

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

**AGENDA
08:00 AM
September 3, 2020**

Meeting Location: In light of the March 13, 2020, disaster declaration by the Office of the Governor, and the subsequent waivers of portions of Tex. Gov't Code, Ch. 551*, this meeting of the TDHAS Audit and Finance Committee will be accessible to the public via the telephone and web link information, below. In order to engage in two-way communication during the meeting, persons must first register (at no cost) to attend the webinar via the link provided. Anyone who calls into the meeting without registering online will not be able to ask questions or provide comments, but the meeting will still be audible. A recording of the meeting will be made available to the public as soon as possible following the meeting¹.

Governing Board Webinar registration:

<https://attendee.gotowebinar.com/register/1312464349205216780>

Dial-in number: +1 (631) 992-3221, access code 591-553-382 (persons who use the dial-in number and access code without registering online will only be able to hear the Board meeting and will not be able to ask questions or provide comments). Note, this meeting will be proceeding as a videoconference under Tex. Gov't Code §551.127, as modified by waiver.

If the GoToWebinar terminates prior to adjournment of the meeting (i.e. if the webinar session "crashes") the meeting will be recessed. A new link to the meeting will be posted immediately on the TDHCA Board meetings web page (<https://www.tdhca.state.tx.us/board/meetings.htm>) along with the time the meeting will resume. The time indicated to resume the meeting will be within six hours of the interruption of the webinar. Please note that in this contingency, the original meeting link will no longer function, and only the new link (posted on the TDHCA Board meetings web page) will work to return to the meeting.

CALL TO ORDER

ROLL CALL

Sharon Thomason, Chair

CERTIFICATION OF QUORUM

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 and Finance Committee Minutes Summary for June 25, 2020

Mark Scott
Director of Internal
Audit

¹ The list of Open Meeting laws subject to temporary suspension effective March 16, 2020, is available at: <https://www.texasattorneygeneral.gov/sites/default/files/images/admin/2020/Press/Open%20Meeting%20Laws%20Subject%20to%20Temporary%20Suspension.pdf>

REPORT ITEMS:

- ITEM 1:** Presentation and discussion of Internal Audit of the Physical Inspection section of the Compliance Monitoring Division
- ITEM 2:** Presentation and discussion of Internal Audit of the Section 8 Housing Choice Voucher Program
- ITEM 3:** Report on the status of the Internal and 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.

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.

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.

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.

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 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

September 3, 2020

Presentation, discussion and possible action on Audit and Finance Committee Meeting Minutes Summary for June 25, 2020

RECOMMENDED ACTION

RESOLVED, that the Audit and Finance Committee Meeting Minutes Summary for June 25, 2020 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 25, 2020, at 8:00 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 via telephone and web link (GoToWebinar). Committee members Sharon Thomason, Leo Vasquez and Paul A. Braden were present and represented a quorum for the committee meeting.

The first action item on the agenda was approval of the minutes of the March 26, 2020 meeting of the Committee. Minutes were adopted as presented, and were approved.

The next action item on the agenda was the presentation, discussion, and possible action to approve the FY 2021 Operating Budget, and was to be presented by Joe Guevara, Director of Financial Administration. Due to technical difficulties Mr. Guevara wasn’t able to start his presentation at that time. The Committee moved to the first report item while the technical issue was being resolved.

The first report item on the agenda was the presentation of the audit of the Section 811 program, and was presented by Mark Scott, Director of Internal Audit. Mr. Scott stated that the Section 811 rental assistance program is a relatively new program to TDHCA. It started in 2015. TDHCA entered into an interagency agreement with the Health and Human Services Commission (HHSC) to identify and refer applicants to the program. The ultimate goal of the program is to provide opportunities for person with disabilities to live as independently as possible through the coordination of voluntary services, and providing a choice of subsidized integrated rental housing options.

OIA evaluated and tested various controls of the program and found that the program is generally well run and meeting its objectives and is in compliance with the rules under which it operates. There were several recommendations relative to information security, technology infrastructure enhancements, and operational efficiency improvements that were made. Management has agreed to these recommendations, and their responses are included in the report. Mr. Scott then offered to answer any questions that the Committee members may have.

With no questions, Mrs. Thomason moved on to the second report item on the agenda, which was presentation and discussion of the audit of the Purchasing function at TDHCA. Mr. Scott presented the report.

The purchasing function rated high on the risk assessment due to lack of recent audits, as well as recent changes in management of the division. The Purchasing division does undergo biennial

post payment audits by the Comptroller's office, and is responsible for coordinating and managing all aspects of the procurement process for goods and services obtained by the Department.

OIA reviewed the purchasing processes, including purchase requisitions and approval, and selected a scientific sample for testing. The attributes tested included credit card limits, correct approvals and complete documentation for Requests for Proposals (RFPs) and Requests for Qualifications (RFQs). OIA identified some areas of improvement such as record keeping and documentation, to enhance consistency and efficiency of the operations. Management has agreed to the recommendations and will be implementing procedures to meet them. The review concluded that the Purchasing function generally operates in compliance with applicable rules.

With no questions from the Committee members, Mrs. Thomason moved to the final report item which was report on the status of the internal audit and external audit activities. Mr. Scott stated that Internal Audit is on track with the annual internal audit plan. OIA is currently working on the Section 8 program and the audit of Physical Inspection section of the Compliance Monitoring division. The audit of emergency management, also known as COOP, has been placed on hold for now due to the current situation with the COVID 19 pandemic.

There are no external audits underway at this time. TDHCA had a meeting with the State Auditor's staff members to discuss the upcoming annual financial statement audit. That concluded Mr. Scott's presentation. Mr. Vasquez asked about any possible delays that Mr. Scott foresees in keeping up with the internal audit plan due to all of the COVID19 related shutdowns. Mr. Scott explained that the only change to the plan at this time is the audit of the Continuity of Operations Plan (COOP), which was in the planning phase when the Governor's office announced their big task force, so it was decided to hold off that audit for the time being. Other than that, the remaining audits on the plan are expected to be completed by end of FY2020.

At this time Mr. Guevara was able to virtually join the meeting and start his presentation of the first action item; presentation, discussion and possible action to approve the fiscal year 2021 operating budget. Mr. Guevara explained their process of developing an internal budget for fiscal year 2021, which was in collaboration with division directors and managers, and with consideration for the unknown impact of the pandemic on the budget. Mr. Guevara provided details related to proposed budget and the percentage of increase to the budget compared to previous year. The FY 2021 proposed budget is \$28.8 million, which represents \$1.1 million increase, or 4% increase. The structure of the proposed budget is divided into two primary components; CARES Act funding and TDHCA's ongoing activities.

At the conclusion of his presentation, Mr. Guevara offered to answer any questions that the Committee members may have. Mr. Vasquez asked for clarification related to the 4% increase in

the budget being primarily due to the CARES Act. Mr. Guevara confirmed that almost a million of the \$1.1 million increase was related to CARES Act funding.

Mr. Vasquez then complimented Bobby (Mr. Wilkinson) and the staff for the great job they've done in regards to the agency's operating budget by increasing efficiency.

Next question came from Mr. Braden, inquiring whether the agency has received any request for reduction in the budget. Mr. Wilkinson, Executive Director of the TDHCA, stated that there was a 5% general revenue cut that was sent to Governor's office and the Legislative Budget Board. The reduction came from administration and also a portion of each general revenue funded program. Mr. Wilkinson also explained that TDHCA is primarily funded by federal funds and appropriated receipts, such as tax credit development applications and compliance fees, and only a small portion is covered by general revenue.

With no other questions, Mrs. Thomason asked for a motion to recommend to the full Board approval of the fiscal year 2021 operating budget. Mr. Vasquez moved to approve the budget and Mr. Braden seconded that motion. The motion was approved. Next action item was presentation, discussion, and possible action on the fiscal year 2021 Housing Finance Division Budget, and was presented by Mr. Guevara.

Mr. Guevara started his presentation by explaining that this item is a subset of the internal operating budget, and is in relation to the Housing Finance budget that the agency is required to submit under Texas Government Code and in compliance with the General Appropriations Act. This subset of the budget is specific to the fees that is generated and referred to as Housing Finance of the Department.

Mr. Guevara offered to answer any questions related to the Housing Finance Division budget. With no questions from the Committee members, Mrs. Thomason asked for a motion to recommend to the full Board approval of FY 2021 Housing Finance Division budget as presented. The motion was made by Mr. Braden, and seconded by Mr. Vasquez. The motion was passed.

That concluded presentation of all the agenda items. Mrs. Thomason asked if Committee members had any questions. With no question, the meeting was adjourned at 8:30am.

Report Item

1

AUDIT AND FINANCE COMMITTEE REPORT ITEM

INTERNAL AUDIT DIVISION

September 3, 2020

Presentation and discussion of the Internal Audit report on the Physical Inspection Section of TDHCA compliance Division

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
An Internal Audit of the Physical Inspections Section of TDHCA Compliance Division
Audit Report # 20-005

Executive Summary

The Office of Internal Audit (OIA) reviewed the Physical Inspections Section of the Compliance Division, including its internal controls, and the policies and procedures that are currently in place. The OIA identified areas of improvement to strengthen data access controls and technology change-management functions.

Finding and Recommendation

- OIA recommends that the Physical Inspections Section establish updated, signed and dated SOPs for key processes to create consistency and efficiency for all parties involved in the program.

Observations and Suggestions

OIA also made observations and suggestions related to efficiency of the Physical Inspection Sections' information technology processes. Internal audit suggests an evaluation of the current Genesis software for travel expense reporting and payment for potential replacement; and development of a business case for presentation to the IS Steering Committee related to certain aspects of the program such as Inspection Site Selection. Additionally, Internal Audit suggests periodic review of access report for critical systems; as well as development of management level review for critical systems program changes and data updates.

Management Action Plan

Prior to our audit, management of the Physical Inspection Sections had self-identified areas for improvement. These included an audit of CMTS data to ensure data integrity and reorganization of supporting files. The improvements included putting detailed inspection reports and photos into an easily accessible location available to all relevant personnel, and creating a monitoring process to ensure consistency and efficiency in staff assignments. Management is also planning to rebuild site selection and travel scheduling spreadsheets to ensure accuracy and integrity of information.

Management Response:

Management agreed and detailed responses to our recommendations are included in the body of the report.

Objective, Scope and Methodology

Our scope included a review of the Texas Administrative Code (TAC) applicable to the Physical Inspection section, HUD's standards, as well as the division's Standard Operating Procedures. Based upon our preliminary understanding of the Physical Inspections Section, we identified critical points and risks, and developed our audit objectives accordingly.

Mark Scott

Mark Scott, CPA, CIA, CISA, CFE, MBA
Director, OIA

8 / 14 / 2020
Date Signed



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

www.tdhca.state.tx.us

Greg Abbott
GOVERNOR

BOARD MEMBERS

Leslie Bingham, Vice *Chair*
Paul A. Braden, Member
Sharon Thomason, Member
Leo Vasquez, Member

August 14, 2020

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

RE: Internal Audit of the Physical Inspections Section of the Compliance Monitoring Division at TDHCA

Dear Board Members:

This report presents the results of the Office of Internal Audit ("OIA") "*Review of the Physical Inspections Section of the TDHCA Compliance Division.*" This audit was conducted in accordance with applicable audit standards. It included the objectives to evaluate and explain the Physical Inspections Section of the Compliance division, and to review the administrative and internal control procedures related to the operation of the division.

Physical Inspections rated high on the annual risk assessment and was included in the approved Fiscal Year 2020 audit work plan because the Physical Inspection section had not been selected for audit previously at TDHCA; a similar function at the Manufactured Housing Division recently underwent an extensive review by the State Auditor's Office.

This report is divided into the following sections:

- A. Background
- B. Scope and methodology
- C. Roles and responsibilities of each party in the Physical Inspections Section
- D. Processes and procedures
- E. Audit Testing
- F. Other audit work
- G. Future follow up

A) Background

The Physical Inspection section performs and administers inspections for developments monitored by the Department throughout the affordability period¹. The minimum affordability period for Tax Credit developments is 30 years, during which the property is subject to routine Compliance monitoring reviews. The federal compliance period is the first 15 years of the affordability period, during which the tax credits that have been given to the developers can be taken away or recaptured by the Internal Revenue Service if the property fails to comply with applicable rules and regulation. Once the federal compliance period ends, the Department relies on State enforcement mechanisms to ensure compliance through the end of the affordability period.

The Physical Inspection section ensures that developments are habitable, well maintained, are ready for occupancy, follow appropriate accessibility standards, and comply with applicable program rules and regulations. Developments funded through the Department's Multifamily Direct Loan Programs are subject to a mid-construction inspection to track construction progress. . All multifamily developments must undergo a final construction inspection to ensure compliance with applicable accessibility standards. These inspections are required prior to the issuance of funding or critical documents, depending on the program. At least every three years thereafter a Uniform Physical Condition Standards (UPCS) inspection is also performed. Some UPCS inspections are conducted by Department staff, while others are outsourced. The Physical Inspection section oversees the contract with the UPCS vendor and ensures that owners correct all identified deficiencies.

Additionally, the section inspects single family homes rebuilt, rehabilitated, and receiving down payment assistance or HOME funded rental assistance; homes and apartments receiving weatherization funds; structures funded under the Amy Young Barrier Removal Program; conducts Housing Quality Standards evaluations; and reviews Emergency Shelters. Inspectors may conduct site inspections, construction inspections, and Uniform Physical Condition Standards inspections on new construction and acquisition and/or rehabilitation multifamily developments and for rebuilt or rehabilitated single family homes.

The Physical Inspection (PI) section also conducts physical inspections for the Housing Tax Credit Program (HTC), the Multifamily Tax-Exempt Bond Program (Bond), HOME Investment Partnerships Program (HOME), Housing Trust Fund (HTF), Tax Credit Assistance Program (TCAP), Tax Credit Exchange Program (Exchange) and the Neighborhood Stabilization Program (NSP) and Single Family housing programs at the participating properties based on the frequency stipulated under each program rules.

The PI section currently monitors about 2400 active properties, with an approximately 800 inspections per year to meet the requirements of TDHCA Programs. The PI section has also recently taken over the administrative duties of the Department's Migrant Farmworker Housing initiative; however, these inspections will continue to be completed by the Manufactured Housing division through a MOU with TDHCA.

B) Scope and Methodology

The Texas Internal Auditing Act, Tex. Gov't Code §2102.005 requires auditing of a state agency's major programs and systems. Our scope included a review of applicable portions of the Texas Administrative Code (TAC), HUD's standards, and TDHCA Board resolutions, as well as the program's Standard Operating Procedures (SOPs). Based upon our preliminary understanding of the Physical Inspections Section we identified critical points and risk, to

¹ The minimum affordability period for a Tax Credit development is 30 years, and refers to the minimum time period that the property will remain under established rent limit.

develop our audit objectives and an audit program including methodology. Utilizing the International Standards for the Professional Practice of Internal Auditing, OIA determined the scope of this audit in light of the recent COVID-19 Pandemic under Standard 2220² and 2220.A1³.

Due to the impact of COVID-19, the physical inspections of properties under TDHCA purview have been limited to mid construction and final construction inspections for new construction of multifamily properties with Direct Loan financing. Per HUD guidelines, these inspection are required to be completed, and since the properties are vacant the inspectors are not in close contact with others during their inspection visit.

In addition, planned changes to key processes by management and major regulatory updates expected in early 2021 limited the scope of this review. Management change within the PI section took place in February 2020, and the new Physical Inspection management has embarked upon several initiatives to improve the effectiveness and efficiency of operations. The current areas of focus by management are listed in the body of this report for future OIA follow up. Beyond these management assertions, OIA adapted its scope to focus primarily on understanding both current and future operational processes and detailed review of technology related controls. Our understanding of the primary processes and procedures is reflected in the Processes and Procedures section below.

Standard Policies and 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 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 the section adjusts with management changes and during the halt on inspections in the current COVID-19 environment, the Physical Inspection Section management has been working on standardizing processes and documenting them into SOPs. All key processes reviewed had SOPs in progress, completion of which will be verified at a later follow up date.

Finding Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
20-005.01	The Physical Inspections Section will establish updated, signed and dated SOPs for key processes to create consistency and efficiency for all parties involved in the program.	October 31, 2020	Manager of Physical Inspections

Management Response

The Physical Inspection section is working diligently to revise existing SOPs as well as identify new SOPs which need to be written. This is an ongoing process that is anticipated to be completed by October 31, 2020.

² Standard 2220; *The established scope must be sufficient to achieve the objectives of the engagement.*

³ Standard 2220.A1; *The scope of the engagement must include consideration of relevant systems, records, personnel, and physical properties, including those under the control of third parties.*

C) Roles and Responsibilities of each party in the Physical Inspections Section

- **TDHCA Staff**

The Physical Inspections Section consists of 16 staff that operate under the Director of Compliance. The team consists of the Manager of Physical Inspection, a program specialist, a construction specialist, three senior physical inspectors, and ten inspectors. This team completes all the physical inspections of multifamily properties operating under one or more of the many TDHCA managed Programs (The complete list of TDHCA managed programs is provided under Processes and Procedures section of this report). In addition, the inspectors responsible for mid and final multifamily property construction inspections as well as various single-family Program inspections. Some inspectors are also responsible for reviewing construction plans based on Program requirements.

The PI section receives administrative assistance from the Financial Administration division for vendor selection requirements and payment of invoices by contracted inspectors and by Information Systems (IS), primarily due to the use of the Contract Monitoring and Tracking System (CMTS) which assists in the tracking of physical inspection requirements and scheduling.

- **Property Owners / Managers**

Property Owners are organizations that create and manage affordable housing via various federally funded Programs. Physical Inspection staff coordinate with Property Managers to schedule, complete and communicate results of physical inspections. Property Owners, via their Property Managers, are responsible for complying with scheduled inspections and closing out any deficiencies found during the inspection process within a specified time period.

- **Internal Revenue Service / Department of Housing and Urban Development**

The IRS and HUD are federal agencies that require both TDHCA and Property Owner's compliance with established rules and regulations related to state and federally funded housing programs. TDHCA ensures compliance with the applicable rules and regulation through the Physical Inspections process.

- **Onsite Inspectors (Contractor)**

TDHCA assigns multifamily development physical inspections to its contractor, On-Site Insight, to reach areas that may not be easily accessible for TDHCA staff or to conduct excess inspections once the staff has reached capacity. The PI team works with the contractors to ensure accurate and complete reporting on all inspections.

D) Processes and Procedures

Each year TDHCA is allocated funds under various federal programs for the purpose of incentivizing private organizations to create additional affordable housing inventory. For the purpose of maintaining compliance with each Program's rules and federal requirements, the Physical Inspections Section completes inspections for the following programs:

- IRS Low Income Housing Tax Credit (LIHTC) – LIHTC program allocates a certain amount of housing federal tax credits annually for financing development of affordable multifamily housing. The allocations are awarded to private developers through an annual competitive bidding process.
- Multifamily Tax-Exempt Bond – This program provides for an annual amount of Private Activity Bonds that may be issued for the purpose of financing development of affordable multifamily housing.
- HOME Investment Partnerships Program (HOME) - The HOME Investment Partnership Program is funded by HUD with the purpose of expanding the supply of decent, safe, affordable housing and strengthening public-private housing partnership. TDHCA administers the HOME Program on behalf of state of Texas primarily in rural parts of the state.
- Section 811 Project Rental Assistance (PRA) program– The Section 811 PRA program is a federally funded program with the purpose of providing project-based rental assistance for extremely low-income persons with disabilities linked with long term services.
- Housing Trust Fund (HTF) – The State Housing Trust Fund provides loans and grants to finance, acquire, rehabilitate, and develop decent and safe affordable housing. The State HTF currently administers the following single family programs; Texas Bootstrap Program and Amy Young Barrier Removal Program.
- Tax Credit Assistance Program (TCAP) – Multifamily direct loans
- Tax Credit Exchange Program (Exchange) - Program administered by TDHCA allows for the limited exchange of HTC credits for cash grants, appears to be phased out at this time
- Neighborhood Stabilization Program (NSP) - The NSP is a HUD funded program authorized by the Housing and Economic Recovery Act of 2008, as a supplemental allocation to the Community Development Block Grant (CDBG) Program.
- Single Family housing programs – This program includes various programs related to single family home development for low income individuals in Texas

Each of these programs has its own individual requirement for the timing and frequency of physical inspections, but the most common interval is every three years. However, each development may be subject to the requirements of multiple programs. Therefore, the development will be subject to the most restrictive requirement. These physical inspections are part of the program requirements under which the property was constructed and will be funded. The developers are required to submit an inspection report that shows compliance with all the program’s applicable rules and regulations during the Construction Cost Certification process. An outstanding deficiency on the physical inspection report can delay this process and prevent the developer from completing the funding process. Inspections can be made at mid and final phases of the construction, as well as on a periodic basis during the affordability period, which is defined by the Programs under which it was constructed.

As part of this audit, we reviewed the processes and procedures involved in the inspections of new constructions, and tested a sample of properties for accuracy, completeness, and timeliness. We found that the process starts with the property managers/owners submitting a Request for Inspection, either through CMTS or FTP server. CMTS has the capability of generating an e-mail notice to the Department staff member to whom the

documentation is uploaded. , In addition, the Construction Specialist performs regular reviews of both systems to ensure timely processing of any requests for inspection. Property managers are generally proactive in notifying the staff directly and letting them know once they've submitted their request for inspection. The PI report is one of the required documents for the Construction Cost Certification package, and therefore no property will be able to complete their certification and funding process without a final and clear inspection report.

Once the inspection request is received and entered into the master spreadsheet on the division's shared drive, a notice will be sent to the property manager notifying them of the date, time, and the name of the inspector that will be conducting the inspection. The inspectors follow an established checklist that is also available on TDHCA website for property owners' reference. The Division is required to issue the inspection report within 45 days of the inspection. If any deficiencies are identified, the property owner is given 90 days to respond to the deficiencies with proof of corrections. Although no follow up visits are made by the inspectors to verify the corrective actions, the property owners are required to submit evidence of actions taken, such pictures and receipts.

E) Audit Testing

We randomly selected eight properties that have been inspected since Sep 2019 (beginning of FY20) through July 2020 for testing, and found that the properties were inspected in timely manner, reports were issued within 45 days of inspection, property owner's response included evidence of corrections for each deficiency, and the final report was issued by the division clearing all deficiencies. We also randomly selected another sample of eight properties that were initially inspected in 2016 as "New constructions". We found that all selected properties had a second inspection conducted within three years with appropriate records for follow up on noted deficiencies.

Annually, on a fiscal year basis, the physical inspection section identifies the properties that are due for physical inspection. The process starts by Physical Inspection management creating an Excel spreadsheet by downloading all active properties from CMTS. Foreclosures and qualified contract sales* properties are removed from the spreadsheet, and low scoring / never inspected properties are identified. Additional manual steps are taken to reconcile the data. The properties are then sorted and grouped by the month inspection is required and the location for assignment.

**Qualified contract sales;* Property owner utilizing Housing Tax Credit can request the Department to find a buyer for their property at the Qualified Contract price within one year of end of Compliance period.

Observation and Recommendation

The process of identifying properties that are due for inspection is highly complex and subject to human error as currently completed and could result in missing inspections within the required timeframe.

Internal Audit recommends the development of a business case for presentation to the IS Steering Committee for certain aspects of the program such as Inspection Site Selection.

Once the list of the properties to be inspected is identified, management determines the property that will be inspected by the outside contractor, On-Site Insight, and those assigned to TDHCA staff. The physical inspections are scheduled through CMTS and completed utilizing UPCS4 (inspection software based on HUD's Uniform Physical Conditions Standards) that tracks detailed findings and generates reports. If the inspection was conducted by On-Site Insight the contractor submits the inspection reports and photos to a specific location on Serv-U (a secure file transfer system utilized by TDHCA to share files with external parties). TDHCA staff reviews

the detailed information from UPCS4 and other documentation, writes up reports and creates appropriate notifications for all parties involved. The notifications are then sent to the property owners/managers. TDHCA staff are responsible for following up on any deficiencies, issuing resolutions, closing out the inspection when possible, and referring properties with outstanding and unresolved deficiencies to the Enforcement Committee as deemed appropriate.

With the management change in February 2020, Physical Inspection management has identified several areas with opportunities for improvement. During the COVID-19 Pandemic, and since physical inspections are currently limited to Multifamily Direct Loan properties, the team is working on these defined projects as noted by management below.

Management Action Plan Based on Prior Management Review

Management Action Plan	Target Completion Date
Management will conduct projects to audit CMTS data to ensure data integrity and reorganize supporting files such as detailed inspection reports and photos into an easily accessible location available to all relevant personnel.	Completed ⁴
Management will rebuild site selection and travel scheduling spreadsheets to ensure accuracy and integrity and will review and revise all output such as form letters and IRS notifications to ensure they are updated.	October 31, 2020
Management will create monitoring processes to ensure staff assignments are processed in a balanced and efficient manner; once new processes are implemented after the COVID-19 Pandemic, management commits to hands-on review, training and continuous improvement of processes.	Ongoing

The OIA will review and evaluate the status of the management assertions and action plans listed above during the follow up audit of the Physical Inspection section in FY2021.

Genesis is a systems application that is used by TDHCA staff for travel expense tracking, reporting and reimbursement. Per discussion with IS management, the version of the application is character-based but fully supported by the vendor based on a software maintenance contract which is renewed annually. Although changing this system would not necessarily create efficiencies for the PI group, it would eliminate an archaic application as well as its support fees from TDHCA’s systems environment and allow for using PeopleSoft’s HR CAPPS Central that is already supported and maintained centrally for several agencies.

CMTS primarily serves as an input and repository of data, with some processing of reports completed in order to create documents required by federal authorities such as the IRS. CMTS is accessible both internally by TDHCA staff, and externally by property owners / managers. The system provides an electronic location for Property Owners / Managers to submit reporting and required documentation, and to receive information from TDHCA.

⁴ The Management Action plan related to CMTS project was not reviewed or tested by the auditor during the course of this audit. OIA will verify management assertions during the follow up audit of the division.

Since CMTS is the primary system utilized by the Program, OIA reviewed multiple layers of user access to CMTS functions within the system and found that access was appropriately granted. OIA did note that a few users have secondary user names due to limitations in the internal security of CMTS. Compensating controls such as Financial Administration approvals limit the exposure from additional access. Management reviewed these items and made updates where possible to further restrict this practice.

In addition to reviewing internal access to CMTS, OIA reviewed the change management process for this critical system. OIA examined multiple program change and data update requests from Track-It (help desk software platform used by IS to track system requests, problem reports, and data updates) and found that management review and approval of changes to the production environment is not consistently applied. When management is not approving consistently, changes can be made without management’s knowledge, communications may not be broad enough, and updates may affect other Divisions’ use of CMTS adversely. In addition, systems work may be requested that is not necessary due to Program procedures in place or staff training issues.

OIA reviewed the data update requests that were being logged and discussed them with IS, noting that in 2020 alone there had been 27 requests during the first 6 months. IS management identified two items that make up 95% of these requests: property units setup changes and deletion and running reports when external or internal parties cannot access them. IS should be removed from the process of updating data directly; to the extent possible, data updates should be in the control of the Program areas.

Observation Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
20-005.01	Internal Audit recommends process and systems changes required to reduce dramatically the intervention of IS resources into data updates for CMTS.	Ongoing - Aug. 31, 2023	Director of Information Systems

Management Response

TDHCA Information Systems Division (ISD) has received several help desk requests for modifications and improvements to CMTS. In 2019, TDHCA ISD began an initiative to reduce the number of database update requests requested by program staff. The initiative included several changes to help improve the integrity of the data and eliminate known application issues. Several of these work orders have been implemented, have reduced the number of data update requests ISD received, and has helped to improve the reliability of the CMTS database and application. ISD also has a capital budget project for FY2022-23 that will continue to address issues and improve system functionality and efficiency, including the triggering of the AOCR reports⁵.

TDHCA ISD will continue to work on open work orders to resolve any issues that are brought to our attention. ISD will also begin working on and planning for the implementation of CMTS Upgrade FY2022-23 Capital Budget project. This project will focus on resolving issues and improving automation in the CMTS system.

⁵ Title 10, Rule§10.607 requires that each rental housing development funded by the Department to submit an Annual Owner’s Compliance Report (AOCR), by April 30th of each year. The information in the report reflects the current development data as of December 31st of the previous year.

Observation and Recommendation

- Internal Audit recommends the evaluation of the current Genesis software for travel expense reporting and payment to schedule replacement.
- Internal Audit recommends the periodic review of access reports for critical systems to ensure access is still appropriate as people change positions or functions change. This should be done at least annually if not more often depending on the level of changes within the Division.
- Internal Audit recommends the development of management level review for critical systems program changes and data updates.

F) Other Audit Work

This is the first internal audit of the Physical Inspections Section's processes and controls. TDHCA contracts with the Texas State Auditor's Office ("SAO") to conduct annual financial statement audits of the Agency. The latest audit was issued in December 2019 and stated that the financial statements were presented in accordance with Generally Accepted auditing Principles ("GAAP"). As part of that audit, SAO reviews Information Systems general controls.

G) Future Follow Up

Once the future processes and procedures are established and have been in operation for an appropriate amount of time, OIA will schedule a follow up audit to comprehensively audit the administration of Physical Inspection section.

OIA extends our sincere appreciation to the Directors of Compliance and the Director of Information Systems, the Manager of Physical Inspections and their respective teams for their cooperation and assistance during the course of this review.

Sincerely,

Mark Scott

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

MS/SN/NS

Report Item

2

AUDIT AND FINANCE COMMITTEE REPORT ITEM

INTERNAL AUDIT DIVISION

September 3, 2020

Presentation and discussion of the Internal Audit report on the Section 8 Housing Choice Voucher Program.

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
An Internal Audit of the Section 8 Program
Audit Report # 20-006

Executive Summary

The Office of Internal Audit (OIA) reviewed TDHCA's Section 8 Program processes and controls that are currently in place. This included review of the application process, reporting requirements, and approval and disbursement of Housing Choice Vouchers to eligible individuals and households. Based on our reviews and testing, the Section 8 Program operates under its applicable standards and regulations. Various procedures and controls related to the processing and maintenance of documentation should be strengthened, as described in the detailed report.

Finding and Recommendation

- OIA recommends that the Section 8 program establish written SOPs, signed and dated by management, for consistency and efficiency of the operation.
- OIA recommends that the Program establish a process in which the access to the Section 8 electronic folders is monitored and revised regularly to only include authorized staff
- OIA recommends that the Program consider establishing a secure electronic files transfer procedure for the submission of application and supporting documents by the referring agencies and the Clients
- OIA recommends that the Program establish a supervisory review process for the processed files to ensure completion and accuracy of information.

Management Response

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

Objective, Scope and Methodology

Our audit scope included a review of the applicable portion of the Texas Administrative Code, HUD's standards and requirements, as well as the program's Standard Operating Procedures (SOPs). The Texas Internal Auditing Act, Tex. Gov't Code §2102.005 requires auditing of a state agency's major programs and systems. Based upon our preliminary understanding of the Section 8 program we identified critical points and risk, to develop our audit objectives and an audit program including methodology.

Mark Scott

8/20/2020

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

Date Signed



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

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August 20, 2020

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

RE: Internal Audit of the Housing Choice Voucher Section 8 Program

Dear Board Members:

This report presents the results of the Office of Internal Audit ("OIA") review of the Section 8 Program at TDHCA. This audit was included in the Fiscal Year 2020 Annual Audit Plan and was conducted in accordance with applicable audit standards. The Section 8 Program rated high on the annual risk assessment due to its susceptibility to fraud and lack of recent audits. This program has a large number of transactions. Various programmatic reviews have been conducted by HUD; however no audits of the program have been conducted in recent years.

For this audit we reviewed applicable Texas Administrative Codes (TAC) and U.S Department of Housing and Urban Development (HUD) standards, rules and regulations. We also evaluated the Section 8 Program's internal policies and procedure related to handling and processing of applications that are received through referral agencies.

Background

The Housing Choice Voucher (HCV) Section 8 Housing Choice Voucher Program provides rental assistance payments on behalf of low income individuals and families, including the elderly and persons with disabilities. The program provides financial assistance for decent, safe and sanitary housing to eligible households whose annual gross income does not exceed 50% of HUD's Median income guidelines. HUD requires 75% of all new households admitted to the program be at or below 30% of the area median income. Eligibility and the amount of rent the tenant must pay is based on several factors, including the household's income, size and composition, legal residency status, assets, median income and childcare expenses. Qualified households may select the best available housing through direct negotiations with landlords to ensure accommodations that meet their needs. TDHCA pays approved rent amounts directly to property owners.

The Section 8 Housing Choice Voucher Program was created by the Housing and Community Development Act of 1974. Funds for the Section 8 program are provided by the U.S. Department of Housing and Urban Development (HUD). If a community is interested in utilizing Section 8 funds, the local unit of government must adopt a resolution agreeing to administer the program in accordance with all applicable rules and regulations.

The Department is one of hundreds of public housing authorities that run Housing Choice Voucher Section 8 programs across Texas. Currently TDHCA oversees and administers Housing Choice Voucher Section 8 programs for 34 counties and then administers a statewide program anywhere in the state for persons with disabilities in collaboration with referral agencies.

Scope and Methodology

The Texas Internal Auditing Act, Tex. Gov't Code §2102.005 requires auditing of a state agency's major programs and systems. Our scope included a review of applicable portions of the Texas Administrative Code (TAC), HUD's standards and requirements, as well as the program's Standard Operating Procedures (SOPs). Based upon our preliminary understanding of the Section 8 program we identified critical points and risk, to develop our audit objectives and an audit program including methodology.

Processes and Procedures

Project Access and *Veterans Assisted Supportive Housing (VASH)* are the only two housing assistance voucher programs that are currently open via waiting list through TDHCA's Section 8 Program. Applicants can apply and be placed on the waiting list until a housing voucher is available and can be awarded by the Department. The application process starts by the applicant submitting an application through their appropriate Referring Agency. A list of the current agencies providing referrals is provided in the next section of this report.

- *Project Access*; the program provides rental assistance for qualifying persons with disabilities transitioning from institutions into the community.
- *Veterans Assisted Supportive Housing (VASH)*; HUD provides rental assistance vouchers for privately owned housing to Veterans who are eligible for VA health care services and are experiencing homelessness.

The applications are submitted to TDHCA's Section 8 program through mail or by fax. Currently the Department does not have the capability of receiving any applications for Housing Choice Voucher programs electronically or online, which can create the possibility of human error due to the manual process. The first step after receiving the application by the program staff is to perform a criminal background check through DPS (Department of Public Safety), on all the individuals in the household over the age of 18. The consent for the criminal background check is required to be signed and submitted to the program along with the application. Once the background check is completed the applicant will be placed on the appropriate waiting list based on their individual eligibility. The wait time for a voucher to become available can vary greatly depending on availability of funds.

Once a voucher becomes available, the applicant is notified and the eligibility verification begins. The staff uses guidelines and references provided by HUD to determine the applicant's eligibility level. Two of the guidelines the Department is required to establish by HUD to be used in the calculation process of the household's eligibility include the Utility Assistance Allowance and Payment Standard amounts. OIA reviewed a sample of files to determine their accuracy of calculations and use of the above guidelines. The results of our reviews are in the Testing section of this report.

If a household is determined to be eligible, a determination letter is mailed to them with detailed information regarding their eligibility level and the amount of approved voucher. The next steps depend on the type of the voucher they've been approved for, and whether the applicant is approved for Tenant-based or Project-based voucher. The main difference between the two is that under the Tenant-based Housing Choice Voucher program, the Department issues an eligible family a voucher and the family selects a unit of its choice. If the family moves out of the unit, the contract with the owner ends and the family can move with continued assistance to another unit. All of the Department's vouchers are tenant-based except for the VASH vouchers available at Freedom's Path in Kerrville which are Project-based. The Department has entered into an assistance contract with the property owner for specified units and for a specified term. The Program refers families from its waiting list to the property / project owner to fill vacancies. Because the assistance is tied to the unit, a family who decides to move out of a Project-based unit does not have any right to continued housing assistance. However, they may be eligible for a tenant based voucher when one becomes available if they meet the specific criteria for that voucher type.

In either cases, HUD requires that all units occupied by families receiving HCV assistance pass HUD's Housing Quality Standards (HQS) prior to occupancy. Only units that pass a physical inspection based on HQS are eligible to receive assistance. The Department follows the inspection checklist that is provided by HUD to inspect any available units. In the past, the program relied on the Property Inspections section

of the Compliance Monitoring division of TDHCA to perform these inspections. This responsibility was then moved over to the Section 8 Program staff. Currently, the Program is seeking to outsource this task to an outside company. However, due to the COVID 19 pandemic this process has been placed on hold for the time being. HUD has also issued a physical inspection waiver to all Housing Authorities for the time being. As a temporary mitigating measure, HUD has implemented a Self-certification process. The property owners and the potential tenants are required to complete and sign the self-certification form attesting to the condition of the property prior to moving in. The completed self-certification has to be submitted to the program staff before the file is considered complete and the voucher can be issued. OIA reviewed a sample of files for verification of physical inspection and self-certification records. The results are provided in the testing section of this report.

Referral agencies

Referral agencies are specific to the Project Access Program only and are generally nonprofit organizations that operate locally to assist persons with disabilities with the application process and obtaining services. The list below is those organizations currently providing such referrals, however they are not the only organizations from which referrals can be made. A brief description of each referring agency and their mission is provided below.

- *A Resource Center for Independent Living (ARCIL)*; A Resource Center for Independent Living- ARCIL is a private non-profit corporation dedicated to the advancement and full participation of persons with disabilities in all aspects of life.
- *Center on Independent Living (COIL)*; Center on Independent Living- COIL helps Medicaid recipients that are in nursing facilities move to an independent living environment; COIL is contracted by Health and Human Services Commission (HHSC) through Department of Aging and Disability Services (DADS) to provide relocation services. COIL provides services and support systems needed to promote community integration/inclusion and self-sufficiency for individuals with significant physical disabilities.
- *North Central Texas Council of Governments (NCTCOG)*; North Central Texas Council of Governments- is a voluntary association of, by and for local governments, and was established to assist local governments in planning for common needs, cooperating for mutual benefit, and coordinating for sound regional development. NCTCOG's purpose is to strengthen both the individual and collective power of local governments and to help them recognize regional opportunities, eliminate unnecessary duplication, and make joint decisions.
- *Coastal Bend Center for Independent Living (CBCIL)*; Coastal Bend Center for Independent Living is a consumer-controlled, non-residential, non-profit and cross-disability oriented organization that provides core services of information and referral, advocacy, peer counseling, and independent living skills training.
- *East Texas Center for Independent Living (ETCIL)*; East Texas Center for Independent Living is a private, community-based, non-residential, consumer-driven, non-profit corporation whose services are developed, directed, and delivered primarily by persons who have disabilities. ETCIL

assists persons with various disabilities toward increasing personal self-determination, minimizing dependence upon others and engaging in community

- Austin State Hospital Texas Health and Human Services (ASH); Austin State Hospital Texas Health and Human Services contracts with 37 local mental health authorities and two local behavioral health authorities to deliver mental health services in communities across Texas.

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 regulations. It defines expected practices in a process where quality standards exist. SOPs play an important role in any organization and division. They are policies, procedures and standards needed to operate in a successful way. They can create efficiencies, consistency and reliability, fewer errors, and add value to the Division.

Finding Item Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
20-006.01	OIA recommends that Section 8 program establish written SOPs, signed and dated by management, for consistency and efficiency of the operation.	11/30/2020	Section 8 Manager

Management response

The Department agrees that SOPs are important in the organization and division. The Department’s PHA Administrative Plan effectively serves as a manual of standard procedures. That Plan is in the process of being updated. Additionally, the Section 8 Program is committed to reviewing and updating all existing SOP’s. Currently, the program has 19 SOPs that will be reviewed and formalized. Management will review, update, and route for signature all SOPs by the target date of November 30, 2020.

Testing

The program receives “Applicant / Client” applications and supporting documentation that includes personal and confidential information. These documents include proof of income, bank records, and personal identification information. As noted earlier in the report, the Department does not have the capability of receiving these documents electronically, and therefore a hard copy is submitted to the Program either through mail or fax. The assigned staff will scan the documents to the Program’s shared drive and enter the information into other applicable systems such as HousingPro. The hard copies are then destroyed through the Department’s secured shred services.

Our understanding is that the fax machine is located in the Section 8 cubicle area. However, the access to the fax machine is not secured by a lock or other security measures during absence of the program

staff from their desks. Depending on the time the incoming fax is transmitted, and the possibility of staff not being present at their desk at that time, the potential risk of unauthorized access to the clients' confidential information is probable.

OIA reviewed the list of individuals with access to the Section 8 electronic folders that contain Clients' information. We found that in addition to the authorized list of staff that was provided by the management, several other staff, including a few staff from another division, had "Modify" access level to the Program folders.

Finding Item Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
20-006.2a	OIA recommends that the Program establish a process in which the access to the Section 8 electronic folders are monitored and revised regularly to only include authorized staff	9/15/2020	Section 8 Management ; Information Systems
20-006.2b	OIA recommends that the Program consider establishing secure electronic file transfer procedures for the submission of application and supporting documents by the referring agencies and the Clients	12/31/2020	Section 8 Management

Management response

Staff concurs. Management has already begun working with the Department's Information System team to update staff access to the Section 8 folder. The target date to complete this recommendation is 9/15/2020.

Staff also concurs with the importance of having a secure electronic transfer procedure for files. Management is working on a secure email system that allows clients, referral agencies, and the public to send/receive emails that may contain protected information. This new secure email service protects the body of an email as well as attachments which may contain protected information.

With recent additional funding from HUD, staff has procured an upgrade of our existing software that will now include a secure portal to allow clients to electronically transmit documents to the staff for processing, and also includes an electronic eFax system. Due to the large volume of clients the program assists, this task will be completed by December 31, 2020.

Program staff are responsible for receiving, reviewing, and determining applicant's eligibility for HCV benefits. They follow guidelines and standards established and provided by HUD. The review and evaluations performed by the program staff includes, criminal background check, calculation of eligibility based on the household size, composition, income, review of unit inspection reports, and verification of

income. The staff is also tasked with notifying the clients and the property owners in advance of their renewal date and annual verification.

OIA reviewed a sample 20 files for completion and accuracy of information, and found discrepancies in several of the files. The discrepancies included missing current year file, missing background check, and background checks were not signed by the program staff to indicate its completion. We also found that some files did not contain a copy of the Unit inspection report / self-certification form, and missing annual review notification.

After discussion with the Program staff we found that the staff primarily use and rely on hard copies of documents and physical folders, and that the electronic files are not always updated on regular and timely bases. Due to the current circumstances of COVID19, OIA was not able to review and test the physical folders of the Section 8 Program recipients.

Finding Item Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
20-006.3	OIA recommends that the Program establish a supervisory review process for the processed files to ensure completion and accuracy of electronic files and information.	10/31/2020	Section 8 Manager

Management response

Management concurs that steps can be taken to improve the accuracy of electronic files. Currently, the program manually reviews files for accuracy of the client family composition, income, unit details, supporting documentation, and rent determination. This process involves several inter-connected and detailed determinations and actions. After the Department finalizes its upgrade to the program’s housing software (mentioned above), the file review process will be electronic. The target date to complete this recommendation is October 31, 2020.

Other audits and periodic reports

Although no Internal Audit of the Section 8 Program has been conducted in recent years, the Program undergoes several periodic and routine reviews by different entities to ensure its compliance with application rules.

- Section Eight Management Assessment Program (SEMAP); it is a performance measurement tool used by HUD for the Housing Choice Voucher Program. TDHCA, and other Public Housing Authorities (PHA), self-certify to HUD 60 days after the end of the fiscal year. The Field Officer assigned to each housing authority issues a score within 120 days after the end of the fiscal year. Scores above 90 are considered high scores, and below 60 are low performers. There are 14

SEMAP performance indicators set as standard for key areas of Housing Choice Voucher Program management. PHAs are assessed based on these standards to show their effectiveness of the administration of the program.

The Department's Section 8 Program scored 74 on its 2018 SEMAP report. The Department provided HUD with a plan for taking action on deficiencies that were identified in the report.

- Voucher Management System (VMS); The Financial Administration division at TDHCA submits a monthly report of the expenditure and revenues for the Section 8 Program to HUD. The data is collected from PeopleSoft software which is reconciled with USAS; the system that's used by Texas Comptroller for all revenue and expenditures. The report is prepared by the Sr. Grant Accountant, and is reviewed and approved by the team lead before being submitted to HUD through Real Estate Assessment Center (REAC). The data included in the report is then reviewed and approved by a HUD representative in REAC. HUD uses this report to determine future awards of Section 8 Program for the Department.
- *Department of Public Safety (DPS)*; The Texas Department of Public Safety and Federal Bureau of Investigations (FBI) have established audit programs for the purpose of evaluating a criminal and non-criminal justice agency's compliance with state and federal statues, regulations, policies, and procedures for the access and use of criminal history records. The Section 8 Program at TDHCA was last audited by DPS in 2015, and the audit report issued on March 24, 2016 indicated no areas of non-compliance.

OIA extends our appreciation to management and staff of the Section 8 Program for their time and cooperation during the course of this audit.

Sincerely,

Mark Scott

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

MS/NS

Report Item

3

AUDIT AND FINANCE COMMITTEE REPORT REQUEST

INTERNAL AUDIT DIVISION

September 3, 2020

Report on the status of the Internal Audit and External Audit activities

Verbal Report