



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

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June 28, 2018

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

RE: Internal Audit Report on the Implementation Status of Prior Audit Recommendations,
Report # 18-002

Dear Board Members,

The TDHCA Fiscal Year 2018 Internal Audit Plan provides for a review of the implementation status of prior audit recommendations. The purpose of this report is to provide information regarding the status of management's efforts to address issues and recommendations noted during both internal and external audit work.

SCOPE AND METHODOLOGY

Our follow-up work covers TDHCA Office of Internal Audit (OIA) open findings and related recommendations made in audit reports dated through December 29th, 2017. An open finding is defined as a finding that was not completely addressed, or for which further action was still required, at the time of this review.

BACKGROUND

The TDHCA undergoes internal and external audits on a regular basis. Internal audits and external audits and reviews may include findings and associated recommendations that require follow-up to ensure that the issues identified during the audits have been addressed. External audits by the State Auditor's Office and federal oversight agencies may also include either formal findings or informally communicated issues that require follow-up. The Institute of Internal Auditors Standards state that "the chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management. The chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior

management has accepted the risk of not taking action. The internal audit activity must monitor the disposition of results of consulting engagements to the extent agreed upon with the client.”

The following report provides an inventory of internal and external audits, and the related open findings. Findings that have been fully implemented will not be carried forward for future follow up activities.

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

- a) Review of the Sources and Uses of Funds at TDHCA, Report # 16-001
- b) Internal Audit of the Real Estate Analysis Division, Report # 16-002
- c) Internal Audit of the Fair Housing Division, Report # 16-003
- d) Internal Audit Review of Compliance Monitoring Division, Report # 16-004
- e) Review of Operations in TDHCA’s Information Systems Division, Report # 17-001
- f) Review of the Contract for Deed Conversion Program, Report # 17-003, and
- g) Review of the Low-Income Housing Tax Credit Program, Report # 17-004

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

External audits

External audits and reviews of TDHCA are conducted by the State auditor’s Office (SAO), the Comptroller’s Office, the Sunset Commission, and other oversight agencies. They are also conducted by Federal Funding agencies, and their various departments such as Inspector General’s Office and program monitoring. Both State and Federal audits track the status of findings related to TDHCA.

KPMG:

a. Low Income Home Energy Assistance Program (LIHEAP), Ref # 2016-028

For the federal fiscal year 2015 LIHEAP annual report, the TDHCA did not retain documentation for some of the reported items. The Department has developed a process that requires the capture and retention of the backup documentation that supports the actual reported numbers in the LIHEAP Annual Report at the time of submission.

As of this review TDHCA has implemented a temporary solution as an interim measure. The permanent solution to develop and implement a household level data system for the LIHEAP grant is currently in progress and is expected to go live in September 2019.

The finding remains open

b. HOME Investment Partnership Program, Ref # 2015-027

TDHCA shall maintain internal control over Federal programs that provides reasonable assurance that they are managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grants agreements that could have a material effect on each of its Federal Program.

The recommendation has been implemented and finding is closed

U.S Department of Health and Human Services:

U. S Department of Health and Human Services (HHS), Administration for Children and Families (ACF), Office of Community Services (OCS) conducted a compliance review of the State of Texas’ Federal Fiscal Year 2013 LIHEAP. The Final report was issued in January 2018 and Management has provided their responses in February 2018. The implementation status of HHS recommendations will be included in the Internal Audit follow up report in FY19.

A report from HHS on the TDHCA Community Service Block Grant (CSBG) was issued on June 7th, 2018. The implementation status of its recommendations will be included in the Internal Audit follow up report in FY19.

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

Sincerely,



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

Cc: Tim Irvine, Executive Director
Beau Eccles, General Counsel
Brooke Boston, Director of Programs and Analysis
Patricia Murphy, Director of Compliance
Brent Stewart, Director of Real Estate Analysis
Curtis Howe, Director of Information Services
Marni Holloway, Director of Multifamily Finance
Suzanne Hemphill, director of Fair Housing, Data Management and Reporting

Appendix A

STATUS OF INTERNAL AUDIT RECOMMENDATIONS AS OF JUNE 8TH, 2018

1) Audit Report # 16-001

Review of the Sources and Uses of Funds at TDHCA, Issued July 28th, 2016

OIA Finding and Recommendation:
NONE

2) Audit Report # 16-002

Internal Audit of the Real Estate Analysis Division, Issued on April 19th, 2016

OIA Finding and Recommendations:

- I. 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.

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.

- II. 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

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

Management's response and reported status:

- I. All underwriting reports for the 2016 tax credit allocation cycle were completed prior to the Board's consideration of the applications for approval.
The Division was not fully staffed for the 2017 cycle. Not all underwriting reports for the 2017 cycle were completed prior to the Board's consideration of the applications. All of the transactions that had not been fully underwritten were approved by the Board subject to completion of the underwriting reports and affirmative recommendation. The Division is fully staffed and currently underwriting the 2018 applications.
The recommendation has been implemented and finding is closed.
- II. The rules were revised such that a presentation to EARAC when a significant confluence of concern is identified for an application is optional as determined by the Director of Real Estate Analysis.

The rules were also changed to allow for review and evaluation of credit reports in cases only when warranted.

The recommendation has been implemented and finding is closed.

3) Audit Report # 16-003

Internal Audit of the Fair Housing Division, Issued on October 13th, 2016

OIA Findings and Recommendations:

- I. The training offered to TDHCA staff on Fair Housing should be offered quarterly or at some appropriate interval. This could be accomplished in the same way that information technology training is required.
- II. It is recommended that policies and procedures for Fair Housing be written and made available to all staff of TDHCA. Requirements and checklists for applications of local public housing authorities, for-profit and not-for-profit entities, multi-family, and in some cases single-family should include certification that the entity complies with federal, state, and local Fair Housing rules and regulations. Even though there are individual policies and procedures for certain processes, there is not currently a set of formal standard operating procedures for Fair Housing.

Management's response and reported status:

- I. In January 2017, the Department's Executive Director and Director of Human resources amended the agency's employment policy to require all employees to take online Fair Housing Training offered through the Texas Workforce Commission, Civil Rights Division. A refresher course is required every two years and is tracked by Human Resources staff. This is in addition to other periodic trainings that have been offered by Fair Housing Division.
The recommendation has been implemented and finding is closed.
- II. At the time of this follow up management was drafting a SOP for the Fair Housing work specific to FHDMMR.
The finding remains open

4) Audit Report # 16-004

Internal Audit Review of Compliance Monitoring Division, Issued on November 10th, 2016

OIA Findings and Recommendations:

- I. The timeliness of reporting on compliance activities could be improved.
- II. Reporting on time spent on compliance activities allocated among different programs could be improved.

Management's response and reported status:

- I. The division's Standard Operating Procedures (SOPs) have been updated to reflect the necessary changes to ensure compliance with federal regulations.
The recommendation has been implemented and finding is closed.
- II. Management memos have been distributed to the compliance staff on November 4th, 2016 to provide clear guidance for time card reporting.
The recommendation has been implemented and finding is closed.

5) Audit Report # 17-001

Review of Operations in TDHCA's Information Systems Division, Issued on August 24th, 2017

OIA Findings and Recommendations:

- I. IS should develop a protocol for testing information systems and designate an individual to be responsible for the internal risk assessment component of the overall governance structure.
- II. The division should develop and implement a more comprehensive program of IS training for users.

Management's response and reported status:

- I. The division created a new full-time position in FY 2018 budget to be dedicated to security testing and quality assurance of agency's software application. This position has not been filled as of this follow up due to lack of qualified applicants. The division plans to repost the position using different methods to reach broader potential applicants. The division also purchased vulnerability assessment tool and has begun using it. The new web application firewall is currently being evaluated on development and test instances of TDHCA's web-based system.

The finding remains open

- II. The rollout of the general IS training subscriptions was completed in February 2018, and the rollout of the required security training in January 2018.

The recommendation has been implemented and finding is closed.

6) Audit Report # 17-003

Review of the contract for Deed Conversion Program, Issued on November 29th, 2017

OIA Findings and Recommendations:

NONE

7) Audit Report # 17-004

Review of the Low-Income Housing Tax Credit (LIHTC) Program, Issued on June 5th, 2017

OIA Findings and Recommendations:

- I. The division should develop a Standard Operating Procedures (SOP)
- II. Management should implement a filing system that includes consistent sub-files and verification of posted information

Management's response and reported status:

- I. Management's original response, as of June 5th, 2017, stated that "The Multifamily Finance Division accepts the finding and will update the Division's Standard Operating Procedures (SOP) prior to December 29th, 2017". No updates have been provided to OIA.

The finding remains open

- II. Management's original response, as of June 5th, 2017, stated that "The Multifamily Finance Division will include a management sampling process in the SOP. A sample of priority applications will be performed periodically during the competitive LIHTC cycle starting in 2018 to review for accuracy and legibility of documents". No updates have been provided to OIA.

The finding remains open