



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

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INTERNAL AUDIT

“REVIEW OF TDHCA’S PROGRAM INCOME”

AUDIT #15-007

January 14, 2016

Office of Internal Audit
P.O. Box 13941
Austin, Texas 78711-3941

INTERNAL AUDIT
“REVIEW OF TDHCA’S PROGRAM INCOME”
AUDIT #15-007

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**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
INTERNAL AUDIT REPORT – AUDIT #15-007**

SUBJECT: Review of Program Income

AUDIT RESULTS

- F.1 Responsibilities for monitoring and reconciling Neighborhood Stabilization Program (NSP) program income recorded in the United States Department of Housing and Urban Development's (HUD) Disaster Recovery Grant Reporting System (DRGR) have not been clearly designated or communicated.

RECOMMENDATIONS

- F.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.

OTHER OBSERVATIONS/CONCERNS:

The TCAP differences between the TDHCA information systems of Financial Accounting System (PeopleSoft) and the Loan Servicing System (MITAS) were determined to be immaterial and probably due to timing differences. We have no findings related to TCAP.

RESPONSE:

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

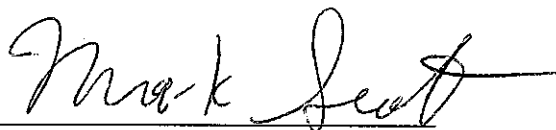
RESPONSIBLE AREA:

Program Director

SCOPE

Our scope included a review of Program Income of the Tax Credit Assistance program (TCAP) and NSP for Fiscal Years 2013, 2014, and 2015.

Our methodology included a risk assessment of the various TDHCA programs that generate program income; interviews with management and other staff of the relevant accounting and program divisions. We also reviewed and analyzed necessary documentation which included the relevant TDHCA information systems and DRGR.



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

1/28/16
Date Signed



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

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RE: Review of TDHCA'S Program Income, Internal Audit Report #15-007

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

Dear Chairman Oxer and Board Members,

This report presents the results of the Office of Internal Audit's (OIA) "Review of Program Income." The audit was identified in the Fiscal Year 2015 Annual Audit Plan and carried forward to the Fiscal Year 2016 Annual Audit Plan.

AUDIT RESULTS:

We reviewed the TDHCA processes that account for program income. We noted opportunities for improvements in the areas of reconciling information systems and separation of duties as described in the report that follows.

SCOPE AND METHODOLOGY:

The audit scope covered activities and processes in relation to program income that were in place during the period of FY2013 through FY2015. OIA reviewed the processes in place for identification, recording and reporting program income.

The methodology for the audit included a risk assessment of the various TDHCA programs that generate program income; interviewing financial and program management and staff; reviewing and assessing processes and procedures related to program income; and reviewing and analyzing relevant data from financial and other information systems.

Based on the risk assessment for this audit project, OIA selected the Tax Credit Assistance Program (TCAP), and the Neighborhood Stabilization Program (NSP) for detailed review. The HOME program is currently under review by KPMG. The housing trust fund that is administered by TDHCA is included in the annual audit of the financial statements by the State Auditor's Office.

The report is separated into following sections;

- Overview
- Information Systems used to record Program Income related data
- Reconciliation of Program Income
- Separation of Duties
- Findings and Recommendations

OVERVIEW

The NSP Program is under the Single Family section of the Single Family, Community Affairs and Metrics Division of the TDHCA. The federal oversight agency for this program is the United States Department of Housing and Urban Development (HUD). NSP was authorized by the "Housing and Economic Recovery Act of 2008" (HERA), as a supplemental allocation to the Community Development Block Grant (CDBG) Program. Additional funds have been provided through the Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) as part of NSP3. The purpose of the Neighborhood Stabilization Program is to acquire and redevelop foreclosed properties that might otherwise become sources of abandonment and blight. NSP provides funds to purchase foreclosed, vacant or abandoned homes and residential properties, in order to rehabilitate, resell, or redevelop them, stabilize neighborhoods and stem the decline of property values in communities impacted by the housing crisis.

TDHCA received approximately two million dollars in NSP program income each fiscal year between FY2013 and FY2015. Program income is identified by HUD as "gross income received by the recipient or a subrecipient directly generated from the use of NSP/CDBG funds. Common sources of NSP program income are: payments of principal and interest on loans made with NSP funds; proceeds from the sale of properties acquired and/or improved with NSP funds; Recapture of NSP subsidies if an assisted home is sold before the end of the affordability period; interest earned on program income pending its disposition; repayments of liens placed on privately owned property that was demolished using NSP money; and gross income from the use or rental of real property constructed or improved with NSP funds, less the costs incidental to the generation of that income." The HUD NSP Policy Alert for Program Income in NSP states: "The general rule in drawing NSP and CDBG funds is that funds must only be requested for immediate cash needs. Program Income works on a first-in, first-out basis. It must be used before drawing down additional grant funds, unless the program income is in an approved revolving fund. In that case it must be used for the specified purpose of the revolving fund before further drawdowns for that specified activity."

The Tax Credit Assistance Program (TCAP) was established by the American Recovery and Reinvestment Act (ARRA) on February 17, 2009. TCAP was funded through the HOME Investment Partnerships Program (HOME) administered by HUD. The purpose of TCAP was to provide funds for capital investments in multi-family projects that received low-income housing tax credit awards between October 1, 2006 and September 30, 2009. The TCAP grant ended March 2012. The Department continues to receive repayments on the loans made with the TCAP funds.

Currently the Department receives approximately six million dollars in TCAP loan repayments each fiscal year. These loan repayments are not program income as defined by the TCAP guidelines. According the TCAP guidelines [24 CFR Part 85.25 (b)], program income is the gross income generated by the use of TCAP funds during the grant period. The grant period began the date the TCAP grant award agreement was executed by HUD (July 23, 2009). The grant period ended on the date the final financial report was submitted to HUD upon close out of the TCAP award. The Department submitted the final financial report to HUD in March of 2012. Receipts of the payments on loans subsequent to the grant period are classified

by the program staff as repayment funds. However, the Financial Administration Division uses the term program income to refer to these loan repayments.

Proper identification and designation of program income is important for various reasons. For example, federal regulations may require that the grantee use program income prior to drawing down additional federal funds.

Timely reconciliations of program income in the various agency information systems are important for several reasons. DRGR is the system of record for reporting NSP activity to HUD. Accurate NSP information must be reported through Disaster Recovery Grant Reporting System (DRGR) to HUD to achieve compliance with federal reporting requirements. Proper accounting of cash management is required for state of Texas compliance. Additionally, program income is used as a primary source of funds for NSP. TCAP repayments are recycled to fund future activities. Unlike NSP, TCAP repayments are not reported to HUD through DRGR or any other HUD developed information system.

INFORMATION SYSTEMS

Several information systems are relevant to the recording and reporting of program income:

1. Loan Servicing System (MITAS) - Used internally by TDHCA to track individual loans and borrower activity.
2. Financial Accounting System (PeopleSoft) - Used internally by TDHCA to record accounting information and transactions, such as cash receipts and expenditures. PeopleSoft is the agency accounting system that interfaces with the state comptroller's Uniform Statewide Accounting System (USAS).
3. Disaster Recovery Grant Reporting System (DRGR) - developed by HUD's Office of Community Planning and Development for the CDBG Disaster Recovery program and other special appropriations such as NSP. This external system is used by NSP grantees, such as TDHCA to:
 - drawdown funds,
 - report program income,
 - submit the NSP Action Plan,
 - submit Quarterly Performance Reports (QPRs)

The following table indicates the information systems used to record NSP and TCAP program income:

Program	Program Income recorded in Financial Information System (PeopleSoft)	Program Income recorded in Loan Servicing System (Mitás)	Program Income recorded in HUD System
NSP	Yes	Yes	Yes - DRGR
TCAP	Yes	Yes	No

PeopleSoft, MITAS and DRGR are described in further detail in the table included at page 7 of this report.

RECONCILIATION OF PROGRAM INCOME

The Office of Internal Audit (OIA) conducted in-depth reconciliation for TCAP and NSP. The purpose of the reconciliation of program income was to determine if identified deposits of program income were recorded in MITAS and in the case of NSP, reported in HUD's DRGR system.

Program income information for TCAP and NSP recorded in the various information systems is included in the tables that follow, along with the auditor calculations of the differences in the amounts recorded in each of the information systems.

FY	TCAP Program Income per PeopleSoft	TCAP Program Income per MITAS	Dollar Difference between PeopleSoft and MITAS (Auditor Calculation)
2013	\$6,593,760.46	\$6,522,423.95	\$71,336.51
2014	\$5,404,012.68	\$5,401,178.98	\$2,833.70
2015	\$5,963,504.84	\$5,961,588.17	\$1,916.67

The TCAP differences are determined to be immaterial and probably due to timing differences. We have no findings related to TCAP.

FY	NSP Program Income per PeopleSoft	NSP Program Income per DRGR	NSP Program Income per MITAS	Dollar Difference between PeopleSoft and DRGR (Auditor Calculation)	Dollar Difference between PeopleSoft and MITAS (Auditor Calculation)	Dollar Difference between DRGR and MITAS (Auditor Calculation)
2013	\$2,113,353.96	\$2,178,866.89	\$2,168,050.34	(\$65,512.93)	(\$54,696.38)	\$10,816.55
2014	\$2,609,683.12	\$2,075,939.14	\$2,550,360.44	\$533,743.98	\$59,322.68	(\$474,421.30)
2015	\$1,942,839.48	\$2,404,645.72	\$1,848,998.99	(\$461,806.24)	\$93,840.49	\$555,646.73

Common reconciling items included PeopleSoft journal entries that all were not recorded and reported in the MITAS and DRGR systems. Reconciliations between PeopleSoft and MITAS are performed with explanations as to differences. There was a clean-up of prior years errors performed in FY 2015. The reconciliations and corrections need to be completed on a timely basis.

NSP program income information recorded in DRGR is not formally monitored by anyone at the Department. The program income information in DRGR is not reconciled to any information system at TDHCA to ensure the data is accurate. The Director of Single Family Operations and NSP Program Staff stated that there is currently no reconciliation of the program income information recorded in HUD's DRGR system. The Accounting Operations Manager and senior grant accountant also stated that HUD's DRGR system is not reconciled to the Department's Loan Servicing System. Information recorded in HUD's DRGR system should be regularly and routinely reconciled to the Department's other relevant

information systems to ensure the information is accurate and complete and to minimize risks of fraud or reliance on inaccurate information.

SEPARATION OF DUTIES

Assigned responsibilities related to custody, recording and reconciling program income may not be sufficiently separated. Currently the grant accountant has custody of the checks (when preparing the deposits), records the receipts in the general ledger and records the NSP program income in HUD's DRGR system. The grant accountant performs the reconciliation between the Department's general ledger and the information recorded in the Department's loan processing system. The grant accountant stated she is also responsible for making correcting and adjusting entries when they are needed. This same individual has a role in the disbursement process when a subrecipient requests a draw from the Department and can also request draw down funds from HUD through the DRGR system.

Control activities related to authority, custody and accounting of operations should be sufficiently separated to reduce the risk of errors, fraud, waste and abuse. If resources are not available that will allow for sufficient separation of duties, other controls should be considered and possibly implemented to ensure assets are adequately safeguarded and properly recorded and reported.

The Accounting Operations Manager stated that controls are in place to mitigate the risk of insufficient separation of the grant accountant's duties. For example, the senior grant accountant reviews the deposits created by the grant accountant. The senior grant accountant reviews the reconciliations generated by the grant accountant. The grant accountant cannot disburse funds requested by the subrecipient without the approval of other TDHCA employees. Drawdown requests from HUD in DRGR must be approved by another TDHCA employee.

The Director of Financial Administration stated that the risk of errors and irregularities is mitigated by the review and release process by the Team-Lead. Therefore, the review and release process strengthens internal control.

The Accounting Operations Manager stated that the assigned roles are currently being reviewed. The Office of Internal Audit recommends that Department management continue the review of assigned roles and periodically evaluate the roles and permissions assigned to individuals responsible for the custody, recording and reconciling program income transactions to ensure that duties are sufficiently separated.

FINDINGS AND RECOMMENDATIONS

F1. Responsibilities for monitoring and reconciling NSP program income recorded in DRGR have not been clearly designated or communicated.

R1. 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.

MANAGEMENT COMMENTS – CORRECTIVE ACTION TABLE

Management Comments – Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Division/Program and Individual
Management concurs with the recommendation. The Single Family Operations and Services Division (“SFOS”), working with the Financial Administration Division, will implement policies and procedures to ensure NSP Program Income is monitored and reconciled between the TDHCA information systems of record, at a minimum, on a quarterly basis.	March 31, 2016	SFOS – Homero Cabello

Sincerely,



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

mes/bke

cc:

Information Systems relevant to recording TCAP and NSP Program Income:

Please note that this information was compiled as it relates to TCAP and NSP Program Income. It is not intended to be all inclusive.	Loan Servicing System (MITAS)	Financial Accounting System (PeopleSoft)	Disaster Recovery Grant Reporting System (DRGR)
Description of the system	Used internally by TDHCA to track individual loans and borrower activity.	Used internally by TDHCA to record accounting information and transaction, such as cash receipts and expenditures.	External System developed by HUD that is used by NSP grantees, such as TDHCA to: <ul style="list-style-type: none"> ▪ drawdown funds, ▪ report program income, ▪ submit the NSP Action Plan, ▪ submit Quarterly Performance Reports (QPRs)
How is the system used in relation to NSP or TCAP Program Income	Loan repayments are applied (posted) to the individual borrower accounts. The loan repayment is applied to principal, interest, escrow and fees as applicable.	Cash receipts (including loan repayments) are recorded as deposits by a grant accountant in the Accounting Operations Section of the Financial Administration Division. Cash receipts are credited to the related grant or program.	Program income information is recorded in the DRGR System by the grant accountant in the Accounting Operations Section of the Financial Administration Division. Performance reports are submitted to HUD quarterly by TDHCA's NSP Program Administrator.
Who enters the data	TDHCA Financial Services processor in Financial Administration Division applies (posts) the NSP and TCAP loan repayments to the individual accounts. Specific staff has the ability to make notes in the loan servicing system.	Cash receipts (including loan repayments) are recorded as deposits by a grant accountant in the Accounting Operations Section of the Financial Administration Division.	Program income information is recorded in the DRGR System by the grant accountant in the Accounting Operations Section of the Financial Administration Division.

Please note that this information was compiled as it relates to TCAP and NSP Program Income. It is not intended to be all inclusive.	Loan Servicing System (MITAS)	Financial Accounting System (PeopleSoft)	Disaster Recovery Grant Reporting System (DRGR)
<p>Who uses the data</p>	<p>Loan Servicing uses the data recorded in MITAS to perform loan servicing functions such as customer service (i.e. payment and balance inquiries, etc. to borrowers); provide payoff figures to borrowers and/or authorized third-parties; preparation/submission of annual notices to borrowers and IRS information filings; and prepare necessary reports for reconciliation purposes to the accounting area.</p> <p>Data recorded in MITAS is compiled into the high-level report that is reported to Executive Leadership.</p>	<p>Financial Administration Division uses the data to prepare financial reports including the annual financial reports.</p>	<p>HUD staff can review funded activities, prepare reports to Congress and other interested parties, and monitor program compliance.</p> <p>The QPRs are posted on the TDHCA public website and can be viewed by general public and other stakeholders.</p>
<p>Who ensures the data in the system is accurate, complete and entered in a timely manner</p>	<p>MITAS is reconciled to the Financial Accounting System by the Accounting Operations Grant Accountant.</p> <p>The reconciliation is reviewed by the Accounting Operations Senior Accountant and the Loan Servicing Manager.</p> <p>The results of the reconciliation are reviewed and approved by the Loan Servicing Manager and the Manager of Accounting Operations.</p>	<p>There is a multi-level review structure in the Financial Administration Division. For example, the senior grant accountant reviews the deposit transactions prepared by the grant accountant.</p>	<p>Currently program income information in DRGR is not formally monitored or reconciled by TDHCA management or staff.</p>