

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

**AGENDA  
7:30 AM  
December 06, 2018**

**TEXAS CAPITOL BUILDING  
CAPITOL EXTENSION ROOM E2.026  
1100 CONGRESS AVENUE  
AUSTIN, TEXAS 78701**

**CALL TO ORDER, ROLL CALL**

**Sharon Thomason, Chair**

**CERTIFICATION OF QUORUM**

**Sharon Thomason, Chair**

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

**ACTION ITEMS:**

**ITEM 1:** Presentation, discussion, and possible action to Approve the Audit Committee Minutes Summary for September 6, 2018

**Mark Scott**  
Director of  
Internal Audit

**ITEM 2:** Presentation, discussion, and possible action to accept the report on the Draft Computation of Housing Finance Division Total and Unencumbered Fund Balances and Transfers to the Housing Trust

**Ernie Palacios**  
Director of  
Financial Administration

**REPORT ITEMS:**

**ITEM 1:** Presentation and discussion of Internal Audit of HOME Fund Tracking

**Mark Scott**  
Director of  
Internal Audit

**ITEM 2:** Presentation and discussion of Internal Audit of Loan Servicing Division

**Mark Scott**  
Director of  
Internal Audit

**ITEM 3:** Presentation and discussion of Internal Audit Annual Report

**Mark Scott**  
Director of  
Internal Audit

**ITEM 4:** Discussion of Recent External Audit Activities

**Mark Scott**  
Director of  
Internal Audit

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

**EXECUTIVE SESSION**

The Committee may go into Executive Session (close its meeting to the public) on any agenda item if appropriate and authorized by the Open Meetings Act, Tex. Gov't Code, Chapter 551 and under Tex. Gov't Code, §2306.039.

1. Pursuant to Tex. Gov't Code, §551.074 the Audit Committee may go into Executive Session for the purposes of discussing personnel matters including to deliberate the appointment, employment, evaluation, reassignment, duties, discipline, or dismissal of a public officer or employee.
2. Pursuant to Tex. Gov't Code, §551.071(1) the Committee may go into executive session to seek the advice of its attorney about pending or contemplated litigation or a settlement offer.

3. Pursuant to Tex. Gov't Code, §551.071(2) the Committee may go into executive session for the purpose of seeking the advice of its attorney about a matter in which the duty of the attorney to the governmental body under the Texas Disciplinary Rules of Professional Conduct of the State Bar of Texas clearly conflicts with Tex. Gov't Code, Chapter 551.
4. Pursuant to Tex. Gov't Code, §2306.039(c) the Committee may go into executive session to receive reports from the Department's internal auditor, fraud prevention coordinator, or ethics advisor regarding issues related to fraud, waste, or abuse.

### **OPEN SESSION**

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

### **ADJOURN**

To access this agenda and details on each agenda item in the board book, please visit our website at [www.tdhca.state.tx.us](http://www.tdhca.state.tx.us) or contact Mark Scott, TDHCA Internal Audit Director, 221 East 11th Street Austin, Texas 78701-2410, 512.475-3813 and request the information.

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

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

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

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

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

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

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

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

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

# Action Item

1

**AUDIT AND FINANCE COMMITTEE ACTION REQUEST**

**INTERNAL AUDIT DIVISION**

**December 06, 2018**

Presentation, discussion and possible action on Audit and Finance Committee Meeting Minutes Summary for September 06, 2018.

**RECOMMENDED ACTION**

**RESOLVED**, that the Audit and Finance Committee Meeting Minutes Summary for September 06, 2018 are hereby approved as presented.

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

On Thursday, September 6, 2018, at 7:32 a.m. the meeting of the Audit and Finance Committee (the "Committee") of the Governing Board (the "Board") of the Texas Department of Housing and Community Affairs ("TDHCA" or the "Department") was held in the Texas Capitol Building, Capital Extension Room E2.016, 1100 Congress Avenue, Austin, Texas. Sharon Thomason presided over the meeting, and Mark Scott served as secretary. Committee members Sharon Thomason, Paul A. Braden, and Asusena Resendiz were in attendance and represented a quorum for the committee meeting. Mr. Leo Vasquez was absent from the meeting.

The first action item on the agenda was approval of the minutes of the June 28, 2018 and July 12, 2018 meeting of the Committee. Minutes were adopted as presented, and were approved.

The second action item on the agenda was the presentation and possible approval of 2019 Internal Audit plan; and Mr. Scott presented the plan to the Committee. He stated that the new plan was based on an updated risk assessment matrix that was recommended by the peer review last year. The recent agency wide reorganization was also a factor taken into consideration during annual risk assessment process. The 2019 audit plan includes seven audits that were rated high on the risk assessment matrix.

Mr. Braden asked about the timing of each of the seven audits. Mr. Scott responded that there is no specific order for the audits at this time. With addition of new auditor to the team these audits should move fairly quickly. The order depends on the logistics of each program, but if there is a preference by the Committee it'll be taken into consideration. Ms. Resendiz asked if the staff had outlined any of the items to see which audit to be performed first. Mr. Scott responded that he has not received any input as far as the order of the audit goes, however he has received good list of items to look at from Brook Boston which were taken into consideration during the risk assessment process. Mr. Scott added that with the addition of the new audit staff, Ms. Kempf, who has strong background in finance, the 2018 audit plan is finishing up.

The Committee voted to recommend approval of the 2019 Audit Plan to the full Board. Next item on the agenda was presentation and discussion of the internal audit of the Neighborhood Stabilization Program (NSP) Close Out procedures. Mr. Scott provided background information about the program and areas that were reviewed during the audit. The review included testing of the reconciliations between the housing contract system and the disaster recovery grant reporting system (DRGR). There were no reportable findings for this audit.

Next report item was the presentation and discussion of the revised fraud, waste, and abuse SOP. Internal audit standard 2120.82 states that Internal Audit must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk. The SOP was revised to also reflect the changes that took place due to the reorganization. The new policy coordinates staff responsibilities with the protocol of the Fraud, Waste and Abuse (FWA) committee.

With no questions from Committee members Ms. Thomason moved to the last report item on the agenda, related to Finance Administration Division; Presentation and discussion of report required under Texas Government Code §2306.070 for submission to legislative bodies, status of other recent legislative submissions. Mr. Cervantes, TDHCA CFO, presented the report which is a statutory requirement. At the end of the presentation Mr. Cervantes also gave a brief update on the Legislative Appropriation Request (LAR). TDHCA submitted the 20-21 LAR to the Office of the Governor, the Legislative Budget Board (LBB), and other oversight offices on Aug 3<sup>rd</sup>, 2018 and on Aug 30<sup>th</sup> the office of the Governor and the LBB held a hearing. Mr. Irvine presented the agency's budget and answered questions during the hearing which lasted about 15 minutes. Mr. Cervantes then offered to answer any questions that Committee may have.

With no questions and no further items on the agenda the meeting was adjourned at 7:45am

# Action Item

2

**AUDIT AND FINANCE COMMITTEE ACTION ITEM**

**FINANCIAL ADMINISTRATION DIVISION**

**DECEMBER 6, 2018**

Presentation, discussion, and possible action to accept the report on the Draft Computation of Housing Finance Division Total and Unencumbered Fund Balances and Transfers to the State of Texas Housing Trust Fund.

**WHEREAS**, Tex. Gov't Code §2306.204 requires an audit of the Department's Housing Trust Fund to be completed by December 31st of each year to determine the amount of unencumbered fund balances that are greater than the amount required for the reserve fund;

**WHEREAS**, Housing Finance Division unencumbered funds are the funds associated with any and all of the Department's housing finance activity that are not subject to any restriction precluding their immediate transfer to the housing trust fund. Such restrictions include: being subject to a state or federal law or other applicable legal requirement such as the General Appropriations Act, being held in trust subject to the terms of a bond indenture, or having been designated by the Department's Governing Board for a specific use or contingency;

**WHEREAS**, Tex. Gov't Code §2306.205 provides a formula for determining the amount of unencumbered fund balances and the amounts, if any, to transfer to the Housing Trust Fund before January 10th; and

**WHEREAS**, Staff has drafted a process for determining the three year-end values total and non highest rated bond indebtedness, the amount of unencumbered fund balances and the amounts, if any, to transfer to the State of Texas Housing Trust Fund;

**NOW, therefore, it is hereby**

**RESOLVED**, that the *Draft Computation of Unencumbered Fund Balances Report as of August 31, 2018*, is presented to this meeting and the Board and the Acting Director accepts this report in satisfaction of the requirements of Tex. Gov't Code §§2306.204 and 2306.205 with its final approval determined by the year-end audit performed by the State Auditor's Office.

**BACKGROUND**

Pursuant to Tex. Gov't Code §§2306.204 and 2306.205, the Department is required to transfer to the State of Texas Housing Trust Fund annually a portion of the unencumbered funds, if any, meeting certain threshold and criteria. This statute also requires the Department to undergo an annual audit of its unencumbered fund balances and to transfer excess funds to the State of Texas Housing Trust Fund based on a calculation set forth in the statute. Using the methodology outlined in the statute, Department staff developed a Standard Operating Procedure (#1210.05) to calculate statutorily required transfers to the State of Texas Housing Trust Fund.



The *Draft Computation of Unencumbered Fund Balances Report as of August 31* (Exhibit A) reflects funds held by the Department deemed to be unencumbered of \$148,348; the *Calculation of Bonded Indebtedness Report* (Exhibit B) only includes bonds outstanding not rated in the highest long-term debt rating category to calculate the 2% threshold of \$18,847,306; and the *List of Bond Ratings* (Exhibit C) from rating agencies. Since the unencumbered balance is less than the 2% threshold it does not meet the first threshold in Tex. Gov't Code §2306.205(a) for any transfer to the State of Texas Housing Trust Fund.

In conclusion, the *Draft Computation of Unencumbered Fund Balances Report as of August 31, 2018*, yielded a zero transfer to the State of Texas Housing Trust Fund. Again, this report is included for review in the year-end financial audit performed by the State Auditor's Office and is, therefore, subject to revision based on such audit.



**EXHIBIT B**

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS  
 Calculation of Bonded Indebtedness as of August 31, 2018  
 Pursuant to Texas Government Code Section 2306.205**

	<b>Highest Bond Rating</b>	<b>Bonds Outstanding (Par)</b>	<b>Bonded Indebtedness Not Rated in the Highest Category</b>
Single-family	AA+	\$ 328,007,912	\$ 328,007,912
RMRB	Aaa	121,270,000	-
CHMRB	AA+	300,000	300,000
Multifamily	Various	885,782,270	614,057,381
		<u>\$ 1,335,360,182</u>	<u>\$ 942,365,293</u>

<b>Section 2306.205(a)</b>	
2% of bonded indebtedness	\$ 18,847,306
Unencumbered Fund Balance (UFB) per Calculation	\$ 148,348
Does UFB exceed 2% of bonded indebtedness?	No
If UFB exceeds 2% of bonded indebtedness: What amount exceeds 2% of bonded indebtedness?	\$ -
Half of UFB in excess of 2% of bonded indebtedness (Transfer to Housing Trust Fund)	\$ -

<b>Section 2306.205(c)</b>	
4% of bonded indebtedness	\$ 37,694,612
Unencumbered Fund Balance (UFB) per Calculation	\$ 148,348
Does UFB exceed 4% of bonded indebtedness?	No
If UFB exceeds 4% of bonded indebtedness: What amount exceeds 4% of bonded indebtedness?	\$ -
All of UFB in excess of 4% of bonded indebtedness (Transfer to Housing Trust Fund)	\$ -

**EXHIBIT C**

Single Family Indenture				Rating Agencies			
Series	CUSIP	Maturity Date	Interest Rate	8/31/2018	Moody's	Standard & Poor's	Fitch
				Ending Bonds Outstanding	rtg moody	rtg sp	rtg fitch
2004A JL	88275FNM7	9/1/2036	VAR	\$ 3,855,000	Aa2/VMIG1	AA+/A-1+	#N/A N/A
				\$ 3,855,001			
2004B	88275FNN5	9/1/2034	VAR	\$ 3,855,002	Aa1/VMIG1	AA+/A-1+	#N/A N/A
2004D	88275FNP0	3/1/2035	VAR	\$ 15,765,000	Aa1/VMIG1	AA+/A-1+	#N/A N/A
2005A	88275FNQ8	9/1/2036	VAR	\$ 22,060,000	Aa1/VMIG1	AA+/A-1+	#N/A N/A
2007A	88275FMF3	9/1/2038	VAR	\$ 24,750,000	Aa1/VMIG1	AA+/A-1+	#N/A N/A
2013A	88275FNT2	3/1/2036	2.800%	\$ 16,335,000	Aa1	AA+	#N/A N/A
2015A	88275FNU9	9/1/2039	3.200%	\$ 20,945,000	Aa1	AA+	#N/A N/A
2015B	88275FNV7	3/1/2046	3.125%	\$ 14,765,000	Aa1	AA+	#N/A N/A
2016A	88275FNW5	3/1/2046	3.000%	\$ 25,010,000	Aa1	AA+	#N/A N/A
2016B	88275FNX3	3/1/2039	3.180%	\$ 36,700,000	Aa1	AA+	#N/A N/A
2017A	88275FNY1	9/1/2047	2.835%	\$ 59,316,953	Aa1	AA+	#N/A N/A
2017B	88275FNZ8	9/1/2038	2.750%	\$ 23,670,049	Aa1	AA+	#N/A N/A
2017C	88275FPA1	9/1/2047	3.100%	\$ 41,800,910	Aa1	AA+	#N/A N/A

**Total Bonds Outstanding \$ 328,007,912**

**Bonds Rated in the Highest Category (Aaa OR AAA) \$ -**

**Bonds NOT Rated in the Highest Category (Aaa OR AAA) \$ 328,007,912**

RMRB Indenture				Rating Agencies			
				8/31/2018	Moody's	Standard & Poor's	Fitch
Series	CUSIP	Maturity Date	Interest Rate	Ending Bonds Outstanding	rtg moody	rtg sp	rtg fitch
2009A	882750KF8	1/1/2019	4.000%	\$ 125,000	Aaa	AA+	#N/A N/A
	882750KG6	7/1/2019	4.000%	\$ 125,000	Aaa	AA+	#N/A N/A
	882750KH4	7/1/2024	4.850%	\$ 1,425,000	Aaa	AA+	#N/A N/A
	882750JN3	7/1/2029	5.100%	\$ 4,410,000	Aaa	AA+	#N/A N/A
	882750JP8	7/1/2034	5.300%	\$ 4,050,000	Aaa	AA+	#N/A N/A
	882750KJ0	1/1/2039	5.375%	\$ -	Aaa	AA+	#N/A N/A
	882750KK7	7/1/2039	5.450%	\$ 7,160,000	Aaa	AA+	#N/A N/A
				<b>\$ 17,295,000</b>			
2009B	882750KY7	7/1/2019	4.800%	\$ 690,000	Aaa	AA+	#N/A N/A
	882750KX9	7/1/2022	5.250%	\$ 3,470,000	Aaa	AA+	#N/A N/A
				<b>\$ 4,160,000</b>			
2009C-1	882750NE8	7/1/2041	2.875%	\$ 31,665,000	Aaa	AA+	#N/A N/A
2011A	882750LQ3	1/1/2019	3.875%	\$ 645,000	Aaa	AA+	#N/A N/A
	882750LR1	7/1/2019	3.950%	\$ 640,000	Aaa	AA+	#N/A N/A
	882750LS9	1/1/2020	4.125%	\$ 635,000	Aaa	AA+	#N/A N/A
	882750LT7	7/1/2020	4.125%	\$ 655,000	Aaa	AA+	#N/A N/A
	882750LU4	1/1/2021	4.375%	\$ 660,000	Aaa	AA+	#N/A N/A
	882750LV2	7/1/2021	4.375%	\$ 665,000	Aaa	AA+	#N/A N/A
	882750LW0	1/1/2022	4.550%	\$ 680,000	Aaa	AA+	#N/A N/A
	882750LX8	7/1/2022	4.550%	\$ 690,000	Aaa	AA+	#N/A N/A
	882750LY6	7/1/2026	5.050%	\$ 6,235,000	Aaa	AA+	#N/A N/A
	882750LZ3	7/1/2029	5.000%	\$ 2,970,000	Aaa	AA+	#N/A N/A
				<b>\$ 14,475,000</b>			
2009C-2	882750NB4	7/1/2041	2.480%	\$ 25,370,000	Aaa	AA+	#N/A N/A
2011B	882750MQ2	1/1/2019	2.850%	\$ 795,000	Aaa	AA+	#N/A N/A
	882750MR0	7/1/2019	2.900%	\$ 810,000	Aaa	AA+	#N/A N/A
	882750MS8	1/1/2020	3.100%	\$ 820,000	Aaa	AA+	#N/A N/A
	882750MT6	7/1/2020	3.100%	\$ 825,000	Aaa	AA+	#N/A N/A
	882750MU3	1/1/2021	3.300%	\$ 835,000	Aaa	AA+	#N/A N/A
	882750MV1	7/1/2021	3.300%	\$ 855,000	Aaa	AA+	#N/A N/A
	882750MW9	1/1/2022	3.500%	\$ 880,000	Aaa	AA+	#N/A N/A
	882750MX7	7/1/2022	3.500%	\$ 890,000	Aaa	AA+	#N/A N/A
	882750MY5	1/1/2026	4.050%	\$ 8,025,000	Aaa	AA+	#N/A N/A
	882750MZ2	1/1/2030	4.450%	\$ 7,485,000	Aaa	AA+	#N/A N/A
882750NA6	1/1/2034	4.250%	\$ 6,085,000	Aaa	AA+	#N/A N/A	
				<b>\$ 28,305,000</b>			

**Total Bonds Outstanding \$ 121,270,000**

**Bonds Rated in the Highest Category (Aaa OR AAA) \$ 121,270,000**

**Bonds NOT Rated in the Highest Category (Aaa OR AAA) \$ -**

CHMRB				Rating Agencies			
				8/31/2018	Moody's	Standard & Poor's	Fitch
Series	CUSIP	Maturity	Coupon	Ending Bonds Outstanding	rtg moody	rtg sp	rtg fitch

1992 C-1 & 1992 C-2

(Linked) 882749BM5 7/2/2024 6.9 \$ 200,000 #N/A N/A AA+ #N/A N/A

1992 C-1

(SAVRS) 882749BP8 7/2/2024 2.742 \$ 50,000 #N/A N/A AA+ #N/A N/A

1992 C-2

(RIBS) 882749BN3 7/2/2024 10.736 \$ 50,000 #N/A N/A AA+ #N/A N/A

**Total Bonds Outstanding \$ 300,000**

**Bonds Rated in the Highest Category (Aaa OR AAA)**

**Bonds NOT Rated in the Highest Category (Aaa OR AAA) \$ 300,000**

Multifamily

MF Bond Issue	CUSIP	MF Program#	Private or Public	Ending Bonds Outstanding	Rating Agencies		
					8/31/2018	Moody's	Standard & Poor's
					rtg moody	rtg sp	rtg fitch
1996 A MF Refunding (Brighton's Mark Development)	88275BBK3	0065	Private Place	\$ 8,075,000	#N/A N/A	NR	#N/A N/A
1998 A MF (Residence at the Oaks Project)	88275BDA3	0090	Private Place	\$ 3,118,000	#N/A N/A	NR	#N/A N/A
1998 B MF (Residence at the Oaks Project)	88275BDB1	0090	Private Place	\$ 1,665,000	#N/A N/A	NR	#N/A N/A
1998 C MF (Residence at the Oaks Project)	88275BDB1	0090	Private Place	\$ 55,000	#N/A N/A	NR	#N/A N/A
2000 MF (Timber Point Apartments)	88275BDS4	0095	Public Offer	\$ 5,870,000	Aaa/VMIG1	#N/A N/A	#N/A N/A
2000 A MF (Oaks at Hampton Apartments)	None	0096	Private Place	\$ -	Charter Mac Equity Issuer Trust		
2000 MF (Deerwood Pines Apartments)	88275BEQ7	0097	Public Offer	\$ -	#N/A N/A	AA-	#N/A N/A
2000 MF (Creek Point Apartments)	88275BER5	0098	Public Offer	\$ 4,960,000	Aaa/VMIG1	#N/A N/A	#N/A N/A
2000 A MF (Parks at Westmoreland Apartments)	None	0099	Private Place	\$ -	Charter Mac Equity Issuer Trust		
2000 A MF (Highland Meadow Village Apartments)	88275BEW4	0101	Private Place	\$ 6,656,000	#N/A N/A	#N/A N/A	#N/A N/A
2000 A MF (Collingham Park Apartments)	88275BEZ7	0103	Private Place	\$ 8,083,000	#N/A N/A	#N/A N/A	#N/A N/A
2000 B MF (Collingham Park Apartments)	88275BFA1	0103	Private Place	\$ 1,819,000	#N/A N/A	#N/A N/A	#N/A N/A
2001 MF (Bluffview Apartments)	88275BGJ1	0106	Private Place	\$ 9,508,019	#N/A N/A	#N/A N/A	#N/A N/A
2001 MF (Knollwood Apartments)	88275BGE2	0107	Private Place	\$ 12,218,248	#N/A N/A	#N/A N/A	#N/A N/A
2001 A MF (Skyway Villas Apartments)	88275BFN3	0108	Public Offer	\$ 4,660,000	WR	NR	WD
2001 B MF (Skyway Villas Apartments)	88275BFQ6	0108	Private Place	\$ 1,190,000	WR	#N/A N/A	#N/A N/A
2001 A-1 MF (Meridian Apartments)	88275ACG3	0111	Public Offer	\$ 7,257,000	#N/A N/A	#N/A N/A	#N/A N/A
2001 B MF (Meridian Apartments)	88275ACH1	0111	Private Place	\$ 391,000	#N/A N/A	#N/A N/A	#N/A N/A
2001 A-1 MF (Wildwood Apartments)	88275AC7	0112	Public Offer	\$ 5,891,000	#N/A N/A	#N/A N/A	#N/A N/A
2001 MF (Oak Hollow Apartments)	88275BGV4	0114	Private Place	\$ -	#N/A N/A	#N/A N/A	#N/A N/A
2001 A MF (Hillside Apartments)	88275BGX0	0115	Private Place	\$ 11,883,307	#N/A N/A	#N/A N/A	#N/A N/A
2002 MF (Park Meadows Apartments)	88275BGW2	0119	Private Place	\$ -	#N/A N/A	#N/A N/A	#N/A N/A
2002 MF (Clarkridge Villas Apartments)	None	0120	Private Place	\$ 12,496,187	Charter Mac Equity Issuer Trust		
2002 MF (Hickory Trace Apartments)	None	0121	Private Place	\$ -	Charter Mac Equity Issuer Trust		
2002 MF (Green Crest Apartments)	88275BHS0	0122	Public Offer	\$ 10,417,746	#N/A N/A	#N/A N/A	#N/A N/A
2002 A MF (Ironwood Crossing)	None	0123	Private Place	\$ 15,000,000	Charter Mac Equity Issuer Trust		
2002 B MF (Ironwood Crossing)	None	0123	Private Place	\$ 557,354	Charter Mac Equity Issuer Trust		
2003 A MF Refunding (Reading Road)	88275BJJ8	0125	Public Offer	\$ 8,050,000	#N/A N/A	AA+/A-1+	#N/A N/A
2003 B MF Refunding (Reading Road)	88275BJK5	0125	Private Place	\$ 1,580,000	#N/A N/A	#N/A N/A	#N/A N/A
2003 A MF (North Vista)	88275BHL5	0126	Public Offer	\$ -	WR	NR	WD
2003 A MF (North Vista)	88275BHM3	0126	Public Offer	\$ -	WR	NR	WD
2003 A MF (West Virginia Apartments)	88275BHT8	0127	Public Offer	\$ 5,850,000	WR	NR	WD
2003 A MF (West Virginia Apartments)	88275BHU5	0127	Public Offer	\$ 1,465,000	WR	NR	WD
2003 A MF (Primrose Houston School Apartments)	88275BJB5	0129	Private Place	\$ 15,000,000	#N/A N/A	#N/A N/A	#N/A N/A
2003 B MF (Primrose Houston School Apartments)	88275BJC3	0129	Private Place	\$ 208,743	#N/A N/A	#N/A N/A	#N/A N/A
2003 A MF (Timber Oaks Apartments)	None	0130	Private Place	\$ 10,900,000	Charter Mac Equity Issuer Trust		
2003 B MF (Timber Oaks Apartments)	None	0130	Private Place	\$ 1,244,763	Charter Mac Equity Issuer Trust		
2003 A MF (Ash Creek Apartments)	88275BJS8	0131	Private Place	\$ 14,923,968	#N/A N/A	#N/A N/A	#N/A N/A
2003 B MF (Ash Creek Apartments)	88275BJT6	0131	Private Place	\$ -	#N/A N/A	#N/A N/A	#N/A N/A
2003 A MF (Peninsula Apartments)	88275BJU3	0132	Public Offer	\$ 9,730,000	#N/A N/A	AA+	#N/A N/A
2003 A MF (Arlington Villas Apartments)	88275BJX7	0134	Public Offer	\$ 15,000,000	WR/WR	#N/A N/A	#N/A N/A
2003 B MF (Arlington Villas Apartments)	88275BJY5	0134	Public Offer	\$ 793,576	WR/WR	#N/A N/A	#N/A N/A
2003 A MF (Parkview Townhomes Apartments)	None	0135	Private Place	\$ 12,817,254	Charter Mac Equity Issuer Trust		
2003 MF (NHP Foundation - Asmara Project)	88275BHG6	0136	Public Offer	\$ -	#N/A N/A	AA+/A-1+	#N/A N/A
2004 A MF (Timber Ridge II Apartments)	88275BJZ2	0137	Private Place	\$ 6,122,772	#N/A N/A	#N/A N/A	#N/A N/A
2004 A MF (Providence at Veterans Memorial Townhomes)	None	0140	Private Place	\$ 6,508,431	Charter Mac Equity Issuer Trust		
2004 MF (Providence at Rush Creek II)	88275BKH0	0141	Private Place	\$ 8,052,042	#N/A N/A	NR	#N/A N/A
2004 MF (Humble Parkway Townhomes)	88275BKJ6	0142	Public Offer	\$ 10,070,000	#N/A N/A	#N/A N/A	#N/A N/A
2004 MF (Chisholm Trail Apartments)	88275BKR8	0143	Public Offer	\$ 9,800,000	Aaa/VMIG1	#N/A N/A	#N/A N/A
2004 MF (Evergreen at Plano Parkway)	88275BKX5	0144	Private Place	\$ 13,496,664	#N/A N/A	#N/A N/A	#N/A N/A
2004 MF (Montgomery Pines Apartments)	88275BKU1	0145	Public Offer	\$ 10,300,000	Aaa/VMIG1	#N/A N/A	#N/A N/A
2004 MF (Bristol Apartments)	88275BKT4	0146	Public Offer	\$ 11,000,000	Aaa/VMIG1	#N/A N/A	#N/A N/A
2004 MF (Pinnacle Apartments)	88275BKV9	0147	Public Offer	\$ 12,765,000	Aaa/VMIG1	#N/A N/A	#N/A N/A
2004 MF (Churchill at Pinnacle Park)	88275BKZ0	0150	Private Place	\$ 9,048,933	#N/A N/A	#N/A N/A	#N/A N/A
2005 MF (Port Royal Homes)	None	0155	Private Place	\$ 11,107,727	Charter Mac Equity Issuer Trust		
2005 MF (Mission Del Rio Homes)	88275BLK2	0156	Private Place	\$ 8,697,968	#N/A N/A	#N/A N/A	#N/A N/A
2005 MF (Atascocita Pines Apartments)	88275BLV8	0157	Public Offer	\$ 10,390,000	Aaa/VMIG1	#N/A N/A	#N/A N/A
2005 MF (Tower Ridge Apartments)	88275BLX4	0158	Public Offer	\$ 15,000,000	#N/A N/A	AA+/A-1+	#N/A N/A
2005 MF (St. Augustine Estate Apartments)	88275BME5	0162	Public Offer	\$ 5,580,000	Aaa/VMIG1	#N/A N/A	#N/A N/A
2005 MF (Providence Mockingbird Apartments)	None	0164	Private Place	\$ 10,459,038	Charter Mac Equity Issuer Trust		

MF Bond Issue	CUSIP	MF Program#	Private or Public	Ending Bonds Outstanding	Rating Agencies			
					8/31/2018	Moody's	Standard & Poor's	Fitch
					rtg moody	rtg sp	rtg fitch	
2005 MF (Plaza at Chase Oaks Apartments)	None	0165	Private Place	\$ 11,287,346	Washington Mutual Bank			
2005 MF (Coral Hills Apartments)	88275BMPO	0167	Public Offer	\$ 4,165,000	#N/A N/A	AA+	#N/A N/A	
2006 MF (Bella Vista Apartments)	88275BNB0	0169	Private Place	\$ 6,225,000	#N/A N/A	#N/A N/A	#N/A N/A	
2006 MF (Village Park Apartments)	88275BNC8	0170	Public Offer	\$ 8,960,000	#N/A N/A	AA+	#N/A N/A	
2006 MF (Oakmoor Apartments)	88275BNA2	0171	Private Place	\$ 13,328,497	#N/A N/A	#N/A N/A	#N/A N/A	
2006 MF (The Residences at Sunset Pointe)	88275AAA8	0172	Public Offer	\$ 15,000,000	#N/A N/A	AA+/A-1+	#N/A N/A	
2006 MF (Hillcrest Apartments)	88275AAE0	0173	Public Offer	\$ 9,570,000	#N/A N/A	NR	#N/A N/A	
2006 MF (Meadowlands Apartments)	88275AAH3	0180	Private Place	\$ 11,509,836	#N/A N/A	#N/A N/A	#N/A N/A	
2006 MF (East Tex Pines)	88275AAP5	0181	Private Place	\$ 12,615,000	#N/A N/A	#N/A N/A	#N/A N/A	
2006 MF (Aspen Park)	88275AAR1	0183	Public Place	\$ 8,715,000	#N/A N/A	AA+	#N/A N/A	
2006 MF (Idlewilde)	88275AAY6	0184	Public Offer	\$ 12,790,000	Aaa/VMIG1	#N/A N/A	#N/A N/A	
2007 MF (Lancaster)	88275ABA79	0185	Public Offer	\$ 12,780,000	Aaa/VMIG1	#N/A N/A	#N/A N/A	
2007 MF (Park Place at Loyola)	88275ABB5	0186	Private Place	\$ 13,516,531	#N/A N/A	#N/A N/A	#N/A N/A	
2007 MF (Terraces at Cibolo)	88275ABC3	0187	Public Place	\$ 4,700,000	#N/A N/A	A+/A-1	#N/A N/A	
2007 MF (Santora Villas)	88275ABD1	0188	Private Place	\$ 11,458,243	#N/A N/A	#N/A N/A	#N/A N/A	
2007 MF (Costa Rialto)	None	0191	Private Place	\$ 9,997,962	Centerline Equity Issuer Trust			
2007 MF (Windshire)	88275ABN9	0192	Public Offer	\$ 12,800,000	Aaa/VMIG1	#N/A N/A	#N/A N/A	
2007 MF (Residences @ Onion Creek)	88275ABX7	0193	Public Offer	\$ 15,000,000	#N/A N/A	AA+/A-1+	#N/A N/A	
2008 MF (West Oaks Apartments)	88275ABY5	0194	Public Offer	\$ 11,675,000	Aaa/VMIG1	#N/A N/A	#N/A N/A	
2008 MF (Costa Ibiza Apartments)	88275ACD0	0195	Public Offer	\$ 12,620,000	Aaa/VMIG1	#N/A N/A	#N/A N/A	
2008 MF (Addison Park Apartments)	88275ACE8	0196	Public Offer	\$ 12,195,000	#N/A N/A	AA+/A-1+	#N/A N/A	
2008 MF (Alta Cullen Refunding)	88275ACF5	0197	Public Offer	\$ 11,500,000	#N/A N/A	AA+/A-1+	#N/A N/A	
2009 MF (Costa Mariposa)	88275ACK4	0198	Public Offer	\$ 12,775,000	Aaa/VMIG1	#N/A N/A	#N/A N/A	
2009 MF (Woodmont)	88275ACL2	0199	Public Offer	\$ 13,950,000	WR/WR	#N/A N/A	#N/A N/A	
2014 MF (Decatur Angle)	88275ACN8	0201	Private Place	\$ 22,686,226	#N/A N/A	#N/A N/A	#N/A N/A	
2016 MF (Williamsburg Apts)	88275ACW8	0205	Public Offer	\$ 22,719,612	Aaa	#N/A N/A	#N/A N/A	
2016 MF (Skyline Place Apartments)	88275ADC1	0211	Public Offer	\$ 18,526,782	Aaa	#N/A N/A	#N/A N/A	
2017 MF (Casa Inc Apartments)	88275ADD9	0212	Public Offer	\$ 23,774,175	Aaa	#N/A N/A	#N/A N/A	
2017 MF (Casa Brendan Apartments)	88275ADF4	0213	Public Offer	\$ 4,952,953	Aaa	#N/A N/A	#N/A N/A	
2017 MF (Nuestro Hogar)	88275ADE7	0214	Public Offer	\$ 5,646,367	Aaa	#N/A N/A	#N/A N/A	
2017 MF (Emli Liberty Crossing)	88275ADG2	0215	Public Offer	\$ 17,600,000	#N/A N/A	AA+	#N/A N/A	
2018 MF (Vista on Gessner)	88275ADH0	0216	Public Offer	\$ 50,000,000	Aaa	#N/A N/A	#N/A N/A	
2018 MF (Springs Apartments)	88275ADJ6	0218	Public Offer	\$ 20,000,000	#N/A N/A	AA+	#N/A N/A	
2018 MF (Crosby Plaza Apartments)	88275ADK3	0219	Public Offer	\$ 7,000,000	#N/A N/A	AA+	#N/A N/A	
2018 MF (Oaks on Lamar)	88275ADN7		Public Offer	\$ 16,810,000	#N/A N/A	AA+	#N/A N/A	
2018 MF (Riverside Townhomes)	88275ADM9		Public Offer	\$ 19,200,000	#N/A N/A	AA+	#N/A N/A	

\$ 885,782,270

**Bonds Rated in the Highest Category (Aaa OR AAA) \$ 271,724,889**

**Bonds NOT Rated in the Highest Category (Aaa OR AAA) \$ 614,057,381**



# REPORT ITEM

1

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS  
An Internal Audit of the HOME Fund - Tracking Program

Audit Report # 18-003

**Executive Summary**

The Office of Internal Audit (OIA) assessed the policies, processes and procedures in place for allocating and tracking HOME funds for fiscal years 2011 – 2017. We reviewed and tested a sample of contracts for accuracy and consistency, from fund origination to allocation through the reservation and housing contract systems to the individual contract that received funds.

Based on the fieldwork performed, OIA concludes that the HOME policies, processes and procedures are generally performed accurately and according to applicable rules.

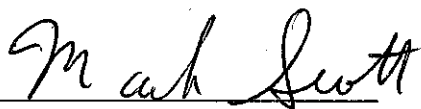
**Findings and Recommendations**

No Exceptions were noted

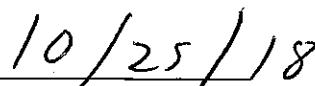
**Objective, Scope and Methodology**

Based upon our risk assessment and other factors, we selected the HOME Fund - Tracking Program for review and testing. This audit was identified in the Fiscal Year 2018 Annual Audit Plan and included the objectives to evaluate and test the HOME Program's policies, processes and procedures in place for fund allocation, contract assignment, fund expenditures, project completion and fund expiration per individual contract.

The current audit covered HOME Fund - Tracking contracts that have been verified and tracked as of July 2018.



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



Date Signed



## TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

[www.tdhca.state.tx.us](http://www.tdhca.state.tx.us)

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October 25, 2018

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

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

RE: REVIEW OF THE HOME FUND – TRACKING PROGRAM

Dear Board Members:

This report presents the results of the Office of Internal Audit ("OIA") "*Review of HOME Program Fund Tracking.*" This audit was identified in the Fiscal Year 2018 Annual Audit Plan and was conducted in accordance with applicable audit standards. It included the objectives of evaluating and explaining the HOME Program; and evaluating the fund tracking, administrative, and internal control procedures related to the program.

Our scope included a review of the Texas Government Code (TGC), and the Texas Administrative Code (TAC). We also reviewed policies, processes, and procedures in HUD guidance found at HUDexchange, Federal Register, various reports, and other related documents. Based upon our preliminary understanding of the HOME Program, we identified critical points and risk; in order to develop audit objectives and an audit plan including methodology.

The Texas Department of Housing and Community Affairs (TDHCA) administers the HOME Program on behalf of the State of Texas, primarily in rural parts of the state.

HOME Fund Tracking was selected for audit because the HUD guidance has had many changes on how obligations, commitments and expenditures are processed for fiscal years FY2014 and prior, FY 2015, FY2016, FY2017 and future dates. On July 13, 2013, HUD issued a rule that would require TDHCA to process HOME funds following grant fund accounting rules, rather than cumulative accounting for the funds. Under the new grant fund reporting requirements, TDHCA would lose funds (have them lapse) if they were not spent in the specified period. This was a change from the cumulative accounting procedures, for the HOME funds that had been in place.

Congress has recently appropriated FY2018 HOME funds to TDHCA. Because these funds have not been available, they are not included in the HOME funds reviewed for this audit. The audit covered activities and processes in place for fiscal year 2017 and prior.

## BACKGROUND

The HOME and Homelessness Programs Division awards funds to assist units of general local government, public housing authorities, nonprofits, and local agencies in the provision of assistance to low-income Texans, with a focus on housing and housing-related assistance and services. **TDHCA does not provide any services directly to individuals.**

The HOME Investment Partnerships Program (HOME Program or HOME) was authorized in 1990 and is funded by the U.S. Department of Housing and Urban Development (HUD). Authorized under Section 218 of the Cranston-Gonzalez National Affordable Housing Act (the Act), the purpose of the program is to expand the supply of decent, safe, affordable housing, and strengthen public-private housing partnerships between units of local general governments, public housing authorities, nonprofits, and for-profit entities.

The program provides formula grants for four primary purposes:

1. production of new single or multifamily housing units,
2. rehabilitation of single or multifamily housing,
3. direct homeownership assistance, and,
4. time-limited tenant-based rental assistance (for up to two years with possibility of renewal).

All HOME funds must be used to benefit families and individuals who qualify as low-income at or below 80 percent of area median income. The HOME program provides state and local governments with the discretion to determine the type of housing product in which they will invest, the location of these investments, and the segment of their population that will be housed through these investments.

HOME funds are allocated by HUD to TDHCA with various restrictions, deadlines and requirements. The funds have to be spent within a certain period of time. Because HOME projects span over several years, the timing of the expenditure requirements is complex. There are various milestones such as obligation of funds, expenditure of funds, project completion and other milestones with deadlines. The HOME Program has employed a cumulative fund accounting model whereby funds of a particular type could be expended by states, with limits based on cumulative totals, that had to be used up in a certain number of years. The “moving” (the HOME program used the term “swapping”) of funds from year to year was easier under the cumulative method than under grant-fund accounting requirements, as will be discussed below.

“Moving” funds would entail, for example, if a project had money assigned to it, and was later rendered not feasible. Under grant accounting, funds have to be spent within a specific time period, or else they will lapse. In 2013, based on a Governmental Accountability Office (GAO) audit, with the aim of achieving tighter controls over HOME fund expenditures, HUD announced that it would require grant-based accounting for the HOME Program. Grant-based accounting works more readily in TDHCA programs such as energy assistance, where electric bills are paid, and that payment is the end of the transaction. For HOME funds, the expenditures on projects span several grant periods.

There was concern expressed by TDHCA management about the implementation of grant-based accounting. Subsequent to the issuance of the grant-based requirement that resulted from the GAO report, a reprieve, or temporary waiver was given by HUD to TDHCA. For the planning for the 2018 internal audit plan, OIA was asked to review TDHCA's readiness in the event that the waiver period would end and TDHCA would have to follow grant based accounting for HUD.

Sec. 218(g) of the Act covers the expiration of the right to draw funds, and is interpreted by HUD to apply to all HOME funds. Funds have a four year obligation life and project completion deadline. The expenditure deadline has been eliminated since the funds expire five years after the period of obligation, giving funds a nine year life.

Per Sec. 218(g), HOME funds must be placed under "binding commitment" within 24 months after the last day of the month in which funds are made available to the state.

Prior to revisions the HOME Final Rule stated that funds must be recaptured, if not spent, within five years after the last day of the month in which HUD notifies the state of their execution of the agreement. Effective August 23, 2013, HUD established an expenditure deadline in regulation at 24 CFR 92.500(d)(1)(C) which required recapture of any funds that are not expended within five years after the last day of the month in which HUD notifies the state of their execution of the agreement. Changes to the HOME Final rule effective August 23, 2015 changed the expenditure deadline in 92.500(d)(1)(iii) for HOME funds from FY 2015 and later to allow for expenditure by Sept 30 of the fifth year after the period of availability of the allocation from HUD, granting a bit more time, but maintaining an expenditure deadline for FY2015 and later funds.

Subsequently, on December 2, 2016, HUD published an Interim Final Rule (the Interim Final Rule superseded the Final Rule, in one of those peculiarities of policy making), effective January 1, 2017, which eliminated the 5-year expenditure deadline for FY2015 and later funds, thereby eliminating the requirement for any funds which may be subject to grant-based accounting as described later on. The last year of funds for which an expenditure deadline applies is FY2014 HOME funds.

The Interim Final Rule also established an additional commitment deadline which requires subrecipients to commit HOME funds to specific activities within 36 months of the last day of the month in which HUD notifies the state of their execution of the agreement. Although this rule is not statutory, it does pose additional risk if HOME funds are distributed in a contract rather than through an agreement.

Under either the cumulative or the grant-based accounting scenario, there is a set-aside requirement for Community Housing Development Organizations (CHDOs). For both the impending grant-accounting requirement and the CHDO requirement, TDHCA has maintained a tracking system. OIA has reviewed these tracking systems.

### **Cumulative Accounting Method Summary**

Prior to the GAO decision, HUD set a cumulative commitment and expenditure deadline for HOME funds. In practice, HUD enforced the commitment and expenditure deadlines as follows:

### **Commitment**

The HOME Commitment deadline is statutory and included HOME Funds are granted to the state and an award letter is executed. The date of the award letter determines the commitment deadline, which falls on the last date of the month twenty-four months after the agreement date. For example, if the agreement was finalized on May 3, 2013, the commitment deadline would be May 31, 2015. In this example, HUD would review the total amount of HOME funds committed from all years on May 31, 2015, and as long as that amount met or exceeded the amount of HOME funds granted to the state as of May 3, 2013, the commitment deadline was considered “met,” and HUD would not review the commitments again until the commitment deadline for 2014 HOME funds. It was a cumulative point in time review, and funds committed from subsequent funding years (2015 & 2016) would count to meet this deadline. This practice was mirrored in HUD’s Integrated Disbursement and Information System (“IDIS”), which did not track funds on a year-by-year basis, only cumulatively.

### **Expenditure**

Since the GAO grant-based requirements only apply to FY2015 and later funds, the last expenditure deadline is cumulative for FY2014 as described under the Commitments section above.

Note that under the cumulative method, treatment of program income is not the same as it is under grant-based accounting. Under the cumulative method, program income must be expended before any additional HOME funds are drawn from treasury. For example, if 2012 HOME funds are committed to a project and the project drew funds on August 3, 2014, TDHCA was required to expend the balance of the program income in the local account before any 2012 funds could be drawn.

Under grant-based accounting, HUD made changes to the treatment of program income to offset potential negative effects of receipt of program income in the Interim Final Rule. The Interim Final Rule allows for program income to be retained in the local account and programmed for use in the One-Year Action Plan, thereby taking the fiscal year identity of the fund year with which the program income is identified.

### **Grant Based Accounting Method Summary**

Under grant-based accounting, funds are expended from the same fiscal year funding under which they are committed. This means that if FY2016 funds are committed to a project, then FY2016 funds will be pulled from when the project requests a reimbursement. FY2015 and later funds requires that HUD track funds on a year-by-year basis rather than cumulatively. To determine whether the commitment requirement was met, HUD had to make sweeping changes to IDIS, which previously did not track funds on a year-by-year basis. Changes to this tracking were required to include verification that funds were committed on or before the commitment deadline in real-time, as opposed to a point-in-time review on the deadline itself. The check would be on-going, so any time that funds committed to a project were de-obligated from the project after the commitment deadline; they would be recaptured immediately from TDHCA by HUD.

### **Statutory Relief from Commitment Deadlines**

The Consolidated Appropriations Act of 2017 (“2017 Appropriations Act”) appropriated \$950M to the HOME Program for FY2017. Sec. 242 of the 2017 Appropriations Act states that “Section 218(g) of the Cranston-Gonzalez National Affordable Housing Act (42 U.S.C. 12748(g)) shall not apply with respect to the right of a jurisdiction to draw funds from its HOME Investment Trust Fund that otherwise would expire in 2016, 2017, 2017, or 2019 under that section.” This language eliminates the statutory 24 month commitment deadline outlined in Section 218(g) of the Act for FY2014-FY2019 funds.

The Consolidated Appropriations Act of 2017 also included this language in Section 234, but extended the term to 2020.

Note that HUD has not interpreted this to mean that the reservation deadline enumerated in Section 231 of the Act is not applicable; they contend that the CHDO set-aside is still subject to a 24 month deadline.

### **Regulatory Relief from Expenditure Deadline**

The expenditure deadline for FY 2015 and later funds has been withdrawn per the Interim Final Rule. The final expenditure deadline will be in 2019.

### **Waiver of CHDO Set-Aside**

On October 13, 2017, HUD issued a notice of available waivers to all HOME grantees whose jurisdiction included areas impacted by Hurricanes Harvey, Irma, and Maria. A waiver of the CHDO set-aside requirement for FY2016, 2017, and 2018 was included in the available waivers, and TDHCA accepted this waiver on October 25, 2017. TDHCA continues to allocate funds to CHDOS, but these funds will utilize non-CHDO funds and are therefore not subject to the CHDO reservation deadline in Section 231 of the Act. Non-CHDO funds may be utilized for any CHDO eligible activity.

### **Eligible Activities**

HOME Program funds support a variety of eligible activities including Homeowner Rehabilitation, Homebuyer Assistance, Contract for Deed, Tenant-Based Rental Assistance, Single Family Development, and Multifamily Development. In addition, TDHCA has set aside funding for Disaster Relief and Persons with Disabilities, among other set-asides.

Single family activities are administered through TDHCA’s HOME Single Family Division, while multifamily activities are administered through TDHCA’s Multifamily Finance Division.

## **HOME Program Rules**

### **TDHCA Rules and Standards**

- [Title 10, Texas Government Code, Chapter 2306 – TDHCA Governing Statute \(TX Legislature Web site\)](#)
- [10 TAC Chapter 1 – TDHCA Administration General Policies and Procedures \(SOS Web site\)](#)
- [10 TAC Chapter 2 – TDHCA Enforcement Procedures \(SOS Web site\)](#)

- [10 TAC Chapter 20 - Single Family Programs Umbrella Rule \(SOS Web site\)](#)
- [10 TAC Chapter 21 – Minimum Energy Efficiency Requirements for Single Family Construction Activities \(SOS Web site\)](#)
- [10 TAC Chapter 23 - Single Family HOME Program Rule \(SOS Web site\)](#)
- [Search for Previous State of Texas HOME Rules \(SOS Web Site\)](#)
- [HOME Homeownership Value Limits \(Effective 4/1/2018\) \(XSLX\)](#)
- [Texas Minimum Construction Standards \(PDF\)](#)

### **HOME Federal Rules and Regulations (Links to HUD's [www.hudexchange.info](http://www.hudexchange.info))**

- [24 CFR Part 92 - Home Investment Partnerships Program Final Rule](#)
- [HOMEfires Notices](#)
- [Community Planning and Development \(CPD\) Notices](#)

### **FEDERAL REGISTER**

#### **Testing**

We documented the fund tracking process from awarded amount, through understanding the allocation formula, the reservation and contract system procedures, and tested seven sample contracts through the fund allocation tree for:

- allocation amount
- contract allocation
- expenditure timelines
- closing timelines
- exchange of funds in projects
- confirmed amounts matched between HCS and IDIS systems
- commitments within timeline for each year
- correct rules in place for each year
- CHDO set aside if applicable to that contract, though a waiver is currently in place for CHDO funds
- 9 year fund life, 4 obligation, 5 expiration
- 4 year project completion timeline
- 10% administrative costs limit
- De-obligation of funds

Our testing noted no instances of non-compliance. We did note the following opportunities for improvement in the data used to perform the HOME fund administration:



18-003.2 The Housing Contracting System (HCS) report has two columns, Obligation Expiration and Expenditure Expiration that contain dates that are not accurate for the FYs they relate to. On testing the seven contracts, we did not see these particular dates used, which might have resulted in possible funds lapsed, but OIA notes that the reports should be evaluated for data to be correct.

The HOME Program responded on October 24, 2018, *"HHPD has contacted IS regarding the columns on the source of funds page and program funds page, and has confirmed that these columns were part of the original scope of the design of the system, but never performed any function as anticipated and will be removed. There is a current work order in place."*

OIA extends our sincere appreciation to management and staff of the HOME Program for their cooperation and assistance during the course of this audit.

Sincerely,



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

MS/CK

# REPORT ITEM

2

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS**  
**An Internal Audit of the Loan Servicing Division**  
**Audit Report # 19-001**

**Executive Summary**

The Office of Internal Audit (OIA) reviewed TDHCA's Loan Servicing division and its policies, procedures, and controls that are currently in place. Based on our reviews and testing the Loan Servicing division provides good service to TDHCA. Various procedures and controls should be strengthened, as described in the detailed report.

**Findings and Recommendations**

- The division should consider establishing task specific Standard Operating Procedures (SOPs) to improve efficiency and consistency within the division
- 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 the reports.
- Loan Servicing should establish and enforce a deadline for all Habitats to have the new 2018 LSAs signed and returned to TDHCA
- Loan Servicing should ensure that all loans are being serviced by Habitats that are under a valid LSA with TDHCA
- The division should establish processes that would ensure completed annual verification of Primary Residency on forgivable loans and proper documentation of the outcome of the review.
- The division should consider establishing specific methods, such as "Random Sample Generators", to select loan samples for testing and verification.
- The OIA recommends that division consider establishing processes that could provide verification on Primary Residency for repayable loans as well as forgivable loans.
- TDHCA should establish policies and procedures to ensure coverage for un-insured properties to protect its financial interest in the property.

**Response:**

Management agreed with our recommendations, and detailed responses are included in the body of the audit report.

**Responsible Area:**

Director of Program Controls and Oversight, and Loan Servicing Manager

**Objective, Scope and Methodology**

Our scope included a review of the Texas Government Code, applicable rules and regulations for each loan and grant type, as well as the division's policies, processes, and procedures. Based upon our preliminary understanding of the Loan Servicing division we identified critical points and risk, to develop audit objectives and an audit program including methodology. The Texas Internal Auditing Act, Tex. Gov't Code §2102.005 requires testing of the controls of a state agency's major programs and systems, and the controls related to them.



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

11/28/2018  
Date Signed



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

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October 28, 2018

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

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

RE: REVIEW OF THE LOAN SERVICING DIVISION

Dear Board Members:

This report presents the results of the Office of Internal Audit ("OIA") "*Review of the Loan Servicing Division*". This audit was conducted in accordance with applicable audit standards. It included the objectives to evaluate and explain the *Loan Servicing Division* and to evaluate the administrative and internal control procedures related to the program.

The Loan Servicing division audit was identified during the 2018 Fiscal Year risk assessment and was included in the FY 2018 Annual Audit Plan. Loan Servicing division rated high on the risk assessment due to the complexity of transactions for various loan programs and various grant requirements.

This report includes the following sections:

- A. Background
- B. Scope and Methodology
- C. Standard Operating Procedures (SOPs)
- D. Submission of monthly reports by Habitats for Humanities
- E. Loan Servicing Agreement
- F. Primary Residency
- G. Escrow Accounts



## A) BACKGROUND

The Loan Servicing's primary mission is to provide support to the Texas Department of Housing and Community Affairs (TDHCA) and its mission by providing customer service to moderate and low income Texans who are served through affordable single family homeownership and affordable rental housing. Loan Servicing provides quality customer service to the TDHCA's borrowers and performs the day to day servicing of all loans in accordance with applicable state and federal laws and regulations

The Loan Servicing division provides support and servicing functions for multifamily loans, single family new construction and rehabilitation loans, and junior lien down payment and closing cost assistance loans through partnering with Habitat for Humanity (Habitats). Habitats are nonprofit housing organizations that provide a variety of housing assistance and services throughout many communities.

## B) Scope and Methodology

Our scope included a review of the Texas Government Code, applicable rules and regulations for each loan and grant type, as well as the division's policies, processes, and procedures. Based upon our preliminary understanding of the Loan Servicing we identified critical points and risk, to develop audit objectives and an audit program including methodology.

We reviewed the Loan Servicing division's goals, processes, and roles and responsibilities. We reviewed the controls related to the program and tested certain transactions and controls. The Texas Internal Auditing Act, TGC Sec. 2102.005 requires testing of the controls of a state agency's major programs and systems, and the controls related to them.

## C) Standard Operating Procedures (SOP)

An SOP is a procedure specific to the operation of a division that describes the activities necessary to complete tasks in accordance with applicable rules and regulation. It defines expected practices in a process where quality standards exist. SOPs play an important role in any organization and division as they're policies, procedures and standards needed to operate in a successful way. They can create efficiencies, consistency and reliability, fewer errors, and value added to the division.

As of the beginning date of this review the Loan Servicing did not have formal SOPs for different aspects and responsibilities of the division. The staff appears to be relying on instructional materials instead which in some cases are outdated and inaccurate.

Finding Item Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
19-001.01	The division should consider establishing task specific Standard Operating Procedure to improve efficiency and consistency within the division	02/28/19	S. D'Couto G. Garcia

**Management Response:**

Management agrees to formalize all SOPs identifying roles and responsibilities, and, while many SOPs are regularly updated, management also agrees to implement a schedule and tracking system to ensure that all SOPs are reviewed at least annually to maintain accuracy and consistency with the process.

**D) Submission of monthly reports from Habitats**

The Loan Servicing Agreement between TDHCA and the Habitats require the Habitats to submit the following reports on monthly basis:

**SECTION 2,**

*(f) Servicer shall furnish the Department with monthly reports in the format provided by the Department, showing collections, prepayments and reconciliation's of all Loans subject to the Agreements;*

*(g) Servicer shall furnish the Department with monthly reports in a form satisfactory to the Department showing delinquencies and collection and workout efforts of all Loans subject to this Agreement;*

Loan Servicing receives a reconciliation report from each Habitat along with payment (s) for all the loans that they're servicing. This is a monthly report and is due by 5<sup>th</sup> of each month. The staff then performs reconciliation between the report and payment amount received from the Habitat, and the TDHCA record. Our review found that in several cases the reconciliation report received from the Habitat did not match the record at TDHCA. Current procedure is for staff to communicate the discrepancy to the Habitat through emails. Loan Servicing does not have SOPs in place for further tracking and resolving of issues that are identified in the report. Loan Servicing division also does not require Habitats to submit a separate monthly report showing delinquencies and collection and workout efforts. The staff relies on the information that is included within other report.

Finding Item Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
19-001.02	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 the reports.	01/31/19	S. D'Couto G. Garcia

**Management Response:**

The Habitats service approximately 1300 loans at no charge. Of the loans serviced, 10 loans are 30 days delinquent; 6 are 60 days delinquent and 4 are 90 days delinquent equaling a delinquency rate of approximately 1.54%. Generally, reporting would not be required for 30 days delinquent loans, leaving 10 loans requiring reporting. In an effort to achieve consistent and easy reporting, Loan Servicing staff implemented a single report method to assist the Habitat Servicer with monthly reporting of balances, payment remittance detail and provide a space for reporting delinquency workout efforts. Management agrees to implement follow-up procedures to ensure that any variances between the TDHCA and Servicer balances are properly communicated and resolved timely, and that the Servicers provide delinquency workout updates until the loan is brought current.

## E) Loan Servicing Agreements

Loan Servicing Agreement (LSA) is a written legal document stating the expectations of both parties, and how different situations will be resolved in case of non-compliance with the stated terms and conditions. Apart from making the agreement between two parties legally binding, it can also serve for future references and serve as proof in the event of misunderstandings, complaints or disputes.

In reviewing Loan Servicing Agreements between TDHCA and Habitats who serve as the servicer for agency's outstanding loans, we noted that the division has updated and revised its LSA in 2018. The division has provided the new LSA to all active Habitats to sign and return to TDHCA. As of start of this review only nine Habitats had returned a signed LSA to TDHCA. The remaining Habitats are operating under the old LSA which are mainly dated 2013. Two of the Habitats are operating under old LSAs dated 2001 and 2007, and in one instant the Habitat doesn't have an LSA on file with TDHCA.

Finding Item Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
19-001.03a	Loan Servicing should establish and enforce a deadline for all Habitats to have the new 2018 LSAs signed and returned to TDHCA	01/31/19	S. D'Couto
19-001.03b	Loan Servicing should ensure that all loans are being serviced by Habitats that are under a valid LSA with TDHCA	01/31/19	S. D'Couto

### Management Response:

*Loan Servicing Agreements do not have an expiration date; the term of the LSA remains in effect until all loans under the servicing agreement are satisfied. The updated LSA was sent to 27 Servicers at the end of July and 16 LSAs have since been returned and, management is in communication with 2 Servicers with questions. Loan Servicing staff continues to conduct follow-up communications with Servicers to ensure the return of all LSAs unless the Servicer submits formal communication to terminate the servicing relationship. Management will ensure that a deadline is communicated if/when the LSA is updated in the future.*

## F) Primary Residency

Texas Administrative Code (TAC) Chapter 20, Rule§20.13 (m) states:

*Loans are only permitted for potential borrowers who will occupy the property as their Principal Residence. The property must be occupied by the potential borrower within the later of 60 days after closing or completion of the final draw of Department funds for rehabilitation or reconstruction and remain their Principal Residence as defined in the Mortgage Loan documents or in the case of Forgivable Loans, until the forgiveness period has concluded in accordance with the Mortgage documents.*

The Loan Servicing division selects a sample of 10% of the total Forgivable loans each year to perform verification of borrower's Primary Residency. The Forgivable loans are HOME HBA (Homebuyers Assistance loans), HOME OCC (Owner Occupied loans), and HOME CFD (Contract for Deed loans). The 10% sample is proportionally divided among the three types of Forgivable loans. The review utilizes

various County Appraisal District (CAD) records and comparing them to borrowers' information on record at TDHCA. When available, searches of owner information of online CAD records will be conducted. Otherwise, requests will be made to the appraisal district for owner information.

It appears that the Loan Servicing division did not perform an annual verification of Primary Residency in 2015 and 2016. A review of 83 loans (10% of total loans) was performed by the staff in 2017. However, it doesn't appear that the review was completed and the appropriate actions were taken as the result of the review. The staff was also unable to provide the method that was used in selecting the sampled loans.

Finding Item Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
19-001.04 a	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.	01/31/19	S. D'Couto
19-001.04 b	The division should consider establishing specific methods, such as "Random Sample Generators", to select loan samples for testing and verification.	01/31/19	S. D'Couto
19-001.04c	The OIA recommends that division consider establishing processes that could provide verification on Primary Residency for repayable loans as well as Forgivable loans.	02/28/19	S. D'Couto H. Cabello

**Management Response:**

*Management will update the Primary Residency procedure to include confirmation to management by the responsible Loan Servicing staff that the process has been completed and noted instances of non-compliance have been documented and communicated to the borrower. Previous loan samples were randomly selected by staff from the list of loans produced by the query. Management further agrees to update the procedure to include a "Random Sample Generator" tool.*

*Management will meet with internal division stakeholders and evaluate extending the primary residency review to include repayable loans.*

**G) Escrow Account**

Texas Administrative Code (TAC) Chapter 20, Rule§20.13 (k) requires an escrow account to be established if TDHCA holds a first lien Mortgage Loan which is due and payable on a monthly basis to TDHCA. If an escrow account held by TDHCA is required then the borrower must contribute monthly payments to cover the anticipated costs of real estate taxes, hazard and flood insurance premiums, and other related costs as applicable calculated by TDHCA.

**Rule§20.13(k)(2)(G);**

*The Department will establish and administer the escrow account in accordance with the Real Estate Settlement and Procedures Act of 1974 (RESPA) under 12 U.S.C.§2601 and its implementing regulations at 12 CFR §1024 (Regulation X), as applicable*



TDHCA maintains an escrow account for the payments of real estate taxes and homeowners' insurance premiums. The account is set up as a general pool for all Bootstrap program loans, and not for each individual borrower separately. All of the escrow payments that are received from borrowers are deposited in to the account, and individual real estate taxes and insurance premiums are paid from this account.

It appears that in some situations borrower's real estate taxes and homeowners insurance premiums are paid despite borrower's delinquency on payments and lack of sufficient escrow balance on individual level. If the funds in the general escrow account for the program is depleted the program will continue payments of taxes and insurance premiums through general funds. The payments are generally processed as temporary transfers from Bond Program Administration (BP Admin) account. The general administrative account is from residual funds and is considered unrestricted. Once the portfolio regenerates its cash balance the funds are transferred back to BP Admin account. The average time between the two transfers is approximately 6 months. This is considered a tool in protecting agency's position as first lien holder of the property.

The borrower has the right to cancel and discontinue their homeowner's insurance, or in some cases can become ineligible for insurance coverage of their property. If a property is not covered under homeowner's insurance due to ineligibility or borrower's choice, the Loan Servicing Division contacts the borrower in an attempt to re-establish homeowner insurance coverage for the property. However, TDHCA does not have any policy in place to mandate insurance coverage for the property, such as lender-placed insurance. We've noted that since 2017 there are nine loans that are not protected under homeowner's insurance.

Finding Item Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
19-001.05	TDHCA should establish policies and procedures to ensure coverage for un-insured properties to protect its financial interest in the property.	2/28/19	S. D'Couto H. Cabello

**Management Response:**

*Record of individual escrow account balances are maintained at the loan level in the MITAS software. Although less frequent than in past years, when a loan becomes delinquent the escrow account balance may fall short of the amount to be disbursed and the Department covers the shortage until the shortage is reimbursed when the borrower's delinquency is cured.*

*Approximately 500 property insurance policies are tracked and maintained on 438 loan accounts. Loan Servicing became aware of 4 of the 9 un-insured properties through its insurance renewal process in 2018. In relation to the number of loan accounts, the rate of uninsured loans is approximately 2% of the population. In addition to other detractors, Lender force-placed insurance is generally expensive and a cost that is passed on to the borrower that tends to already have very limited financial means. Management recognizes the risk and will review the procedures in place to ensure that remedies within the control of Loan Servicing staff are fully employed to get insurance coverage replaced, as well as, conduct outreach to State Office of Risk Management for input on uninsured property coverage options and vendors offering lender force-placed insurance coverage to determine possible option(s) available to mitigate risk.*

OIA extends our sincere appreciation to management and staff of the Loan Servicing division for their cooperation and assistance during the course of this audit.

Sincerely,

A handwritten signature in black ink, appearing to read "Mark Scott". The signature is fluid and cursive, with the first name "Mark" being more prominent than the last name "Scott".

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

MS/NS

# Report Item

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## TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

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Leo Vasquez, Member

October 30, 2018

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

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

RE: ANNUAL INTERNAL AUDIT REPORT FOR FISCAL YEAR 2018

Internal Audit Coordinator:

The attached report on the activities of the Texas Department of Housing and Community Affairs' (the Department) Internal Audit Division (Division) for Fiscal Year 2018 fulfills the requirements of the Texas Internal Auditing Act (Texas Government Code, Chapter 2102). The purpose of this report is to provide information on the benefits and effectiveness of the Department's internal audit function as well as on our compliance with House Bill 16. In addition, the annual report assists oversight agencies in planning their work and coordinating their efforts.

During Fiscal Year 2018, the work of the Division contributed to an increase in the effectiveness of the Department's operations. In addition, the Department underwent other audits and reviews by its external auditors, oversight agencies and funding source agencies.

Our internal audit work plan for Fiscal Year 2019 was approved by the Department's governing board at the September 6, 2018 board meeting. A copy of the 2019 audit work plan is included in the attached report. Both the fiscal year 2019 audit work plan and this report will be posted to the Division's internet web page as required by House Bill 16. We appreciate the opportunity to provide this information. If you have any questions about this report, please contact me at (512) 475-3813.

Sincerely,

A handwritten signature in black ink that reads "Mark Scott".

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



RE: ANNUAL INTERNAL AUDIT REPORT FOR FISCAL YEAR 2018

October 30, 2018

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cc: Timothy K. Irvine, Executive Director  
John Colyandro, Governor's Office of Budget, Planning and Policy  
Julie Ivie, Legislative Budget Board  
Jennifer Jones, Sunset Advisory Commission  
Internal Audit Coordinator, State Auditor's office

**Texas Department of Housing and Community Affairs**  
**Internal Audit Annual Report – Fiscal Year 2018**

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**Texas Department of Housing and Community Affairs  
Internal Audit Annual Report – Fiscal Year 2018**

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

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

- An overview of the Internal Audit Division and its mission statement,
- The Internal Audit Division’s most recent peer review (October 2017),
- Standards, statutes and rules governing the operation of the Internal Audit Division:
  - Texas Government Code Chapter 2102: Texas Internal Auditing Act ([www.statutes.legis.state.tx.us](http://www.statutes.legis.state.tx.us)),
  - Texas Government Code 2306.073: Internal Audit ([www.statutes.legis.state.tx.us](http://www.statutes.legis.state.tx.us)),
  - Internal Audit Charter (updated June 2018), and
  - Internal Audit Board Resolutions (amended January 2014),
- Internal Audit Annual Plan for Fiscal Year 2019 (approved September 2018),
- Internal Audit Annual Report for Fiscal Year 2018, and
- Internal Audit Reports.

Findings noted while performing the Fiscal Year 2018 audit plan are included in the respective Fiscal Year 2018 audit reports. The actions taken by the agency to address the noted concerns are included in those reports.

**II. Internal Audit Plan for Fiscal Year 2018**

<b>Project / Audit Title</b>	<b>Report Number</b>	<b>Completed</b>	<b>Report Date</b>
Contract for Deed Conversion	17-003	Yes	November 29, 2017
Bond Finance Program Processes and controls	17-002	Yes	March 13, 2018
Emergency Solutions Grant (ESG) Program	18-004	Yes	May 16, 2018
Implementation Status of Prior Audit Recommendations	18-002	Yes	June 28, 2018
Neighborhood Stabilization Program Close-out Procedures	18-001	Yes	August 23, 2018
HOME Fund Tracking	18-003	Yes	October 25, 2018
Loan Servicing (In Fieldwork phase)	19-001	No	N/A

**Texas Department of Housing and Community Affairs**  
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**III. Consulting Engagements and Non-audit Services Completed**

**Consulting Projects**

The internal audit charter was updated in June 2018. The updated charter included information on the role of the Internal Audit and Finance Committee in regard to reviews and recommendations to the Board with respect to finance items such as the Department's operating budget and the development of its Legislative Appropriation Request and review of financial statements. In addition, the updated charter included information on the role of internal audit in consulting activities, and its role in the coordination of external audit activities, which is a type of consulting activity.

**Consulting Project Related to Subrecipient Monitoring**

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

**Coordination of External Audit Activities**

There have been several external audits and monitoring reviews of TDHCA during the past year, and the Office of Internal Audit provides coordination services during the course of these audits. The most recent audits were the SAO audit of the TDHCA's Annual Financial Statement, HUD monitoring review of the ESG (Emergency Solution Grants) Program, and follow up work by KPMG of the LIHEAP (Low Income Home Emergency Assistant Program) prior year findings. US HHS (Health and Human Services) also performed review of the LIHEAP and CSBG (Community Service Block Grant) program. Another external audit was performed by HUD of SEMAP (Section 8 Management Assessment Program).

**IV. External Quality Assurance Review (Peer Review)**

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

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

*The IIA's quality Assessment Manual for the Internal Audit Activity suggests a scale of three rankings when opining on the internal audit activity: "Generally Conforms,"*



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*“Partially Conforms,” and “Does Not Conform.” The ranking of “Generally Conforms” means that an internal audit activity has a charter, policies, and processes that are judged to be in conformance with the Standards and the Code of Ethics.*

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

**V. Internal Audit Plan for Fiscal Year 2019**

Activity/Program/Division	Comments
TDHCA Resolution of Complaints	The specific project objective(s) and scope will be determined by the detailed assessment of relative risks identified during the project planning process.
Multifamily Revenue Bond	
TDHCA Performance Measures	
Migrant Labor Housing	
Enforcement Committee	
Construction Report and Cost Certification	
Public Information Requests	
Management Requests or Special Projects	As requested
Duties related to Fraud, Waste, and Abuse allegations	Internal Audit is responsible for reviewing allegations of fraud, waste and abuse.
Prior Audit Issues Tracking, Follow Up and Disposition	Required by the Audit Standards
Annual Risk Assessment and Audit Plan Development	Required by the Audit Standards and the Texas Internal Auditing Act
Continuing Professional Education and Staff Development	Required by the Audit Standards
Quality Assurance Self-Assessment Review	Required by the Audit Standards
Coordination with External Auditors and Oversight Agencies	Ongoing requirement
Preparation and Submission of the Annual Internal Audit Report	Required by the Texas Internal Auditing Act
Annual Review and Revision of Internal Audit Charter	Required by the Audit Standards

<sup>1</sup> The audit plan is a dynamic document that may change during the fiscal year as circumstances change. Requests from management, changes in audit resources and changes in the agency’s organization or operations could result in changes to the plan. Significant changes will be presented to management, the Audit Committee and the Governing Board for review and approval.

The audit plan was developed utilizing a risk-assessment matrix, and input from stake-holders. The auditable units such as programs, divisions of the organization, and administrative functions, were risk-ranked according to attributes such as dollar size of unit, fraud risk, and complexity of operations. The highest ranked auditable units were selected for audit. There were no internal audit projects specifically focused on Senate Bill 20 provisions. However, a large contract may be included in the scope of an audit or management request.

**Texas Department of Housing and Community Affairs**  
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The budgeted hours for all projects are based on two staff auditors and the Director of Internal Audit.

**VI. External Audit Services**

In Fiscal Year 2018, external audit services were procured from and provided by the State Auditor's Office. These services included an audit of the Department's Annual Financial Report and Computation of Unencumbered Fund Balances.

**VII. Reporting Suspected Fraud and Abuse**

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

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

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



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### Texas Department of Housing and Community Affairs Office of Internal Audit Audit Plan for Fiscal Year 2019

#### Statutory and Professional Standards Requirement

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

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

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

#### Development of the Annual Audit Plan

The Fiscal Year 2019 plan is designed to cover areas of highest risk to the State and the agency; however, it does not cover all risks. TDHCA management should utilize internal controls and other appropriate methodologies to mitigate residual risks not covered by the audit plan.

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

- Obtaining management's and the Governing Board's perspectives through surveys and discussions.
- Consulting with the State Auditor's Office and other oversight bodies.
- Reviewing prior TDHCA meeting minutes, audit report findings and recommendations, and budgetary information.
- Evaluating information about key agency business areas, processes, and systems.
- Considering input from internal audit staff.



- Utilizing a matrix whereby identified auditable units were ranked according to standard risk factors.

## Projects for Fiscal Year 2019 Annual Audit Plan

We have revised our audit universe based on the recent reorganization at TDHCA, and accordingly identified the following units and projects for inclusion in the 2019 Annual Audit Plan. The project numbers are for identification purposes and may not correspond to the order in which the projects are performed. Also included below is a brief description of functions to be reviewed.

### New Audit Projects:

#### 1. TDHCA Resolution of Complaints

The proper handling of complaints is essential to the agency's serving the public and maintaining good will with its stakeholders. TDHCA receives complaints from a variety of sources. The audit will focus on systems for receiving and processing complaints.

The TDHCA Resolution of Complaints rated high on the risk assessment due to public interest and the Department's goal and desire for transparency.

#### 2. Multifamily Revenue Bond

TDHCA is a conduit issuer for the State of Texas with authority to issue tax-exempt and taxable Multifamily Mortgage Revenue Bonds statewide. The bonds are used to fund loans to for-profit and nonprofit developers for the acquisition and rehabilitation or new construction of affordable rental developments. The Multifamily Bond Program is coupled with the Non-competitive (4%) Housing Tax Credit program when the bonds finance at least 50% of the cost of the land and buildings in the Development.

The Multifamily Revenue Bond program rated high on the risk assessment due to its level of complexity of transactions and processes, in addition to interest expressed by Committee members

#### 3. TDHCA Performance Measures

This will cover the accuracy of the measures, as well as potential improvements as to what is measured. Performance measurement serves a number of external and internal agency purposes. Performance measures are integrated into the State's external accountability and fiscal decision making systems. They're revised and / or developed as part of the strategic planning process of the agency. Performance measures should flow from the agency's mission, goals, objectives, and strategies and elements related to strategic plan. They can also be used by the agency to improve operations and communications.

The Governor and the Legislature expect agencies to focus on performance, and hold agencies accountable for their performance variances.

#### 4. Migrant Labor Housing

Migrant labor housing facilities are subject to being licensed under Tex. Gov't Code Chapter 2306, Subchapter LL (§§2306.921-2306.933). Alignment of state requirements with the federal standards for migrant farm worker housing that must be inspected in order to participate in other state and federal programs such as with the U.S. Department of Labor's H2-A visa program is intended to reduce inspection conflicts and allow for cooperative efforts between the Department and other state and federal entities to share information and reduce redundancies.

All Migrant Labor Housing Facilities in the state of Texas, which may include hotels and other public accommodations if owned by or contracted for by employers in the agricultural or agriculturally related industry to house migrant agricultural workers, must be inspected and comply with the requirements in this chapter (§90.3) and 29 CFR §§500.130, 500.132 – 500.135.

Migrant Labor Housing rated high on the risk assessment due to the legislative and public interest expressed in the matter, and also recent management changes.

#### 5. Enforcement Committee

Enforcement Committee consists of employees of the TDHCA appointed by the Executive Director. The executive Director may designate certain members as ex officio and non-voting members. The voting members of this Committee shall be no fewer than five and no more than nine. The enforcement mechanisms include enforcement of contractual provision, Assessment of Administrative penalties, and Debarment as necessary and applicable.

#### 6. Construction Report and Cost Certification

All awardees of a Housing Tax Credit allocation are required to submit a cost certification to TDHCA. The Asset Management Division is responsible for monitoring and processing all post-award activities for developments involving Housing Tax credit, HOME funds, Housing Trust Funds, and Neighborhood Stabilization Program funds. These activities include monitoring and processing Cost Certification and Construction status reports that are required to be submitted by multifamily developments.

#### 7. Public Information Requests

The Texas Public Information Act was adopted in 1973, and gives the public the right to request access to government information. The Act is triggered when a person submits a written request to a governmental body. The Act applies to every "governmental body" in Texas. The definition of the term "governmental body" encompasses all public entities in the executive and legislative branches of government at the state and local levels.

***Government Code, Title 5. Open Government, Subtitle A., Chapter 552, Subchapter A, Section 552.001:*** "Under the fundamental philosophy of the American constitutional form of representative government that adheres to the principle that government is the servant and not the master of the people, it is the policy of this state that each person is entitled, unless otherwise expressly provided by law, at all times to complete information about the affairs of government and the official acts of public officials and employees..."



**Carry Over Project:**

**Loan Servicing Section of the Single Family Operations and Services Division**

Loan Servicing is responsible for the set up and maintenance of loan records received in connection with a new loan; the day-to-day servicing functions such as customer service to borrowers and/or authorized representatives of the borrower, providing payoff statements upon request, processing subordination agreement requests, processing payment of various property insurance renewals; performing collection and workout activities for the in-house serviced single family loan portfolio; and annually, process payments for property taxes, completing the escrow analysis process, and the year-end process. The section also works in cooperation with other divisions in processing releases of lien for loan payoff funds received by Financial Administration and posting of loan disbursements approved by program and Financial Administration.

The Loan Servicing Section rated high on the risk assessment and was selected for audit due to the complexity of transactions for various loan programs and various grant requirements.

**Administrative and Statutory Projects:**

- Review of TDHCA compliance with appropriation riders and other requirements of the Government Code
- Annual Audit Plan and reporting
- Annual tracking of the implementation status of prior audit recommendations

**Consulting Projects and External Audit Coordination**

Pursuant to the TDHCA internal audit charter, the OIA performs consulting activities for the agency. For fiscal year 2019, OIA is providing consulting services related to the new Grant Guidance in 2 CFR 200, as well as subrecipient monitoring.

OIA also coordinates and advises on external audit activities.

Sincerely,



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

MS/NS



# Report Item

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AUDIT and FINANCE COMMITTEE REPORT ITEM

INTERNAL AUDIT DIVISION

December 6, 2018

DISCUSSION OF RECENT EXTERNAL AUDIT ACTIVITIES

# ORAL PRESENTATION