

**AUDIT AND FINANCE COMMITTEE
MEETING BOOK OF SEPTEMBER 6, 2018**



**Sharon Thomason, Chair
Paul Braden, Member
Asusena Reséndiz, Member
Leo Vasquez, III, Member**

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

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

**TEXAS CAPITOL BUILDING
CAPITOL EXTENSION ROOM E2.016
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 June 28, 2018 and July 12, 2018	Mark Scott Director of Internal Audit
ITEM 2: Presentation, discussion, and possible action to Approve the Fiscal Year 2019 Internal Audit Work Plan.	Mark Scott Director of Internal Audit
REPORT ITEMS:	
1. Presentation and discussion of Internal Audit of Neighborhood Stabilization Program (NSP) Close out process	Mark Scott Director of Internal Audit
2. Presentation and discussion of newly revised TDHCA's Fraud, Waste and abuse policy	Mark Scott Director of Internal Audit
3. Presentation and discussion of report required under Texas Government Code §2306.070 for submission to legislative bodies, status of other recent legislative submissions	David Cervantes Director of Administration

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 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 (5) 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 (5) 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

September 06, 2018

Presentation, discussion and possible action on Audit and Finance Committee Meeting Minutes Summary for June 28, 2018 and July 12, 2018.

RECOMMENDED ACTION

RESOLVED, that the Audit and Finance Committee Meeting Minutes Summary for June 28, 2018 and July 12, 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, June 28, 2018, at 7:30 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 John H. Reagan Building, Room JHR 140, at 105 W 15th street, Austin, Texas. Sharon Thomason presided over the meeting, and Mark Scott served as secretary. Committee members Sharon Thomason, Paul A. Braden, Asusena Resendiz, and Leo Vasquez were in attendance and represented a quorum for the committee meeting.

The first action item on the agenda was approval of the minutes of the May 24, 2018 meeting of the Committee. Minutes were adopted as presented, and were approved.

The second action item, presentation of the updated Internal Audit and Finance Committee Charter, was presented by Mark Scott. Mr. Scott explained that the charter was updated to include recommendations from the recent peer review, as well as inclusion of Finance items as part of the committee. The Committee accepted and recommended approval of the updated charter to the full Board.

Third action item on the agenda, presentation of the 2019 TDHCA’s operating budget was presented by Ernie Palacios, Director of Financial Administration at TDHCA. Mr. Palacios described the process that took place in preparing the agency’s operating budget for 2019, and all the departments and individuals involved. He also stated that this budget will be used for developing the 2020 – 2021 bienniums Legislative Appropriations Request, or LAR. At the conclusion of his presentation Mr. Palacios offered to answer any questions that the Committee may have. With no questions the Committee approved the Operating Budget.

Forth action item, presentation of the fiscal year 2019 Housing Finance Division budget, was presented by Mr. Palacios as well. Mr. Palacios explained the requirements under Texas Government Code Section 2306.113 and General Appropriation Act as it relates to the Housing Finance budget. With no questions from the Committee members this item was approved.

Ms Thomason then moved to the Report item on the agenda, Internal Audit report on the status of prior audit recommendations and also discussion of current internal and external audit activities which were presented by Mark Scott.

Mr. Scott stated that, based on Internal Audit Standard 2500, the internal audit division is required to monitor the progress of prior audit recommendations. The follow up work that was performed covered open findings and related recommendations made in audit reports dated through the end of 2017. According to the Standard an open finding is defined a finding that was not completely addressed or for which further action is still required at the time of the review.

Based on this review, the internal audit division was able to close most of the previously open recommendations. The remaining ones will be reviewed and reported on during the next follow up audit of Fiscal Year 2019.

The external audits performed on TDHCA's programs include a KPMG review of LIHEAP and the HOME Program. The Department has implemented an interim measure with the LIHEAP program for household level data. The new system is expected to go live in September of 2019. The KPMG recommendation for the HOME Program is fully implemented and the finding is closed. The U.S Department of Health and Human Services also performed two audits with reports issued in 2018. The status of their recommendations for these two audits will be included in the fiscal year 2019 follow up audit. There were no questions from any Committee members on the status of external audit recommendations.

Next Mr. Scott gave an update on the status of the Internal Audit plan for fiscal year 2018. He stated that the audit plan is on track. At the conclusion he offered to answer any questions regarding the annual internal audit plan, and with no questions the meeting was concluded at 7:42 am.

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

On Thursday, July 12, 2018, at 7:30 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 John H. Reagan Building, Room JHR 140, at 105 W 15th street, Austin, Texas. Sharon Thomason presided over the meeting, and Mark Scott served as secretary. Committee members Sharon Thomason, Paul A. Braden, Asusena Resendiz, and Leo Vasquez were in attendance and represented a quorum for the committee meeting.

Ms. Thomason stated that the minutes for the previous meeting of Audit and Finance Committee were not available for approval due to the fact that the last meeting was just two weeks ago. The minutes would be presented for review and approval during the next Committee meeting in September. With no Internal Audit related items on the agenda for this month Ms. Thomason introduced the only agenda item which was a presentation by Michael Lyttle, Director of External Affairs; *The presentation, discussion, and possible action regarding items for inclusion in the Legislative Appropriations request (LAR) for fiscal years 2020 and 2021.*

Mr. Lyttle introduced himself to the Committee and stated that this item is in conjunction with policy-related elements that was brought forth to Board by the Staff for approval and inclusion in the LAR during May 24th, 2018 meeting. On June 25th, 2018 the office of the Governor for LAR and LBB released their instructions. They instructed agencies to include within their LAR a supplemental schedule detailing options for a 10% reduction in each agency's baseline general revenue using 2.5% reduction increments, which is presented for your approval today.

Mr. Lyttle provided detail explanation of each phase of potential reduction and its possible effect on the agency and different programs. At the end he asked the Committee for their approval of Staff recommendation to the full Board and offered to answer any questions that the Committee members may have.

Mr. Braden asked if the 10% schedule was a standard, and how often has the agency actually been asked to implement the reduction. Mr. Lyttle responded that it has been a practice in the past that the agency had been asked to employ, and it has been the trend for last few sessions. However, there's only one session in recent memory that the agency had a full 10 % reduction. Last session the cuts to agency's budget was somewhere in the line of 2%.

Mr. Braden then added that he read reports about Texas revenue being actually higher this year than last year, and that legislature will have more revenue this year than last. Mr. Cervantes, Director of Administration, added that there are several factors at play here, including the trade war and price of oil and oil production around the world, so we will see.

Mr. Vasquez followed up on the previous questions and asked for clarification that these potential budget reductions are requested as just in case it's needed, and not asking to reduce everything by 10% at this point. Mr. Lyttle answered that this is correct. All the agencies are asked to submit this reduction schedule with their budget. It is not definite if and how much the actual reduction will end up taking place.

Mr. Vasquez then asked about the potential effect of the budget cut on Federal funds, and if the state would be potentially walking away from Federal funds if these reductions takes place. Mr. Cervantes responded that no, we're not relinquishing federal funds, but at the same time have to gauge very carefully any general revenue that would default into the general revenue fund. Mr. Irvine, Executive Director, also provided his understanding and explanation to the budget reduction process and the effect it may potentially have on Federal funds.

The next question was by Ms. Resendiz asking about the \$98,000 that was presented by Michael in his presentation. He explained that this amount was for training, travel, supplies, and things of that nature that can be reduced while maintaining the same level of administrative function. Ms. Thomason then asked for a motion to approve the LAR item presented by Michael, and also presentation of that item at the full Board. Motion was moved by Mr. Vasquez and seconded by Mr. Braden. The item was approved by the Committee.

With no other items on the agenda the meeting was adjourned at 7:45am

Action Item

2

AUDIT AND FINANCE COMMITTEE ACTION REQUEST

INTERNAL AUDIT DIVISION

September 6, 2018

Presentation, Discussion and Possible Action on approval of the Fiscal Year 2019 Internal Audit Work Plan.

RECOMMENDED ACTION

WHEREAS, the Tex. Gov't Code §2306.073 (b), the Internal Auditing Act and audit standards require the Department's Governing Board to approve an annual audit work plan that outlines the internal audit projects planned for the fiscal year; and

WHEREAS, Staff has presented a Fiscal Year 2018 Internal Audit Work Plan that is acceptable to the Audit and Finance Committee; and

NOW, therefore, it is hereby

RESOLVED, the internal audit work plan for Fiscal Year 2019 is approved as presented.

BACKGROUND

The annual internal audit work plan is required by the Tex. Gov't Code §2306.073 (b), the Texas Internal Auditing Act (Tex. Gov't Code Chapter 2102) and by the International Standards for the Professional Practice of Internal Auditing (Standards). The plan is prepared by the internal auditor based on an agency-wide risk assessment as well as input from the Department's Governing Board and executive management. The plan identifies the individual audits to be conducted during Fiscal Year 2019. The plan also outlines other planned activities that will be performed by the Internal Audit Division.



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

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Sharon Thomason, Member
Leo Vasquez, Member

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

1

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
An Internal Audit of the Neighborhood Stabilization Program (NSP) Close-out Process
Audit Report # 18-001

Executive Summary

The Office of Internal Audit (OIA) assessed the processes and procedures in place for reconciliation and close out of Neighborhood Stabilization Program's contracts. We reviewed and tested a sample of reconciled contracts for accuracy and consistency, from contract origination to close out of the individual contract.

Based on the fieldwork performed, OIA concludes that the NSP 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 Neighborhood Stabilization 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 NSP's processes and procedures in place for reconciliation and close-out of expired and inactive contracts.

The current audit covered NSP contracts that have been reconciled and closed as of May 2018.



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

8/23/18
Date Signed



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Sharon Thomason, Member
Leo Vasquez, Member

August 23, 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 NEIGHBORHOOD STABILIZATION PROGRAM CLOSE-OUT PROCEDURES

Dear Board Members:

This report presents the results of the Office of Internal Audit ("OIA") "*Review of the Neighborhood Stabilization Program close-out procedures.*" This audit was conducted in accordance with applicable audit standards. It included the objectives to evaluate and explain the *Neighborhood Stabilization Program* ("NSP") and to evaluate the administrative and internal control procedures related to the close-out process of expired and inactive contracts.

The NSP close-out procedure audit was identified during the 2018 fiscal year risk assessment. The NSP rated high on the risk assessment due to its level of complexity of transactions and processes.

BACKGROUND

The NSP is a Department of Housing and Urban Development ("HUD") funded program authorized by the "Housing and Economic Recovery Act of 2008" ("HERA"), as a supplemental allocation to the Community Development Block Grant ("CDBG") Program. As established by HERA, NSP provided grants to all states and selected local governments, on a formal basis. The American Recovery and Reinvestment Act of 2009 ("Recovery Act") authorized additional NSP grants to be awarded to states, local governments, nonprofits, and a consortium of nonprofit entities, but on a competitive basis. The Recovery Act also authorized funding for national and local technical assistance providers to support NSP grantees.

The purpose of the NSP is to acquire and redevelop foreclosed properties that might otherwise become sources of abandonment and blight. NSP provides funds to purchase foreclosed, vacant, or abandoned

homes and residential properties, in order to rehabilitate, resell, or redevelop them, stabilize neighborhoods and stem the decline of property values in communities impacted by the housing crisis.

Texas was awarded \$101,996,848 in NSP1, which was the first phase of NSP, and \$7,284,978 in NSP3, the last phase of the program. The amount of NSP1 was later reduced to approximately \$78,000,000.

TDHCA was responsible for expeditiously finding qualified buyers to inhabit the dwellings that were rehabilitated, in the neighborhoods that were to be stabilized. This included various hurdles such as credit worthiness, ability to make down payments, etc. This process is referred to as the “loan closings.” We did not audit the loan closing process.

In 2012, the HUD Office of Inspector General conducted an audit of TDHCA’s administration of the NSP, including the loan closing process. The HUD audit found various errors that TDHCA had made in processing HERA funds, including the loan closing process, among other issues. These errors were later corrected.

When a federal grant has run its course and will not be renewed, the grant is “closed out.” NSP1 is scheduled for close out in 2019. The NSP will continue in other activities, such as land banks. NSP1 contracts including loan activities have recently been closed out by the NSP staff. OIA was asked to review close out procedures of individual contracts in preparation for a later overall close out review by HUD.

RECONCILIATION PROCESS

The Program Services staff works in collaboration with NSP staff to review, reconcile, and close-out NSP contracts. The process starts by Program Services staff reviewing specific information about inactive or expired contracts such as the budget, obligation amount, and total amount drawn in Housing Contract System (“HCS”), and comparing them to the information available on Disaster Recovery Grant Reporting System (DRGR). This is a system used by HUD to review grant-funded activities, prepare reports to Congress and other interested parties, and monitor grant compliance. Program Services staff performs adjustments as needed for the reconciliation process. Once a reconciliation is complete, Program Services prepares and mails out the close-out letter to the Contract Administrator (AKA Sub-recipients). NSP staff then starts the process of closing the contract in HCS which includes de-obligating any remaining funds as needed. NSP staff then uploads all the necessary documents to the HCS and transfers any de-obligated funds back to the Program Fund.

TESTING

This review of the close out processes was not designed for purpose of issuing opinions on compliance or internal control. TDHCA and its sub-recipients are subject to the Single Audit Act; and this process is eligible for testing in those audits. Also, HUD program monitors and auditors may review the program. As one of our testing items we verified that TDHCA’s sub-recipients had undergone Single Audits, when so required. We also tested the final contract amount, draw amount, and amount listed on the contract close-out letter, and compared them to the record on DRGR. We reviewed supporting documentation for eligible expenses for verification of each draw.

OVERALL RESULTS

As of the start of our review there were 61 contracts that were reconciled and closed out, from which we selected a sample of 10 contracts to review. This sample represented 15% of the total closed-out contracts as of the start of this audit. We reviewed information and documents, such as original contracts and amendments (if any) available on HCS. We also reviewed DRGR for confirmation of the corresponding information.

Based on our reviews, and testing, the NSP close-out process is effective and no instances of non-compliance were noted.

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

Sincerely,



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

REPORT ITEM

2

Fraud, Waste, and Abuse Policy

Purpose

This policy is for the purpose of documenting and communicating the expectations and duties of TDHCA's staff, management, and Board, related to addressing issues of actual or expected Fraud, Waste, or Abuse. ("FWA")

Definitions

Fraud

Fraud is an intentional act, omission, or misrepresentation designed to deceive. This policy covers fraud related to federal, state, or local resources, and other aspects of agency operations. Examples of situations that may constitute fraud are included in Appendix A.

Waste

Waste, in the context of this policy, is to consume, spend, or employ TDHCA resources for which TDHCA has responsibility uselessly, in a grossly inefficient manner, or without regard to cost versus benefit. Examples of situations that may constitute waste are included in Appendix B.

Abuse

Abuse, in the context of this policy, is to use authority wrongly or improperly (other than minor mistakes or good faith errors), resulting in a violation of law or standard operating procedures. Abuse can occur in financial or non-financial settings. Examples of situations that may constitute abuse are included in Appendix C.

Employee and Management Responsibilities

When an employee reasonably believes that fraud, waste, or abuse may have occurred, he or she should immediately report the matter to his or her supervisor, the Ethics Officer, the General Counsel, and/or the Internal Audit Director.

A Fraud, Waste, and Abuse ("FWA") committee has been established to evaluate and handle incidents of potential FWA. Agency management is responsible for relaying potential FWA to the committee.

Procedures to Follow When an instance of Fraud, Waste, or Abuse has Been Reported

1. Please bear in mind that some allegations may result in eventual court proceedings, or other detailed investigation wherein documents will be used in court. Therefore, to the extent possible, begin the process of gathering preliminary facts orally at first; but promptly seek guidance from Legal so that the creation of additional documentation can be handled in a careful and appropriate manner. Employees should follow their chains of authority, unless there is reason to believe that this will be ineffective or creates other problems. (See Appendix D for appropriate examples of reporting outside the chain of authority.)

Once the available facts have been gathered, the manager or director of the program affected should arrange a meeting of the FWA committee.

2. The program or organizational area should assemble the information gathered and present it to the FWA committee.
3. Do not destroy documents related to the review or investigation.

Procedures that the FWA Committee will follow

1. The manager or director, to whom FWA has been reported, should convene a meeting of the FWA as soon as practicable. The committee includes the affected areas, including its Director, the Executive Director, the Director of Internal Audit, the Director of DPPA, the General Counsel, and the Ethics Advisor.
2. The FWA committee will decide immediately whether outside bodies such as the SAO, OIG, Attorney General's Office, etc, need to be contacted.

Procedures Outside of FWA

An employee or other stakeholder of TDHCA may contact the State Auditor's Office (SAO), at the web site on the TDHCA web page, or the OIG of the affected funding agency.

Appendix A: Examples of Potential Fraud

Falsifying financial records to conceal the theft of money or property;
Falsifying payroll information;
Misrepresenting goods provided or services rendered or the costs of goods and services;
Billing or requesting a drawdown of funds for goods or services not rendered;
Falsifying travel or time keeping records;
Tampering with documents, including altering contracts;
Billing, or requesting a drawdown of funds, for unnecessary goods or services;
Duplicate billing;
Intentionally performing inadequate inspection of properties to allow non-compliant workmanship or non-performance;
Removing or using surplus construction supplies;

Maintaining fictitious entities, clients, jobs, vendors, or employees, including for the purpose of circumventing the previous participation review for noncompliance;
Bid rigging, where a contract is promised to one party even though, for the sake of appearance, several other parties are invited to present a bid, or underbidding a contract; or
Businesses posing as Historically Underutilized Businesses ("HUBs"), defined as businesses owned by women, minorities and service-disabled veterans.

Appendix B- Examples of Potential Waste

Purchasing supplies, materials, or equipments that is clearly unnecessary;
Making purchases without taking steps to identify good values in accordance with established operating procedure and established procurement procedures.

Appendix C- Examples of Abuse

Making procurement or vendor selections that are contrary to existing policies or are an unnecessarily extravagant or expensive;
Receiving favor for awarding contracts to certain vendors;
Using one's position for personal gain or to gain an advantage over another;
Failure to report damage to equipment or property;
Creating unneeded overtime (this can also be waste);
Requesting staff to perform personal errands or work tasks for a supervisor or manager;
Travel choices that are contrary to existing travel policies or are unnecessarily extravagant or expensive. (this can also be waste);
Asking a sub recipient or awardee to do a personal favor; or
Using state or federal funds or equipment for unlawful purposes.

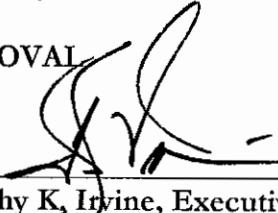
Appendix D- Reporting outside Chain of Authority

- 1- If a member of management is cited.
- 2- If the allegation is such that it is against the TDHCA as an agency.
- 3- If confidentiality of reporting is desired.

TDHCA has established an Audit & Finance committee, a committee of the Governing Board, which will be kept apprised of issues related to fraud, waste, and abuse in accordance with the Texas Open Meetings Act.

This Standard Operating Procedure (SOP) supersedes the previous SOP concerning Fraud, Waste, and Abuse.

APPROVAL



Timothy K. Irvine, Executive Director



Date

REPORT ITEM

3

AUDIT AND FINANCE COMMITTEE REPORT ITEM

FINANCIAL ADMINISTRATION

SEPTEMBER 6, 2018

Presentation and discussion of report required under Texas Government Code §2306.070 for submission to legislative bodies, status of other recent legislative submissions

BACKGROUND

As required under Texas Gov't Code §2306.070 the Texas Department of Housing and Community Affairs ("TDHCA" or the "Department") will send to the Senate Committee on Finance, the House Committee on Appropriations, and the Legislative Budget Board the attached schedule reflecting revenues collected by the Department in the last three years and explanations of variance between fees budgeted in Operating Budgets and fees collected for most recent year if the variance is above 3%. The schedule provides separate schedules for fees collected in association with housing finance activities, such as bond and tax credit program administration, compliance, and asset management fees; and fees associated with regulation of the manufactured housing industry, such as licensing and inspection fees. By statute, housing finance fees are maintained in the Texas Treasury Safekeeping Trust. Each session the Texas Legislature appropriates a specified amount of these fees to TDHCA to be used for operating purposes, allowing TDHCA to transfer the fees to TDHCA accounts within the Treasury. Manufactured Housing fees are deposited into the Treasury, as is typical for regulatory fees.

As reflected in the report, the Department collected more housing finance fees than budgeted expenses by \$1,492,493 for state fiscal year 2018. The amount of fees collected each year depends on various factors. Rising demand for 4% housing tax credits as developers have learned to use this funding mechanism effectively in the current market has been a major factor in increased fee collections in recent years. A more modest portion of increased fees reflect additional 9% housing tax credits allocated to the state as a result of population growth. (The recent Congressional increase of 9% credits by 12.5% for four years, while resulting in increased 9% application fees in 2018, is not a major factor for 2018 fees but will become so starting in 2019, as TDHCA collects post-award fees from successful applicants.) These increases in 4% and 9% credits affect not only tax credit fees, but also compliance, asset management fees and multifamily bond fees. This increase is slightly off-set by a decrease in single family fees being transferred from bond indenture to administrative accounts in Texas Treasury Safekeeping Trust. This decrease primarily reflects a decision by the Department to retain more fees in the indenture for programmatic purposes, although the Department did significantly reduce fees for mortgage credits certificates in 2017 and as of 2016 no longer receives loans servicing fees upfront, both of which decreased single family fees collected. It should be noted that the report, in keeping with statute, compares fees collected in a given year to each year's budget. However, with respect to housing finance fees, staff develops the budget taking into consideration the previous year's collection rather than anticipated collection within a given year. Also taken into consideration are needs of the immediate future and longer-term obligations. The report also reflects Manufactured Housing fees as these would be subject to Tex. Gov't Code §2306.070. These fees are under the purview of the Manufactured Housing Division Board.

Submission of this report is linked in statute with the Legislative Appropriations Request ("LAR"). TDHCA brought items for the Fiscal Year ("FY") 2020-21 LAR to the Board earlier in the year. TDHCA submitted the 2020-21 LAR to the Office of the Governor ("OOG"), the Legislative Budget Board ("LBB"), and

other oversight offices on August 3, 2018. The Biennial Operating Budget or “BOP,” which provides more details regarding TDHCA information systems needs for the coming biennium and associated funding, was also submitted on this date. The OOG and LBB are holding a hearing on TDHCA’s budget on August 30, 2018.

Attachment to Committee Report Item

Texas Department of Housing and Community Affairs			
Report for Texas Government Code, Section 2306.070 (a)(1) & (3)			
Housing Finance-Related Fees (1)			
	Actual	Actual	Actual (2)
Revenue Source	2016	2017	2018
Single Family Fees	3,500,000	3,200,000	2,200,000
MultiFamily Fees	1,796,963	1,308,013	2,067,697
Tax Credit Fees	4,741,372	4,723,215	5,844,541
Compliance Fees	6,793,844	6,997,415	7,345,755
Asset Management Fees	1,152,041	1,211,245	1,205,657
Total Housing Finance-Related Fees	17,984,220	17,439,888	18,663,650
Projected Housing Finance Budget	15,985,301	16,230,639	17,171,157
Variance between Budget and Collected	1,998,919	1,209,249	1,492,493
% Variance - Housing Finance Fees	11.11%	6.93%	8.00%
2018 Variance Explanation			
<p>The Department collected more fees than budgeted expenses by \$1,492,493 for budget year 2018. Major factors affecting collections include increasing demand for 4% housing tax credits as developers learn to use this funding mechanism effectively in the current market and, more modestly, recent increases in 9% housing tax credits due to increased population. (Please note that Congressional increase of 9% credits by 12.5% for four years, while resulting in increased 9% application fees in 2018 will be a greater factor starting in 2019 as TDHCA collects post-award fees from successful applicants.) These increases affect not only tax credit but also compliance, asset management fees and multifamily bond fees (4% tax credits must be paired with multifamily private activity bonds issued by TDHCA or other Texas housing finance agencies)</p>			
Manufactured Housing Division Regulatory Activity-Related Fees Provided in Board Book for Informational Purposes			
	Actual	Actual	Estimated (3)
Revenue Object	2016	2017	2018
Training	105,900	104,450	114,100
SOL (Title)	3,393,734	3,382,941	3,492,191
Licensing	853,855	768,135	888,222
Inspection	1,482,416	1,496,772	1,694,495
Housing Violation	21,976	9,540	8,700
Copies	71	275	300
Reimbursement	76,503	76,503	60,000
Total Manufactured Housing-Related Fees	5,934,455	5,838,616	6,258,008
Manufactured Housing Operating Budget - AR MOF	6,367,183	6,586,624	6,725,524
Variance between Budget and Collected	(432,728)	(748,008)	(467,516)
% Variance -Manufactured Housing Fees	-7%	-13%	-7%
Transfers of Unexpended Fee Balances to GR	1,317,000	1,956,900	**
2017 Variance Explanation			
<p>The Division's operating budget, which is based on direct and indirect appropriations levels, ensure adequate resources for regulation of the industry. In 2018 as in the previous years, fees collected were less than the year's operating budget. As the Division's appropriations are limited to revenues collected, the disparity between the budget and fees collected do not affect General Revenue. Although the fees collected were lower than each year's operating budget, fees collected were substantially higher than actual expenditures for 2016-17. The same is expected for 2018. The lower revenue-related expenditures reflect higher than anticipated federal funds received as well administrative efficiencies that allow the Division to operate effectively within actual fees collected. These administrative efficiencies also allow the Division to achieve savings for the state. As a result, the Division has been able to transfer unexpended balance of fees to state General Revenue as indicated in the table above.</p>			
Notes			
(1)	In accordance with Government Code ("TGC") Chapter 2306, these revenues are maintained in the Texas Treasury Safekeeping Trust. (See TGC §§ 2306.118, .120, and .172. There are numerous provisions for fees to be collected for the purpose of supporting the housing finance programs such as single family bonds, multifamily bonds, housing tax credits, compliance monitoring and asset management: §§2306.144, .147, .176, .228, .231, .266 and .6716.)		
(2)	Reflects non-audited balances as of 8/21/2018. Figures differ from estimates included in Schedule 6H of the LAR (Estimated Total of All Agency Funds Outside the GAA Bill Pattern) , which were developed earlier in the year		
(3)	Information not yet available		
(4)	Division operating budget includes direct strategy appropriations, indirect appropriations reflecting Division administrative services agreement with TDHCA, and benefits. Unlike the Housing Finance Budget, it includes a small amount of other revenue sources.		