



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

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

RE: Internal Audit Report on the Implementation Status of Prior Audit Recommendations,
Report # 19-007

Dear Board Members,

The TDHCA Fiscal Year 2019 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 28th, 2018. An open finding is defined as a finding that was not completely addressed, or for which further action was still required, at the time of this review.

BACKGROUND

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

system to monitor the disposition of results communicated to management. The chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action. The internal audit activity must monitor the disposition of results of consulting engagements to the extent agreed upon with the client.”(I.A Standards, IPPF 2500.A1 through 2600)

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

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

A. Audit reports with carry-over open findings that were outstanding as of the follow-up report dated June 2018:

1. Internal Audit of the Fair Housing Division, Report # 16-003
2. Internal Audit review of the Operation in TDHCA’s Information Systems Division, Report # 17-001
3. Internal Audit review of the Low-Income Housing Tax Credit Program, Report # 17-003

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

B. Internal Audits reports issued between January and December of 2018:

1. Internal Audit of the Bond Finance Program’s Processes and Controls, Report # 17-002
2. Internal Audit review of the Neighborhood Stabilization Program Close-out Procedures, Report # 18-001
3. Internal Audit of the HOME Fund Tracking Program, Report # 18-003
4. Internal Audit of the Emergency Solution Grant (ESG) Program, Report # 18-004
5. Internal Audit of the Loan Servicing Division, Report # 19-001

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

External audits

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

KPMG:

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. KPMG considers this finding closed, and implementation of the new data system is scheduled to go live in September 2019.

U.S Department of Health and Human Services:

In 2018 the U.S Department of Health and Human Services completed on-site monitoring reviews of the TDHCA Community Service Block Grant (CSBG) and LIHEAP programs. The reviews cited various issues related to sub recipient monitoring and other aspects of the program. TDHCA provided documentation to Health and Human Services (HHS) to clear up a number of the findings. Some issues with specific sub recipients cited in the HHS reports are still being worked out.

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: Bobby Wilkinson, Executive Director
Beau Eccles, General Counsel
David Cervantes, Director of Administration
Brooke Boston, Director of Programs
Homero Cabello, Director of Program Controls and Oversight
Monica Galuski, Director of Bond Finance
Larry Mercadel, Director of Information Services
Marni Holloway, Director of Multifamily Finance
Cate Tracz, Manager of Fair Housing
Stephanie D' Couto, Manager of Loan Servicing
Abigail Versyp, Director of HOME & Homelessness Programs

Appendix A

STATUS OF INTERNAL AUDIT RECOMMENDATIONS AS OF AUGUST 15, 2019

1) Audit Report # 16-006

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

OIA Findings and Recommendations:

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:

Management agrees generally with the importance of SOPs; however, specific policies and procedures to comply with HUD CPD ("Community Planning and Development") programs and the duty to affirmatively further fair housing through these programs are best administered through program areas. Program areas are responsible for program funding applications, contracts, program rules and design, all of which may be tools to affirmatively further fair housing. FHDNR staff continually works to review program area SOPs as they relate to fair housing requirements.

Finding is closed

2) Audit Report # 17-001

Internal Audit review of the Operation in TDHCA's Information Systems Division, Issued on August 24th, 2017

OIA Findings and Recommendations:

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.

Management's response and reported status:

Management has completed the implementation of controls to address the security testing component of this recommendation. (The internal risk assessment responsibility component of the recommendation was addressed in early FY 2017.) Management created a new TDHCA Software Development Life Cycle (SDLC) guide in April 2019, which includes a section on software security testing. Management also implemented a security information and event management solution in August 2018 that, along with existing agency firewall technologies, helped achieve security goals in this area.

The recommendation has been implemented and finding is closed

3) Audit Report # 17-004

Internal Audit review of the Low-Income Housing Tax Credit Program (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". As of August 15, 2019, this item was in progress.

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

Appendix B

STATUS OF INTERNAL AUDIT RECOMMENDATIONS AS OF AUGUST 15, 2019

1) Audit Report # 17-002

Internal Audit of the Bond Finance Program, Report issued March 13, 2018

OIA Findings and Recommendations:

Due to volume of the transactions OIA recommends Desk reviews of Program Administrator's records in years when site visits are not conducted

Management's response and reported status:

Bond Finance and Texas Homeownership will add an additional desk review of the Program Administrator's records in the years between site visits and plan to conduct on-site reviews no less than once every two years. Bond Finance and Homeownership are conducting an on-site audit of the Program Administrator's records in August 2019.

The recommendation has been implemented and finding is closed

2) Audit Report # 18-001

Internal Audit review of the Neighborhood Stabilization Program (NSP) Close-Out Procedures, Report issued August 23, 2018

OIA Finding and Recommendation:

NONE

3) Audit Report # 18-003

Internal Audit of the HOME Fund – Tracking Program, Report Issued October 25, 2018

OIA Finding and Recommendation:

NONE

4) Audit Report # 18-004

Internal Audit of the Emergency Solution Grant (ESG), Report Issued May 16, 2018

OIA Findings and Recommendations:

- I. The program should consider establishing program specific Standard Operating Procedure to improve efficiency and consistency within the division
- II. In order to meet future Performance Measures OIA recommends that the program re-evaluate their forecasting and program evaluation process, and make edits and revisions as needed and to set more realistic goals.

- III. To ensure consistency and compliance among Sub-recipients OIA recommends that the Division establish more precise and direct guidance for sub-recipients and collaborative partners.
- IV. To ensure timely reporting of MER and MPR, and gathering of necessary and important data, OIA recommends the program develop incentives for timely submission of reports

Management's response and reported status:

- I. The program has established program specific Standard Operating Procedures (SOP). The recommendation has been implemented and finding is closed
- II. An update to data collection and reporting methodology was finalized in March 2018. The new measures will be effective on September 1, 2019
- III. The Division has moved away from the collaborative model of contracting. TDHCA now contracts directly with each sub-recipient as of the FY2018 awards.
- IV. The ESG Program has migrated from the Community Affairs Contract System to the Housing Contract System. There are new means of tracking reporting, and payment for incurred costs is still dependent on submission of complete performance reports. The rules governing ESG at 10 TAC Chapter 7 also reduce the amount of points available under a competitive award of reports are not submitted timely, if performance targets are not met, and/or if funds are not fully expended timely.

All recommendations have been implemented and findings are closed

5) Audit Report # 19-001

Internal Audit of the Loan Servicing Division, Report issued November 28, 2018

OIA Findings and Recommendations:

- I. The division should consider establishing task specific Standard Operating Procedure to improve efficiency and consistency within the division
- II. Loan Servicing should establish processes, procedures, and guidelines to collect all required monthly reports, and to ensure that appropriate actions are taken based on the results of each reports.
- III. Loan Servicing should establish and enforce a deadline for all Habitats to have the new 2018 Loan Servicing Agreements (LSAs) signed and returned to TDHCA
- IV. Loan Servicing should ensure that all loans are being serviced by Habitats that are under a valid LSA with TDHCA
- V. The division should establish processes that would ensure completed annual verification of Primary Residency on forgivable loans and proper documentations of the outcome of the review
- VI. The division should consider establishing specific methods, such as "Random Sample Generators", to select loan samples for testing and verification.
- VII. The OIA recommends that division consider establishing processes that could provide verification on Primary Residency for repayable loans as well as forgivable loans.
- VIII. TDHCA should establish policies and procedures to ensure coverage for un-insured properties to protect its financial interest in the property.

Management's response and reported status:

- I. Updates to SOPs are substantially completed, and management continues to evaluate and update remaining SOPs.
- II. A revised SOP for Bootstrap Loan Reconciliation was executed on January 31, 2019.
- III. With the exception of one Servicer, servicing agreements are in place with Bootstrap Servicers. Management and Legal are working with the only remaining servicer on a final draft and is expected to be finalized and executed soon.
- IV. Please see III
- V. Management revised the Primary Residency SOP. The new SOP was executed on May 15, 2019.
- VI. The revised Primary Residency SOP includes instructions for using Random Sample Generator and selecting samples for testing and verification.
- VII. Management has expanded the scope of the Primary Residency review to include repayable HOME single Family Development Loans and NSP Permanent Financing loans due to the HUD liability. Due to limited staff resources the primary residence review for all loans is not feasible, and in certain instances is not enforceable under the loan documents or the program.
- VIII. TDHCA received approval from State Office of Risk Management (SORM) to proceed with submitting the executed insurance binding documents and securing the lender force placed insurance policy on July 31, 2019

All recommendations have been implemented and findings are closed