AUDIT COMMITTEE MEETING
APRIL 28, 2016

Leslie Bingham Escareño, Chair

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
AUDIT COMMITTEE MEETING

AGENDA
9:00 AM
APRIL 28, 2016

JOHN H. REAGAN BUILDING
ROOM JHR 140, 105 W. 15TH STREET
AUSTIN, TEXAS

CALL TO ORDER, ROLL CALL, CERTIFICATION OF QUORUM — Leslie Bingham-Escareño, **Chair**

Leslie Bingham-Escareño, **Chair**

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

ITEM 1: Presentation, Discussion, and Possible Action to Approve the Audit Committee Minutes Summary for January 28, 2016 — Mark Scott, Director of Internal Audit

REPORT ITEMS: — Mark Scott, Director of Internal Audit

1. PRESENTATION AND DISCUSSION OF THE INTERNAL AUDIT ACTIVITY
2. DISCUSSION OF RECENT EXTERNAL AUDIT ACTIVITY
3. DISCUSSION OF INTERNAL AUDITS AND CONSULTING ACTIVITY

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, Texas Government Code, Chapter 551 and under Texas Government Code, §2306.039.

1. Pursuant to Texas Government 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.
2. Pursuant to Texas Government 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.
3. Pursuant to Texas Government 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 Texas Government Code, Chapter 551.
4. Pursuant to Texas Government 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 the auxiliary aids, services or sign language interpreters for this meeting should contact Gina Esteves, ADA Responsible Employee, at 512-475-3943 or Relay Texas at 1-800-735-2989 at least two (2) days before the meeting so that appropriate arrangements can be made.

Non-English speaking individuals who require interpreters for this meeting should contact Annette Cornier 512-475-3803 at least three (3) days before the meeting so that appropriate arrangements can be made.

Personas que hablan español y requieren un intérprete, favor de llamar a Annette Cornier al siguiente número 512-475-3803 por lo menos tres 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.

1

AUDIT COMMITTEE ACTION REQUEST

INTERNAL AUDIT DIVISION

APRIL 28, 2016

Presentation, Discussion and Possible Action on Audit Committee Meeting Minutes Summary for January 28, 2016.

RECOMMENDED ACTION

RESOLVED, that the Audit Committee Meeting Minutes Summary for January 28, 2016 are hereby approved as presented.

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

On Thursday, January 28, 2016, at 9:03 a.m. the meeting of the Audit Committee (the "Committee") of the Governing Board (the "Board") of the Texas Department of Housing and Community Affairs (the "Department") was held in the John H. Reagan Building Room JHR 140 at 105 W. 15th Street, Austin, Texas. Leslie Bingham Escareño presided over the meeting and Mark Scott served as secretary. Committee members Leslie Bingham-Escareño and Tolbert Chisum were in attendance and represented a quorum for the committee meeting.

The minutes of the November 12, 2015, meeting of the Committee were adopted as presented.

Mr. Scott introduced the discussion of the annual audit of TDHCA financial statements, which is performed by the State Auditor's Office. This audit includes a review of compliance with the Public Investment Act. Cesar Saldivar, Audit Manager with the State Auditor's Office introduced Philip Stringer, the project manager, and Sarah Puerto, the assistant project manager. Mr. Stringer stated that on December 18, 2015 they expressed unmodified opinions on the Department's fiscal year 2015 basic financial statements, the Revenue Bond Program Enterprise Fund financial statements, and the computation of unencumbered fund balances of the Housing Finance Division. Also, a report was issued on compliance with the Public Funds Investment Act. On September 24, 2015 the State Auditor's Office issued a report that concluded that the Department's electronically submitted financial data schedule to the U.S. Department of Housing and Urban Development Real Estate Assessment Center agreed with certain hard copy documents.

The committee recommended the reports as presented to the Board.

Mr. Scott presented the internal audit of program income that was carried over from the 2015 audit plan. Based on a project risk assessment the audit focused on the Tax Credit Assistance Program (TCAP) and the Neighborhood Stabilization Program (NSP). Program income is recorded in several agency systems. For TCAP the amounts in the various systems reconciled except for some immaterial differences.

The main issue in the internal audit was that the NSP program amounts in DRGR were not being reconciled to PeopleSoft, which is used for financial accounting. Management agreed with the audit recommendation and has set up a plan to perform complete reconciliations at a minimum of every three months. Accounting staff and program staff were cooperative in working towards resolution of the issue.

The report was thorough and the committee is in receipt of the report.

Tim Irvine, TDHCA Executive Director, reminded the committee that it's noted in the actual materials, but to point out on this record, the TCAP loan repayments are not, strictly speaking, program income, they're just loan repayments.

Mr. Scott gave an update on external audits. At the last Committee meeting, it was discussed that KPMG was planning to use the new OMB Circular rules as criteria for their 2015 audit which would have resulted in findings of non-compliance. After further discussions they have agreed to not write any findings related to implementation of the new circular. KPMG has a few minor findings related to internal review of information related to the HOME program.

The U.S. Department of Health and Human Services, Division of Energy Assistance did a review of the LIHEAP program and they were very complimentary of TDHCA's practices related to outreach, ease of enrollment, service delivery plans and training.

Mr. Scott gave an update of the 2016 audit plan and consulting activities. The Office of Internal Audit (OIA) just did the program income audit and we are going to start the sources and uses audit and also the real estate analysis audit. Both of these audits involve a lot of what auditors would call analytical procedures, and so it won't take OIA as much staff time as an in-depth operational audit.

Internal Audit is doing ongoing consultation with monitoring staff, related to subrecipient monitoring, specifically the review of the A-133 audits. Also, with the Texas State Board of Public Accountancy on getting better A-133 audits from the subrecipients, and they're going to have a hearing in February on one of the audits that was referred to them.

Ms. Bingham Escareño stated that the State Board of Public Accountancy has criteria or expectation for CPAs that do those A-133 audits to meet, and they'd like to work with us to make sure that the subrecipients are using accountants that are abiding by stated criteria. Mr. Scott commented that was perfectly stated.

For a report on fraud, waste, and abuse, Mr. Scott stated that we have a fraud hotline, as well as the State Auditor and we work with them regularly. There are a lot of these calls that aren't really related to our programs, but they are generated out in our properties, the tax credit properties or in some other way and it is work to sift through them. But it's better to know it than not to know it, so we continue to utilize that service and keep track of it.

Mr. Irvine commented that under state law we also have very specific reporting requirements in regards to fraud, waste and abuse. When we suspect certain types of wrongdoing or loss or impropriety, we're required to report that to the State Auditor's Office, and we file those reports promptly and carefully and work with SAO as their fraud investigation unit follows up on them.

Ms. Bingham Escareño asked should the committee and the board assume that any material recommendations, findings that come out of fraud, waste and abuse would end up in this report?

Mr. Irvine answered that we are very careful to protect things like ongoing criminal investigations or legal proceedings and so forth, but through appropriate vehicles we make sure that the board knows everything serious that's going on.

There being no further business to come before the Committee, the meeting was adjourned at 9:15 a.m.

_____ Leslie Bingham Escareño, Chairman

_____ Mark Scott, Audit Committee Secretary

REPORT ITEMS

R1

AUDIT COMMITTEE REPORT ITEM

INTERNAL AUDIT DIVISION

APRIL 28, 2016

DISCUSSION OF INTERNAL AUDITS AND CONSULTING ACTIVITY

ORAL PRESENTATION

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
An Internal Audit of the Real Estate Analysis (REA) Division
Audit Report # 16-002

Executive Summary

The Office of Internal Audit (OIA) evaluated the underwriting process performed by REA. Based on the fieldwork performed between March 1, 2016 and April 4, 2016, OIA concludes that the underwriting process is generally performed accurately and according to applicable rules, however, the following opportunities for improvement were identified.

Findings

1. Underwriting reports are not always completed and posted prior to the decision deadline for the Competitive 9% LIHTC Award Allocation. As a result, the Governing Board and other stakeholders do not have the benefit of the comprehensive analytical reports when making their decision regarding affordable housing developments.

2. REA deviated from the *Underwriting and Loan Policy Rules* related to:

   - Presenting applications to EARAC when a significant confluence of concerns was identified and
   - Review and evaluation of personal credit reports when evaluating the overall capacity of the development team.

Recommendations

1. REA should complete the underwriting reports and ensure the reports are available to stakeholders including the TDHCA Governing Board before the allocation and funding decisions are made.

2. REA should comply with the *Underwriting and Loan Policy* rules in the Texas Administrative Code. If the rules, or portions thereof, are no longer relevant or applicable, the rules should be revised accordingly.

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

Responsible Area:
Division Director and Division Manager

Objective, Scope and Methodology

The audit of the REA was identified in the Fiscal Year 2016 Annual Audit Plan. Based on an assessment of risks and controls, the following audit objectives were developed:

- to examine and assess the Department's underwriting process and
- to determine if the underwriting is performed according to applicable rules and completed in a timely manner.

The audit scope included underwriting reports and underlying analysis performed by REA for HOME Multifamily applications, Competitive Housing Tax Credit Applications and 4% Housing Tax Credit Applications during calendar year 2015.

The audit methodology included gaining an understanding of the Division, its activities and the underwriting process by interviewing employees and reviewing documentation. OIA performed a risk assessment of the critical points in the process to develop the audit objectives and focus audit resources. OIA identified relevant criteria for evaluating the underwriting process. OIA tested a judgmental sample of underwriting reports and the underlying analysis to evaluate whether the underwriting process was performed accurately, completely and in a timely manner. OIA summarized the results in the Report # 16-002 that follows.

Mark Scott

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

4/19/16

Date Signed

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

www.tdhca.state.tx.us

Greg Abbott
GOVERNOR

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Juan S. Muñoz, PhD, *Vice Chair*
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T. Tolbert Chisum
Tom H. Gann
J.B. Goodwin

April 19, 2016

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

RE: An Internal Audit of the Real Estate Analysis Division

To: Chairman J. Paul Oxer and the Board Members of the Texas Department of Housing and Community Affairs

Dear Chairman Oxer and Board Members,

This report presents the results of the internal audit of the Texas Department of Housing and Community Affairs Real Estate Analysis Division (REA or Division).

Executive Summary

The Office of Internal Audit (OIA) evaluated the underwriting process performed by REA. Based on the fieldwork performed between March 1, 2016 and April 4, 2016, OIA concludes that the underwriting process is generally performed accurately and according to applicable rules, however, the following opportunities for improvement were identified:

1. REA should complete the underwriting reports and ensure the reports are available to stakeholders including the TDHCA Governing Board before the allocation and funding decisions are made.
2. REA should comply with the *Underwriting and Loan Policy* rules in the Texas Administrative Code (Title 10, Part 1, Chapter 10, Subchapter D). If the rules or portions thereof, are no longer relevant or applicable, the rules should be revised accordingly.

During the course of this audit, OIA noted an inherent risk that exists related to the current process for obtaining market analyses from analysts that are engaged and compensated by the applicant.

OIA would like to recognize REA's development of a tool that may enhance the presentation of multifamily activity application information by summarizing key components on a two page form.

Objective, Scope and Methodology

The audit of the REA was identified in the Fiscal Year 2016 Annual Audit Plan. Based on an assessment of risks and controls, the following audit objectives were developed:

- to examine and assess the Department's underwriting process and
- to determine if the underwriting is performed according to applicable rules and completed in a timely manner.

The audit scope included underwriting reports and underlying analysis performed by REA for HOME Multifamily applications, Competitive Housing Tax Credit Applications and 4% Housing Tax Credit Applications during calendar year 2015.

The audit methodology included gaining an understanding of the Division, its activities and the underwriting process by interviewing employees and reviewing documentation. OIA performed a risk assessment of the critical points in the process to develop the audit objectives and focus audit resources. OIA interviewed employees and reviewed documentation. OIA identified relevant criteria for evaluating the underwriting process. OIA tested a judgmental sample of underwriting reports and the underlying analysis to evaluate whether the underwriting process was performed accurately, completely and in a timely manner.

Real Estate Analysis Overview

The Real Estate Analysis Division provides the TDHCA Governing Board and staff with comprehensive analytical reports necessary to make well informed decisions for funding of affordable housing developments.

The Division is responsible for analyzing feasibility of proposed multifamily housing activities and preparing a credit underwriting analysis report that will be used by the TDHCA Governing Board in decision making with the goal of assisting as many Texans as possible by providing no more financing than necessary based on an independent analysis of the development feasibility.

The Underwriting Process

Applications for allocations of low income housing tax credits (LIHTC) or multifamily funding awards are submitted to the Department for consideration. The applications submitted for review and evaluation may include requests for:

- Competitive 9% Low Income Housing Tax Credits
- 4% Low Income Housing Tax Credits
- Multifamily HOME only funding
- Combination of Competitive Tax Credit Allocation and HOME funding

The applications are reviewed by the respective multifamily program area, for example 9% LIHTC, 4% LIHTC, Multifamily HOME. Not all applications received by the Department are submitted to REA for review. Only the highest scoring LIHTC applications are forwarded to REA. Multifamily HOME applications that have passed the 1st and 2nd level program reviews are transferred to REA for review.

REA is notified by the respective program area when an application is ready to be reviewed and evaluated by REA. REA leadership assigns the application to a real estate analyst. Assignments are made based on work load. Management tries to assign deals from the same developer to the same underwriter to gain efficiencies.

Underwriting can mean different things to people in various industries. For purposes of this report, the term underwriting is defined as analyzing the feasibility of proposed multifamily housing activities.

The comprehensive review performed by the REA analyst includes evaluation of the affordable housing activity using the established guidelines published in the *Underwriting and Loan Policy Rules* and other relevant requirements which could include the qualified allocation plan (QAP) or HOME rules and regulations depending on the type of award or funding requested. Factors evaluated by the real estate analyst include:

- Operating feasibility
- Income (rents and miscellaneous incomes adjusted for vacancy and collection losses)
- Expenses (general and administrative expense, management fees, payroll expense, repairs and maintenance, utility expense, et cetera).
- Net Operating Income
- Debt Coverage Ratio
- Total Housing Development Costs
- Development Team Capacity
- Other Underwriting Considerations

In addition, the analyst will review the environmental site assessment, market analysis and property condition assessment as applicable.

One of the tools used for the evaluation is the underwriting analysis workbook, commonly referred to as the template and sometimes referred to as the underwriting report. The underwriting analysis workbook is a standardized template that has been developed by REA management and staff to include the key information and facilitate evaluation of financial factors and market demand to assess the feasibility of the proposed deal.

The actual underwriting report is created using the underwriting analysis workbook. Once the real estate analyst performs their review and evaluation of the application, it is submitted to REA leadership for review. Once the review is complete, the underwriting report, in portable document format (pdf), is posted to the Department's public web page.

The posted report includes the recommended award of funds or housing credit allocation amount. Of course, the report may recommend that no award be made or that the amount of the award or the credit allocation be reduced. A recommendation for a reduced allocation could occur because the Internal Revenue Code requires that tax credits allocated to a development not exceed the amount necessary to assure feasibility.

In addition to the underwriting performed by REA on the original application packet, REA may review the feasibility of the project at other key milestones. For example, REA may perform an in-depth review of the development data when the carryover documentation is submitted to the Department or when the 10% Test documentation is submitted to the Department. A review by REA may be performed to ensure specific conditions required during the initial underwriting are satisfied by the applicant. Another review by REA may be necessary if changes to the original proposal are made.

Evaluation of the Underwriting Process

OIA judgmentally selected a sample of 10 underwriting reports from the population of 97 applications transferred to REA for review. A sample size of 10 represents 10.3% of the population. Because the population of applications includes multiple program types (4% LIHTC, 9% LIHTC and HOME) and multiple activity types (new construction or acquisition and rehabilitation), the sample was selected to include a proportionate representation of each type of program and activity. Additionally, the sample was selected with care to include applications reviewed by each of the Division's real estate analysts.

The sample items were tested to determine if the reports were prepared accurately, completely and in a timely manner. The testing results indicate that the underwriting reports are prepared accurately and completely and are generally prepared in compliance with applicable rules and requirements.

However, the underwriting reports are not always available in a timely manner. More specifically, of the ten sample items tested, seven items were for the 9% Competitive Housing Tax Credit Program. According to the 2015 Program Calendar for the Competitive LIHTC, the final awards would be made in July. Of the seven

competitive applications reviewed, four of the reports (57%) were not completed and posted in time for the July 30, 2015 Governing Board Meeting. Therefore tax credit allocation awards were made without the benefit of the comprehensive analysis performed by REA.

It is important to note that the recommendations for award allocations made at the July 30 meeting were conditioned upon the completion of underwriting, the imposing of all conditions of underwriting, the imposing of the conditions recommended by Executive Award and Review Committee (EARAC).

Of the reports that were posted after the 7/30/2015 board meeting, the smallest number of business days lapsed was 32. The largest number of business days from the award date to the report completion date was 69. In this case, the completed underwriting report was posted on 11/3/2015, which is one day after the carryover documentation delivery deadline.

Finding – Underwriting reports are not always completed and posted prior to the decision deadline for the Competitive 9% LIHTC Award Allocation. As a result, the Governing Board and other stakeholders do not have the benefit of the comprehensive analytical reports when making their decision regarding affordable housing developments.

Auditor recommendation - REA should complete the underwriting reports and ensure the reports are available to stakeholders including the TDHCA Governing Board before the allocation and funding decisions are made.

Management Response

The Real Estate Analysis Division ("REA") agrees that underwriting reports relating to awards should be published prior to TDHCA Governing Board consideration of allocation and funding decisions. Management will undertake the following to implement this recommendation:

1. Changes already made in the creation of the 2016 Qualified Allocation Plan with respect to the timing and scoring of applications will help reduce the number of total applications that must undergo by REA analysis, only to find that changes in scoring priority require REA to drop them and analyze other applications. Fewer applications will be de-prioritized by the program area as scores should not change as dramatically as in prior years. No specific action required as this has already occurred and is in place for the 2016 application round.
2. Management will continue to aggressively manage the pipeline of all applications, including bond transactions, re-evaluations, and amendments such that the current year 9% applications are prioritized quickly and with the best possible information. This is already occurring in weekly meetings with Executive, Multifamily, Asset Management, Legal, and External Affairs. We will continue to find ways to improve processes that will save time without compromising the analysis. This is an ongoing action.
3. Full implementation of the Real Estate Analysis Application Summary will allow TDHCA Governing Board and stakeholders to have timely underwriting information without the full underwriting report being finalized and posted. It should be noted that in the past even where an original underwriting report has not been published on applications where underwriting has commenced, REA has generally performed sufficient analysis to conclude that the proposed development is feasible.

Target Completion Date

July 30, 2016

Responsible Individuals and Title

Brent Stewart, Director of Real Estate Analysis
Tom Cavanagh, Manager of Real Estate Analysis

During the evaluation of the underwriting process, OIA noted REA deviated from the *Underwriting and Loan Policy Rules* related to:

- Presenting applications to EARAC when a significant confluence of concerns was identified
- Review and evaluation of personal credit reports when evaluating the overall capacity of the development team

Auditors noted that one (10%) of the ten underwriting reports tested was not presented to the EARAC as required when the underwriter identifies a significant confluence of concerns. In this instance, the applicant was made aware that the application would not be recommended for award because of the concerns. The applicant informed REA that it would not appeal the recommendation. According to REA leadership, the applicant was effectively withdrawing their application by not appealing REA's decision. Therefore, there was no action needed by EARAC and the deal was not presented to EARAC.

Underwriters do not review and evaluate personal credit reports as part of their evaluation of the development team capacity. The underwriting rules state that underwriters will review and evaluate the personal credit reports for development sponsors, developer fee recipients and those individuals anticipated to provide guarantees. It is not currently REA's practice to review personal credit reports when the applications are underwritten in REA.

Finding - REA deviated from the *Underwriting and Loan Policy Rules* related to:

- Presenting applications to EARAC when a significant confluence of concerns was identified
- Review and evaluation of personal credit reports when evaluating the overall capacity of the development team

Auditor recommendation - REA should comply with the *Underwriting and Loan Policy* rules in the Texas Administrative Code. If the rules or portions thereof are no longer relevant or applicable, the rules should be revised accordingly.

Management Response

Management agrees that REA should adhere to its rules and, if the rules need revision, pursue revision. The Planned Action consists of developing and proposing revisions to the rules to reflect current practice and procedure relating to these items. With respect to presenting applications to EARAC when a significant confluence of concerns is identified, a revision will be proposed to make that presentation optional by the Director of Real Estate Analysis based on the specific circumstances of the application. With respect to review and evaluation of personal credit reports, a revision will be proposed to make that language permissive in the rare cases that a personal credit report might be warranted.

Target Completion Date

During the annual rulemaking process in which the 2017 rules will be developed.

Responsible Individuals and Title

Brent Stewart, Director of Real Estate Analysis
Tom Cavanagh, Manager of Real Estate Analysis

Market Analyses

OIA noted the inherent risk that exists related to the current process for obtaining a market analysis, also referred to as market study, on a proposed multifamily development. Currently, the applicant engages and compensates the market analyst to provide the market study to TDHCA.

The Internal Revenue Code [26 U.S.C. § 42: US Code – Section 42 (m)] indicates that a comprehensive market study of the housing needs in the area to be served by the project is to be conducted before the credit allocation is made at the developer's expense by a disinterested party approved by the housing credit agency. The REA public webpage includes a list of approved market analysts, a document that provides the necessary qualifications for being included on TDHCA's approved market analyst list, a form (with instructions) for documenting the rental rate adjustments to include with the submitted market analysis and contact information for anyone that needs further information regarding market analysis.

The Texas Administrative Code, Title 10, Part 1, Chapter 10, Subchapter D, § 10.303 contains the Market Analysis Rules and Guidelines. In general, the market analysis prepared for the Department must evaluate the need for decent, safe, and sanitary housing at rental rates or sales prices that eligible tenants can afford. The market analysis must determine the feasibility of the subject property rental rates or sales price and state conclusions as to the impact of the property with respect to the determined housing needs. The market analysis must be prepared and certified by a qualified market analyst approved by the Department. 10 TAC Chapter 10.303 (d) itemizes the required market analysis contents. If it is found that a market analyst has not conformed to the Department's rules and guidelines, the analyst will be notified of the discrepancies in the analysis and be removed from the list of approved qualified analysts.

Currently, the applicant submits a market analysis to the Department. One of the real estate analysts prepares an independent market study which is compared to the market study submitted to the Department by the applicant. Discrepancies noted between the two studies by the real estate analyst will be documented in the underwriting report. Discrepancies between the studies could occur because the market analyst used a different data source or applied different assumptions when performing the analysis than the real estate analyst.

Because the market analyst is engaged and compensated by the applicant, it could be argued that they are not a "disinterested party". There is an inherent risk that the analyst may not be entirely objective. The market analyst may feel pressure to publish a market study that is favorable to the applicant although there may be evidence to the contrary. This type of pressure, even when unintended, subconscious or imagined, could have an impact on recommendations presented in the final market analysis. As a result the usefulness of the report could be diminished.

OIA reviewed the results of a survey conducted by the National Housing and Rehabilitation Association. According to the survey results, published in the June 2014 issue of *Tax Credit Advisor,* other states may follow a different approach regarding market studies. In some states, the state housing credit agency commissions the market study from a contractor. Another state has contracted underwriters order third party market studies.

Evaluating the cost and benefit of the current approach in comparison of other methods is outside the scope of this engagement. However, OIA recognizes the inherent risk that exists in the Department's practice.

New Application Summary

The REA Division developed an "Application Summary" to present select information of the proposed multifamily activity application in an easy to digest format. The new form is a two page summary document that presents the key components of the deal including: property description, key principals/sponsors, unit distribution, income distribution, proforma feasibility indicators, market feasibility indicators, development cost summary, photos or illustrations, site plan, debt, cash flow, equity, risk profile, conditions and recommendation. The summary uses colors and icons to convey when the indicators are within the acceptable range and when there is a potential risk. The new form was demonstrated at the March 21, 2016 EARAC meeting. The new form was well received by the attendees. REA plans to further enhance the summary form and share it with other stakeholders.

OIA extends our sincere appreciation to management and staff of the Real Estate Analysis Division for their cooperation and assistance during the course of this audit.

Sincerely,

Mark Scott

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

MES/mbs

cc:
Tim Irvine, Executive Director
Tom Gouris, Deputy Executive Director Asset Analysis and Management
Brent Stewart, Director of Real Estate Analysis
Tom Cavanagh, Manager of Real Estate Analysis

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TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

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T. Tolbert Chisum
Tom H. Gann
J.B. Goodwin

April 28, 2016

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

TO: Chairman J. Paul Oxer and Board Members of the Texas Department of Housing and Community Affairs (TDHCA)

RE: Internal Audit Report (16-007) on the Implementation Status of Prior Audit Recommendations

Dear Chairman Oxer and Board Members,

The TDHCA Fiscal Year 2016 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 March 31, 2016. 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 the last review, which was October 9, 2014.

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."

The following report provides an inventory of internal and external audits, and the related open findings. In some cases, we have tested management's reported status, or spot-checked their assertions. This will close the finding that was reviewed so that it will not appear on future follow-up reports.

Audit reports with open findings that were outstanding as of the follow-up report dated October 9, 2014 include:

- "Loan Processing Audit" (13-1056),
- "Amy Young Barrier Removal Program Audit" (14-1058),
- "Low Income Home Energy Assistance Program Audit" (14-1060), and
- "Manufactured Housing Division's Titling Process Audit" (14-1061).
- "U.S. Department of Housing and Urban Development's (HUD) Affordable Housing Monitoring and Technical Assistance Visit" report dated August 17, 2012.

Internal Audit reports addressed during this follow-up project include:

- "Financial Administration Division Audit" (14-1063),
- "Performance Measures Audit" (14-1064),
- "Payroll Audit" (15-004),
- "Records Retention Process Review" (15-005), and
- "Program Income Audit" (15-007).

External audits include:

- "Onsite Voucher Management System (VMS) Validation Review" by HUD,
- "In-Depth Environmental Monitoring of Compliance with 24 CFR Part 58, Environmental Review Procedures for entities Assuming HUD Environmental Responsibilities" by HUD,
- "Federal HOME Program" by KPMG, LLP, as included in the State Auditor's Office Report #16-317 "State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2015,"
- "TDHCAs Fiscal Year 2015 Financial Statements Audit" by Texas State Auditor's Office (SAO) Report #16-011,
- "Fiscal Year 2015 Financial Statements" SAO Report #16-307,
- "Revenue Bond Program Enterprise Fund" SAO Report #16-308,
- "Computation of Unencumbered Fund Balances" SAO Report #16-309
- "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements" SAO Report #16-310,
- "Compliance with the Public Funds Investment Act" SAO Report #16-311,
- Texas Department of Public Safety Onsite Recent Non-Criminal Justice Audit, and
- U.S. Department of Health and Human Services, Administration for Children and Families Division review of Community Service Block Grants (CSBG).
- Gartner Inc. review of Information Technology Security.

At the time of our review, the reports listed above contained a total of 43 (27 current and 15 follow-up from prior report dated October 9, 2014) audit recommendations. OIA did not test all of the actions taken on the recommendations. Some were spot-checked and management provided documentation for some.

Please see

- Section I – Summary status of all OIA open Audit Recommendations;
- Section II – External Review by other State and Federal Agencies, and outside Firm;
- Section III – Update on prior audit recommendations report dated October 9, 2014; and
- Section IV – External Reviews in Progress.

We express our appreciation to TDHCA management and staff for their courtesy and cooperation during this work. Please contact me at 512-475-3813, if you have any questions or concerns about the information contained in this report.

Sincerely,

Mark Scott

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

Cc: Tim Irvine, Executive Director
Beau Eccles, General Counsel
Brooke Boston, Deputy Executive Director, Fair Housing, Data Management and Reporting
Tom Gouris, Deputy Executive Director, Asset Analysis and Management
David Cervantes, Chief Financial Officer
Patricia Murphy, Chief of Compliance
Michael Lyttle, Chief of External Affairs
Joe Garcia, Executive Director, Manufactured Housing Division

Table of Contents

SECTION I. STATUS OF INTERNAL AUDIT RECOMMENDATIONS AS OF MARCH 31, 2016

Name and Number of Report	Observation/Findings and Recommendations	Management Reported Status as of March 31, 2016
Audit #14-1063 Financial Administration Division Audit Issued 9/23/2014	Finding 14-1063_Housing_Finance_Revenue_Section.1: Even though the Division has controls to maintain and monitor the timeliness of deposits, two deposits were found to have been deposited late. Recommendation 14-1063_Housing_Finance_Revenue_Section.1: The Financial Administration division should continue their efforts to minimize the occurrence of late deposits and meet the three day deposit timeline required by the Comptroller.	*Any instances in which the three day timeline cannot be met are being properly documented.* ***Assertion has been verified and finding is closed.***
Audit #14-1063 Financial Administration Division Audit Issued 9/23/2014	Finding 14-1063_Housing_Finance_Revenue_Section.2: The Division has not fully documented the housing finance revenue payment processing procedures. Individual staff members have developed steps for performing their assigned responsibilities. However, the complete procedures for payment posting and deposit preparation are not formally documented by management. Recommendation 14-1063_Housing_Finance_Revenue_Section.2: The Financial Administration Division should fully document the procedures for processing housing finance revenue payments. The documented procedures should be reviewed and approved by Division management.	*An SOP related to the processing of checks for strengthening internal controls has been developed and implemented.* ***Assertion has been verified and finding is closed.***
Audit #14-1064 Performance Measures Audit Issued 7/8/2014	Finding 14-1064_Chapter_1.1: The Percent of Households / Individuals Assisted performance measure is not based on the funds used to assist those households. Recommendation 14-1064_Chapter_1.1: The Department should calculate the "Percent of Households/Individuals Assisted" using a methodology that includes current income data.	***Assertion has been verified and finding is closed.***
Audit #14-1064 Performance Measures Audit	Finding 14-1064_Chapter_2.1: Calculation of the Single Family HOME performance measure is not based on consistent criteria. Recommendation 14-1064_Chapter_2.1: The Department should follow the performance measure's	*The referenced query now appropriately uses the Program Services approval date instead of the Accounting approval date to properly consider a loan funded.* ***Assertion has been verified***

Issued 7/8/2014	definition when counting the "Number of Households Assisted with Single Family HOME Funds."	***and finding is closed.***
Audit #14-1064 Performance Measures Audit Issued 7/8/2014	Finding 14-1064_Chapter_4.1: The Department's procedures for performance measure reporting are not finalized. Recommendation 14-1064_Chapter_4.1: The Department should finalize its draft policies and procedures for performance measure reporting.	*The SOP was finalized on July 1, 2014.* ***Assertion has been verified and finding is closed.***
Audit #15-004 Review of Payroll Process Issued 3/27/15	Finding 15-004_D.1: The Excel worksheet that is maintained for payroll percentages for funding source is not password protected. Recommendation 15-004_D.1: Have the Excel sheet password protected.	*The spreadsheet has been protected.* ***Assertion has been visually verified and finding is closed.***
Audit #15-004 Review of Payroll Process Issued 3/27/15	Finding 15-004_D.2: The Excel worksheet is currently kept on Staff's P drive, which is inaccessible to other staff that might require the information contained on the spreadsheet. Recommendation 15-004_D.2: Place "Excel sheet on the Departments shared drive to allow authorized staff access to the information.	*The spreadsheet is placed monthly on the T:\ drive and is inaccessible to unauthorized users.* ***Assertion has been visually verified and finding is closed.***
Audit #15-005 Records Retention Process Review Issued 4/1/2015	No findings to follow-up	*N/A*
Audit #15-007 Review of Program Income Issued 1/14/2016	Finding 15-007.1 Responsibilities for monitoring and reconciling NSP program income recorded in DRGR have not been clearly designated or communicated. Recommendation 15-007.1 Responsibilities for monitoring and reconciling program income information recorded in DRGR should be clearly designated and communicated. NSP program management should ensure that program income information recorded in DRGR is monitored and reconciled to the other relevant TDHCA information systems on a regular and routine basis.	*The Financial Administration Division has implemented Standard Operating Procedure 240.24 titled "Reconciliation of NSP Program Income" March 31, 2016.* *The Single Family Operations and Services Division has implemented Standard Operating Procedure 2380.07 titled "Neighborhood Stabilization Program – Program Income" April 4, 2016.* ***Assertions have been verified and finding closed.***

SECTION II. STATUS OF EXTERNAL AUDIT ISSUES

EXTERNAL REVIEW BY OTHER STATE AGENCIES

Single Audit

Each year the Texas Office of the State Auditor issues a report titled *State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2015.* The federal compliance portion of the audit was performed by KPMG, LLC. Our report notes if OIA considers the finding fully addressed. External auditors may review status at a later time.

Results	Recommendations
HOME Investment Partnerships Program Finding 2015-027 For employees whose time is charged to multiple federal programs, timesheets have federal program codes that identify all the programs the employee works on and the amount of time spent working on the respective program. All employees fill out timesheets according to the hours that they worked. Employee time is charged based on a budgeted percentage. On a monthly basis payroll staff reconcile actual time worked by program to the actual amount charged and make an adjusting entry in the subsequent period for the difference to actual. However, the review of the payroll adjusting entry is currently not at the correct precision level to ensure the true-up calculation is complete and accurate. No compliance exceptions were noted.	After the payroll adjustment for budget to actual is made, but before the entry is entered into the general ledger, the adjustment should be reviewed by a payroll supervisor or a financial analyst for completeness and accuracy.
TDHCA has implemented additional control procedures that further ensure that the true-up calculation is complete and accurate at September 1, 2015. Assertion has been verified and **finding is closed**. (The SAO may review this at a later date, but for purpose of OIA tracking the finding is closed.)	
HOME Investment Partnerships Program Finding 2015-028 Prior to submission of the final 60002 Report to HUD, the manager of program services performs a high-level review of the information to ensure reasonableness which is not at a precise enough level to validate the completeness and accuracy of the information be reported. There is no verification done by the reviewer, even on a sample basis, of the information within the supporting subrecipient source documentation. TDHCA does incorporate into their subrecipient monitoring process a review of the reported data back to source documents. No compliance issues were noted.	TDHCA should enhance their HUD 60002 report review process to include validation of some source documentation to the tracking spreadsheet in order to verify the completeness and accuracy of the information being reported.
The Single Family Operations and Services Division updated Section 3 reporting review procedures and implemented a more detailed supervisory review as of February 29, 2016. Final, updated SOP includes a more detailed supervisory review: T:\so\sops\SOPs\HUD Section 3\Final Sec3 SOP 4 2106.pdf. Assertions have been verified and **finding is closed** for OIA purposes.	

"TDHCAs Fiscal Year 2015 Financial Statements Audit" by Texas State Auditor's Office (SAO) Report #16-011	No Findings to follow-up
"Fiscal Year 2015 Financial Statements" SAO Report #16-307	No Findings to follow-up
"Revenue Bond Program Enterprise Fund" SAO Report #16-308	No Findings to follow-up
"Computation of Unencumbered Fund Balances" SAO Report #16-309	No Findings to follow-up
"Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements" SAO Report #16-310	No Findings to follow-up
"Compliance with the Public Funds Investment Act" SAO Report #16-311	No Findings to follow-up
Texas Department of Public Safety Onsite Review of Background Check Process Performed on Section 8 Participants.	No Findings of Non-Compliance to follow-up.

EXTERNAL REVIEW BY A FEDERAL AGENCY

U.S. Department of Housing and Urban Development

A. Review for Monitoring Report for On-site, In-Depth Environmental Monitoring of Compliance with 24 CFR Part 58, *Environmental Review Procedures for Entities Assuming HUD Environmental Responsibilities*, August 25-29, 2014.

Results	Recommendations
Finding #1 The State has not established an in-depth environmental monitoring program which is one of the principal responsibilities of States administering HUD programs.	The State must explain to HUD how it will establish an in-depth monitoring program for post award actions. The State can refer to Chapters 2, Management of Monitoring Activities, and Chapter 21, Environmental Monitoring, of the CPD Monitoring Handbook 6509.2 for guidance in structuring an in-depth monitoring program. These documents can be found at http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/handbooks/cpd/6509.2 and CPD Notice 14.03. It can also use as guidance the CPD Notice Implementing Environmental Risk Analysis for Monitoring HUD Part 58 Programs related to developing a risk based approach to selection of entities for monitoring. This document can be found at http://portal.hud.gov/hudportal/documents/huddoc?id=14-03cpdn.pdf.
Finding #2 The State exceeded its authority in requiring approval of environmental review records prior to environmental clearance and in requiring review and approval of site-specific reviews prepared subsequent to environmental clearance of related tiered environmental reviews.	1. TDHCA should establish separate procedures to distinguish its responsibilities as the State from its responsibilities as RE. The procedures related to its role as the State should describe internal roles and responsibilities, recordkeeping, risk analysis, monitoring and training. The procedures related to its responsibilities as RE should describe internal roles and responsibilities; preparation, review and approval of environmental reviews; submission of RROFs to HUD; and recordkeeping including maintenance of environmental review records. 2. The State should delete inconsistencies between the requirements of 58.72 and any guidance it provides to REs, particularly requirements for State approval of environmental review records prior to clearance. 3. The State needs to establish a log for RROFs it processes as administrator of HUD programs.
Finding #3 TDHCA, in its role as Responsible Entity (RE), inappropriately applied the provisions for tiering, and in some cases, either did not properly describe activities or appropriately aggregate activities into project descriptions used as the basis for tiered environmental reviews.	1. TDHCA as RE, must provide a written description to HUD on how it intends to improve project aggregation and tiering practices for future environmental reviews. 2. The State should include sessions on project aggregation, developing meaning full project descriptions, and appropriate tiering procedures in its training programs.

Finding #4 TDHCA, in its role as RE, did not always comply with Section 58.6, Other Requirements.	The RE should provide a written explanation to HUD as to how it intends to ensure future compliance with 58.6.
Finding #5 TDHCA, in its role as RE, did not always comply with the Endangered Species Act (ESA) as Section 58.5(e) requires.	The RE must describe to HUD how it will ensure compliance with Section 58.5(e). The description should outline the process by which it will evaluate each species potentially located in the project area to reach the appropriate determination of "no effect," "may effect, not likely to adversely affect" or "may effect, likely to adversely effect." It must also describe the professional qualification necessary for individuals preparing the evaluations.
Finding #6 In its capacity as RE, TDHCA, did not always document compliance with Section 58.5(a), Historic Properties.	TDHCA in its role as RE must provide a written description to HUD as to how it will comply with Section 58.5(a) in its future environmental reviews.
Finding #7 In its capacity as RE, TDHCA, did not sign and date environmental reviews.	TDHCA, as RE, must provide a written explanation to HUD as to how it will ensure that an RE's Authorized official will sign and date environmental reviews for future projects.
HUD found the responses from TDHCA, dated January 30, 2015, sufficient to address the Corrective Actions associated with each of the seven Findings, and all **Findings are now closed.**	

B. The purpose of the Onsite Section 8 VMS Validation Review performed by HUD was to validate the Unit Months Leased (UML) and related Housing Assistance Payment (HAP) expenses certified as accurate by the TDHCA for the period May 1, 2014 through April 30, 2015.

Results	Recommendations	TDHCA Responses in Report
Concern No. 1: Non-Elderly Disabled 2008 & 2009 UMLs/HAPs (NED) was incorrectly reported.	We recommend that the PHA become familiar with the VMS User Manual definition of NED and work with the software system provider to reduce manual processes. Please revise VMS to reflect the QAD validated amounts.	Upon review of the monitoring report, the Department was able to identify areas within the program software that were not updated to reflect the "Special Program Types." The Non-Elderly Disabled families (NED) were able to be identified and have been cross-referenced. In comparison to the Chart No 1, TDHCA agrees with the validated UMLs. TDHCA will revise its internal process to accurately report the UML's and HAP.
Concern No. 2: UMLs/HAPs portable vouchers	We recommend that the Public Housing Authority (PHA) become	The Department met with the software developer and was able

paid (Port Outs) was incorrectly reported.	familiar with the VMS User Manual definitions of UML and HAP Port Outs. The PHA should work with the software provider on coding program categories and generating reports from the Happy Software system. Please revise VMS to reflect the QAD validated amounts.	to identify UML and HAP Port Outs. TDHCA agrees with the validated HAP in Chart No 2. TDHCA will revise our internal process to accurately report the UMLs and HAP.
Concern No. 3: The UMLs and HAP All Other Vouchers was incorrectly reported.	We recommend that the PHA revise their quality control procedures, familiarize themselves with VMS reporting requirements, improve communication between the Program office and Finance department, and revise their VMS data to reflect QAD validated numbers. Establish and maintain an efficient system for generating accurate utilization and HAP reports.	The Department met with the software developer. Both the Port Out and Port In HAP payments have been identified and excluded from AOV. The second check-un is a set of payments that were not generated due to incomplete vendor documentation. We will follow HUD's recommendation to focus reporting on the current month and make accrual adjustments for one prior month at a later date. All supporting documents will be maintained with the reported figures for the month and the monthly accrual adjustment.
Concern No. 4: HAPs All Voucher Expense After First of the Month was incorrectly reported.	We recommend the PHA establish procedures to check VMS data prior to and after submitting data. The PHA should make the necessary corrections in VMS.	This data entry error has been corrected in VMS. The Department will perform a more detailed review to ensure data integrity throughout the process and validation of the data entry.
Concern No. 5: Vouchers Under Lease on Last Day of Month was reported incorrectly.	We recommend that the PHA revise data to the QAD validated.	Historically, the Department was not accurately identifying vouchers under lease the last day of the month. Manual payments submitted after the first of the month were not being double checked. The revised procedure will include a notification through email advising FAAO to update the unit count for that payment period in order to rectify the miscount. The Department has revised the data to the QAD as requested and is revising the procedure.
Concern No. 6: Vouchers Issued bur not Under	The PHA should develop and implement policy and procedures	The Department was tracking the total number of new vouchers

Hap on the last Day of the Month were incorrectly reported.	that will allow for proper reporting in this category. The PHA must make corrections to VMS as shown in the validated column of the table above.	issued and incoming Port Ins. The Department will implement the revised procedure, thereby accounting for only new vouchers. The Department will make the corrections to VMS as shown in the table.
Concern No. 7: The PHA incorrectly included Portable Vouchers paid (Port Outs) as HAP Portable Vouchers Administered (Port Ins).	We recommend that the PHA establish procedures for mapping Portable Units Administered on behalf of another PHA in their financial system to assist them in keeping the program types separate. Please refer to the VMS User's Manual definition of VMS reporting fields, and revise VMS in the QAD validated amounts.	The Department recognizes the need to have internal measures in place for Port In and Port Out. Prior to running ports, the process for Port In will be run as a separate check run to eliminate any confusion or duplication. In addition, Port Out will be verified and given a "Port Out" indicator to reduce the possibility of combining expenses.
Concern No. 8: Fraud Recovery was incorrectly reported.	QAD recommends that the PHA correct VMS to reflect QAD's validated amounts and establish procedures for ensuring data integrity prior to submitting Fraud Recovery data in VMS.	Per our email correspondence in Attachment A. HUD agrees that Oct and Nov 2015 reported amounts are correct. No correction is needed in VMS.
Concern No. 9: Interest or Other Income Earned this Month from the Investment of Hap Funds is under reported.	QAD recommends the PHA correct VMS to reflect QAD's validated amounts and establish procedures for ensuring data integrity prior to submitting Interest data in VMS.	Per our email correspondence in Attachment A. HUD agrees that May and June 2014 reported amounts are correct. No correction is needed in VMS. However, Feb 2015 amount should be $38. It was a data entry error in VMS. The Department will make the revision to the February 2015 amount. The Department will conduct a more detailed review to ensure data integrity.
Concern No. 10: Financial Management Record Keeping Controls require improvement.	The PHA Executive Director must take appropriate steps to ensure accounting records are complete, accurately maintained, and make available for future reviews and/or audits.	The PHA uses PeopleSoft to execute outgoing monthly payments and process all financial transactions. To ensure accounting records are complete, accurately maintained, and made available for future reviews and/or audits, the Department will make sure the backup documentation for VMS is organized and readily accessible. Report headings and column headings have been added

		for clarity in future desk reviews. The PHA uses Housing_pro as a sub-system for internal processing of tenant files. Documents being compiled for submittal will be saved in "pdf" format and stored in one central location.
HUD found the responses from TDHCA, email dated September 2, 2015, sufficient to address the Corrective Actions associated with each of the ten Findings, and all **Findings are now closed.**		

OTHER EXTERNAL REVIEW BY OTHER

Gartner Inc. was hired to review security and other Information Technology (I.T.) issues at TDHCA. The review was systematic and provided some good recommendations. I.T. reviews are routinely conducted at Texas State Agencies based on guidance from the Department of Information Resources.

National Foreclosure Mitigation Counseling Program (NFMC) Quality Control and Compliance Review for Rounds 6 and 7 conducted by Mayer Hoffman McCann P.C. (MHM) on behalf of NeighborWorks® America. MHM noted during the review that the Department did not fully comply and cooperate with the quality control and compliance efforts of the NFMC Program. Through the evaluation process all documentation to support Round 7 Match was not received. Neighbor Works® America letter dated April 6, 2015 stated **findings have been closed** based on the documented evidence provided by the Department.

Section III. Update on Prior Audit Issues Report Dated October 9, 2014

AUDIT AND RECOMMENDATION	STATUS AT OCTOBER 9, 2014	STATUS AT APRIL , 2016
HUD Affordable Housing Monitoring and Technical Assistance Visit, Report dated 08/17/2012: Because two projects noted in FY 2009 report remain unresolved, this finding remains open. Once the remaining issues for *Duncan Place and FlamingoBay (Lakeside Center)* are resolved through repayment of the HOME Investment to the state's HOME Treasury Account; approval of a grant reduction; or otherwise brought into compliance, this finding can be cleared. The state needs to continue to work to bring the *Juan Linn and Red River* projects into compliance. These final corrections need to be completed on or before February 28, 2013. If compliance cannot be achieved via one of the above-referenced options, the state must repay its HOME Treasury Account for the full amount of the HOME Investment for these projects from non-federal funds. The state should also provide a monthly update on the status of the above noncompliant projects with the first report being due on or before September 5th, and by the 5th day of each month thereafter.	Management has not yet reported this recommendation as implemented. Management has reported a revised implementation date as 07/31/2013.	HUD found the responses from TDHCA sufficient to address the Corrective Actions associated with each Finding, and all **Findings are now closed.**
Internal Audit of Loan Processing Report; 13-1056, dated November 2013: The Department should: • obtain and review all of the required trailing documents from the title companies after closing, • run the outstanding trailing document report monthly and follow up on any missing documents as required by the loan closing policy, and • ensure consistency in the requirements for the return of trailing documents to the	Management reports that this recommendation has been implemented. Internal Audit has not yet verified this assertion.	**Assertions have been verified and finding closed.**

Department.		
Internal Audit of Loan Processing Report; 13-1056, dated November 2013: In instances where the title commitment has expired, the Department should ensure that an updated title commitment is received prior to closing.	Management reports that this recommendation has been implemented. Internal Audit has not yet verified this assertion.	**Assertion has been verified and finding closed.**
Internal Audit of Loan Processing Report; 13-1056, dated November 2013: The Department should maintain evidence that disclosures required by the Real Estate Settlement Procedures Act and the Truth in Lending Act were provided to the borrower.	Management reports that this recommendation has been implemented. Internal Audit has not yet verified this assertion.	**Assertion has been verified and finding closed.**
Internal Audit of Loan Processing Report; 13-1056, dated November 2013: The Department should ensure that the Legal Division: • periodically reviews the templates used by the HOME HBA loan closer to determine if they should be revised, and • reviews the loan documents on a sample basis to ensure they are being completed accurately and used as intended.	Management reports that this recommendation has been implemented. Internal Audit has not yet verified this assertion.	**Assertions have been verified and finding closed.**
Internal Audit of Loan Processing; Report #13-1056, dated November 2013: The divisions involved in loan processing should ensure that loans are entered into the Loan Window as required so that loan processing times can be tracked.	Management reports that this recommendation has been implemented. Internal Audit has not yet verified this assertion.	**Assertion has been verified and finding closed.**
Internal Audit of the Amy Young Barrier Removal Program; Report #14-1058, dated 04/24/2014: The Amy Young Barrier Removal Program should ensure that individuals who perform the initial review of the activity set-ups are not also performing the secondary review of those same activity set-ups.	Management reports that this recommendation has been implemented. Internal Audit has not yet verified this assertion.	**Assertion has been verified and finding closed.**
Internal Audit of the Manufactured Housing Division's Titling Process; Report #14-1061, dated April 2014:	Management has not yet reported this recommendation as implemented.	SOP 2505.01 for Processing an SOL Application stipulates that once an application has been processed it will be

Chapter 1-A Finding and Recommendation: Of the SOL applications tested requiring a review by the Document Control group, one, or 3%, was not reviewed. It is the Divisions' policy that regularly processed SOL applications are reviewed by the Document Control Group before they are issued. The Division should ensure that all SOL applications that require a Document Control review are reviewed as required.		routed to the Document Control Unit for proofing. **Assertion has been verified and finding closed.**
Internal Audit of the Manufactured Housing Division's Titling Process; Report #14-1061, dated April 2014: Chapter 1-B Finding and Recommendation: Not all corrected SOLs received a corrected application. The Division should either require a completed and corrected SOL application prior to issuing a corrected SOL or consider revising the Texas Administrative Code to clarify when a corrected application is required.	Management has not yet reported this recommendation as implemented.	10 TAC 80.90(c) was updated in 2014 to include language clarifying that the correction requires a completed SOL application or documentation deemed appropriate by the Executive Director. (c) Corrections to Statements of Ownership and Location. (1) If a correction is required as a result of a Department error, it will be corrected at no charge. (2) If a correction is requested because of an error made by a party other than the Department, the correction will not be made until the Department receives the following: (A) A complete corrected application for Statement of Ownership and Location, or (B) Documentation deemed appropriate and approved by the Executive Director. **Finding has been closed for OIA purposes.**
Internal Audit of the Manufactured Housing Division's Titling Process; Report #14-1061, dated April 2014:	Management has not yet reported this recommendation as implemented.	Implemented this information in the supervisor's spreadsheet.

Chapter 1-C Finding and Recommendation: From November 2013 through February 12, 2014 a total of forty-seven corrected SOLs were issued as a result of staff error. This spreadsheet is us used as part of the evaluation process for the processors as well as identifying areas for additional training. The Division should consider adding the following information to the spreadsheet: • Total number of unique corrected SOLs that were issued due to departmental error, • Total number of unique corrected SOLs where the error was found by the customer, • Total number of unique corrected SOLs where the error was found by the department, and • The types of errors made, such as data entry on name, address, or election type. In addition, the Division may want to consider working with the Information Systems (IS) division to incorporate some of these enhancements into the Exodus system as part of an automated report.		**Finding has been closed for OIA purposes.**
Internal Audit of the Manufactured Housing Division's Titling Process; Report #14-1061, dated April 2014: Chapter 2 Finding and Recommendation: The Division does not have current and complete policies and procedures for the SOL application process. The Division should update their policies and procedures over the SOL application process to reflect the current process.	Management has not yet reported this recommendation as implemented.	Created SOP 2505.01 for Processing an SOL Application. **Assertion has been verified and finding closed.**
Internal Audit of the Low Income Home Energy Assistance Program (LIHEAP); Report #14-1060, dated April 22, 2014: The Community Affairs Division should review the LIHEAP expenditure reports on a regular basis in order to detect and	Management reports that this recommendation has been implemented. Internal Audit has not yet verified this assertion.	**Assertion has been verified and finding closed.**

correct errors promptly.		
Internal Audit of the Low Income Home Energy Assistance Program (LIHEAP); Report #14-1060, dated April 22, 2014: The Community Affairs Division should note the rationale for cost allocations on their purchase requests or vouchers in order to document reasonableness and allowableness of the cost.	Management reports that this recommendation has been implemented. Internal Audit has not yet verified this assertion.	**Assertion has been verified and finding closed.**
Internal Audit of the Low Income Home Energy Assistance Program (LIHEAP); Report #14-1060, dated April 22, 2014: The Community Affairs Division should provide guidance to subrecipients in defining "life-threatening" crises and in developing written policies to address them.	Management has not yet reported this recommendation as implemented.	**Assertion has been verified and finding closed.**
Internal Audit of the Low Income Home Energy Assistance Program (LIHEAP); Report #14-1060, dated April 22, 2014: The Community Affairs Division should finish updating its policies and procedures to reflect the roles and responsibilities of its staff in the current organization structure.	Management has not yet reported this recommendation as implemented.	**Assertion has been verified and finding closed.**

SECTION IV. EXTERNAL REVIEWS IN PROGRESS

U.S. Department of Housing and Urban Development

State of Texas HOME Program Monitoring Strategy Audit will be conducted by HUD April 11-15, 2016. Areas to be monitored are:

- HOME Program Match
- Rental Housing Monitoring and Oversight
- Subrecipient Monitoring and Oversight
- Community Housing Development Organizations
- Homeownership Activities
- Homeowner Rehabilitation
- Lead-Based Paint

An exit conference was held on April 15th, 2016 and HUD personnel stated there were no findings or recommendations for this review.

U.S. Department of Health and Human Services

U.S. Department of Health and Human Services, Administration for Children and Families Division review of CSBG provided verbal feedback on March 4, 2016. They were complimentary of the program's training and "Dashboard" and said they would provide a draft report in 60 days. Any recommendations from that review will be added to tracking list at that point.

R2

AUDIT COMMITTEE REPORT ITEM

INTERNAL AUDIT DIVISION

APRIL 28, 2016

DISCUSSION OF RECENT EXTERNAL AUDIT ACTIVITY

ORAL PRESENTATION

R3

AUDIT COMMITTEE REPORT ITEM

INTERNAL AUDIT DIVISION

APRIL 28, 2016

DISCUSSION OF INTERNAL AUDITS AND CONSULTING ACTIVITY

ORAL PRESENTATION