for review and approval.

Texas Department of Housing and Community Affairs Internal Audit Annual Report – Fiscal Year 2021

The audit plan was developed utilizing a risk-assessment matrix, and input from stake-holders. The auditable units such as programs, divisions of the organization, and administrative functions, were risk-ranked according to attributes such as dollar size of unit, fraud risk, and complexity of operations. The highest ranked auditable units were selected for audit. There are no internal audit projects specifically focused on Senate Bill 20 Provisions. However, the Audit of *Texas Rent Relief program* may include review of large contracts in its scope.

The budgeted hours for all projects are based on two staff auditors and the Director of Internal Audit.

VI. External Audit Services

In Fiscal Year 2021, external audit services were procured from and provided by the State Auditor's Office. These services included an audit of the Department's Annual Financial Report and Computation of Unencumbered Fund Balances. The Texas Rent Relief (TRR) Program will be audited by the SAO. Additionally, TDHCA has entered into contracts for TRR administrative services, which include audit services.

VII. Reporting Suspected Fraud, Waste, and Abuse

The Department's home page (www.tdhca.state.tx.us) has an active link to the State Auditor's Office's fraud, waste and abuse hotline, as well as the hotline phone number for the State Auditor's Office.

The Department has policies and procedures in place to report suspected fraud, waste and abuse to the State Auditor's Office as required by the Texas Government Code, Section 321.022. The Executive Director is responsible for deciding, based on input from others, whether an incident warrants investigation, and is also responsible for the decision as to whether or not an incident should be reported to the State Auditor's Office. The Internal Auditor is responsible for investigating such incidents as requested by the Executive Director and as approved by the Chair of the Audit and Finance Committee. The Internal Auditor is also responsible for consulting with the general counsel or ethics advisor about whether an incident meets the "reasonable cause to believe" criterion for reporting an incident to the State Auditor's Office and for advising the executive director as appropriate. All Department employees are also responsible for reporting to their division directors any incidents or matters of which they become aware that may require a report to the State Auditor's Office.

The Department regularly reports cases of suspected fraud, waste and abuse to the State Auditor's Office in addition to the Department's other oversight agencies such as the Department of Housing and Urban Affairs' Office of the Inspector General, the Department of Energy's Office of the Inspector General, and the Department of Health and Human Services' Office of the Inspector General.

Texas Department of Housing and Community Affairs
Internal Audit Annual Report – Fiscal Year 2021

ⁱ The Internal Audit Annual Plan for Fiscal Year 2022 will be posted on Division's internet web page after Board approval on December 9, 2021.

Report Item

7

AUDIT AND FINANCE COMMITTEE REPORT ITEM

INTERNAL AUDIT DIVISION

December 9, 2021

Report on the status of the Internal and External Audit activities

Verbal Report