

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

**AGENDA  
09:30 AM  
June 16, 2022**

**John H. Reagan Building, JHR 140  
1400 Congress Avenue  
Austin, Texas 78701**

**CALL TO ORDER**

**ROLL CALL**

**Ajay Thomas, 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:**

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| <b>ITEM 1:</b> Presentation, discussion, and possible action to approve the Audit and Finance Committee Minutes Summary for March 10, 2022 | <b>Mark Scott</b><br>Director of Internal<br>Audit               |
| <b>ITEM 2:</b> Presentation, discussion, and possible action on the FY2023 Operating Budget  | <b>Joe Guevara</b><br>Director of<br>Financial<br>Administration |
| <b>ITEM 3:</b> Presentation, discussion, and possible action on the FY2023 Housing Finance Division Budget                                 |  |

**REPORT ITEMS:**

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| <b>ITEM 1:</b> Presentation and discussion of follow up Internal Audit of the Physical Inspection processes at TDHCA | <b>Mark Scott</b><br>Director of Internal<br>Audit |
| <b>ITEM 2:</b> Presentation and discussion of Internal Audit of the Texas Homeownership program                      |  |
| <b>ITEM 3:</b> Report on the status of the Internal and External Audit activities                                    |  |

**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.

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](http://www.tdhca.state.tx.us) or contact Mark Scott, TDHCA Internal Audit Director, 221 East 11th Street Austin, Texas 78701-2410, 512-475-3813 and request the information.

Individuals who require auxiliary aids, services or sign language interpreters for this meeting should contact Nancy Dennis, 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 Kathleen Vale Castillo, 512-475-4144, 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 Kathleen Vale Castillo, al siguiente número 512-475-4144 por lo menos cinco días antes de la junta para hacer los preparativos apropiados.

# Action Item

1

**AUDIT AND FINANCE COMMITTEE ACTION REQUEST**

**INTERNAL AUDIT DIVISION**

**June 16, 2022**

Presentation, discussion and possible action on Audit and Finance Committee Meeting Minutes Summary for March 10, 2022

**RECOMMENDED ACTION**

**RESOLVED**, that the Audit and Finance Committee Meeting Minutes Summary for March 10, 2022 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, March 10, 2022, at 9:05 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, JHR 140, 1400 Congress Ave, Austin, Texas. Mr. Ajay Thomas, the Chair of the Audit and Finance Committee, presided over the meeting, and Mr. Mark Scott served as the secretary. Committee member Mr. Leo Vasquez and Mr. 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 December 9, 2021 meeting of the Audit and Finance Committee. Minutes were adopted as presented, and were approved.

The next action item on the agenda was the "presentation, discussion, and recommendation of approval of the State Auditor's Office audit of the TDHCA Financial Statements for fiscal year 2021", and was presented by Ms. Lauren Futch, Project manager with SAO. She stated that SAO issued two unmodified opinions as part of the audit. One for the Department's basic financial statements for fiscal year 2021, and one for the Department's revenue Bond Program financial statements for fiscal year 2021.

In both cases it was determined that the financial statements were materially correct and reported in accordance with generally accepted accounting principles, or GAAP. She said that the statements as issued were not misleading to the readers of those financial statements. Additionally, it was concluded that the Department's Housing Finance Division's computation of unencumbered fund balances complies with Texas Government Code Sections 2306.204 and 2306.205.

Ms. Futch also discussed the communication that was issued on December 20, 2021, titled "Required communication with those charged with governance", as well as an unmodified, or clean opinion, issued on the Department's fiscal year 2020 financial data schedule as it related to fiscal year 2020 basic financial statements. Additionally, SAO performed agreed-upon procedures and determined that the electronic submission of certain information to the U.S. Department of Housing and Urban Development's Real Estate Assessment center agreed with related hard copy documents.

Ms. Futch concluded her presentation, and thanked Mr. Cervantes and the Financial Administration staff, Mr. Mercadel and his staff, and Mr. Scott in Internal Audit for their assistance and cooperation throughout the audit and offered to answer any questions that the

Committee members may have. With no questions from Committee members, Mr. Thomas asked for a motion to approve recommendation to the full Board of the SAO's report. The motion was moved by Mr. Vasquez, and second by Mr. Braden. Motion passed.

Next Mr. Thomas moved to the first report item on the agenda; "Presentation and discussion of Internal Audit of the Information Technology (IT) General Controls at TDHCA", and was presented by Mr. Scott.

Mr. Scott explained how this unit rated high on the risk assessment matrix and was included in the approved fiscal year 2022 audit work plan, as the Internal Auditing Act requires periodic audit of an agency's information systems. IT General Controls are controls that apply to all systems, components, processes and data for a given information technology environment. The Internal TDHCA Information Systems Division staff deliver TDHCA and the Manufactured Housing division's technology with support from the Department of Information Resources (DIR).

Internal Audit reviewed the IT General Controls in place at TDHCA and found its processes require improvement to meet the ongoing strategic and operational goals and objectives of the agency. The findings and observations were primarily within categories of physical security, information security, IT governance, and change management. Management has agreed to our recommendations and provided anticipated dates for addressing those issues. The details of the findings and the recommendations are in the report. Internal Audit also recognized the unusual nature of the period under audit, starting in March of 2020 when the pandemic was recognized as a national and state disaster which probably contributed to some of these findings. Mr. Scott also discussed some of the significant accomplishment of the IT Division. They completed over 21,000 support tickets for fiscal year 2021, and they did a great job of creating and supporting the remote work environment. They put in multiple security enhancements and had to implement new program support for the Rent Relief program.

Mr. Scott then said that IT staff are present to answer any questions. Mr. Braden asked if this audit looked into cybersecurity, to which Mr. Scott responded yes, they looked at cybersecurity and I personally visited and looked at the installations and reviewed the firewalls. However, most cybersecurity are covered by DIR.

Mr. Vasquez asked if there is a clear delineation as to duties between the Department IT personnel, DIR and the Facilities Commission (TFC) as far as different physical securities. Mr. Scott said that he's aware of the issue that Mr. Vasquez is referring to and that it needs to be addressed and fixed by one of those parties, and Mr. Cervantes is also available to provide his comments. Mr. Cervantes, Director of Administration and chief financial officer, said that there's a

delineation and that the DIR is the umbrella or the statewide enterprise oversight group over IT policy as a whole. So there is delineation but in sense of oversight in respect to DIR.

There's a different situation with TFC. Their oversight is over building management and they're the lead for assisting us with building management. There's a reference in this report to the room that is being left open. TDHCA had made several attempts to communicate with TFC and DIR in terms of that room but we've some challenges to have them address exactly the reasons why that room remains open. Our next step is to do some outreach with them and documentation on our efforts to try to secure it better in the future. Mr. Scott clarified that the door to the mentioned room is not just unlocked, but it is actually left wide open, which seems to be due to lack of temperature control in that room that contains several of TDHCA's IT equipment.

The committee members discussed further some other possible options to address this issue. Next question from Mr. Vasquez was related to a security system audits by DIR. Mr. Cervantes said that the objective is to do an annual testing of TDHCA's security system with DIR. No other questions were presented by the Committee members. Mr. Wilkinson, Executive Director, thanked Internal Audit for a through look at TDHCA's IT group, as well as the IT team for their work in keeping up with the demands of the last couple of years. He also said he thinks this will be a good revenue session and they might be able to ask for some capital budget authority to add a few FTEs to the IT division and make some improvements.

Mr. Thomas then moved to the next report item on the agenda; "Presentation and discussion of Internal Audit of the Previous Participation Review (PPR) function", and the report was presented by Mr. Scott.

Mr. Scott explained how PPR was selected during the risk assessment process for FY 2022 annual audit plan. The PPR function's role is to conduct a review of the administrator sub-recipients and all affiliated and responsible parties of the developers, owners or sub-recipients that have applied for a new contract, requested a transfer, or are subject to the renewal of an existing contract. It include identifying any previous participation of the entity with TDHCA and any compliance performance with the state and federal laws that govern the programs at TDHCA. Based on our review, they're doing a good job with this process, and the function is operating effectively in ensuring compliance with appropriate rules and regulations in awarding new contracts, or renewing existing contracts.

We had a suggestion for efficiency related to how the files are kept and the management has agreed to our observation and are implementing new processes to updating the spreadsheet that identifies where the files and individual folders are located. Mr. Scott then offered to answer questions for the Committee members. Mr. Vasquez asked if there is a contract management database that could be used as opposed to a spreadsheet. Ms. Neda Sanjar, Internal Audit project

manager, explained the type of contracts and documents that are tracked on the spreadsheet, and confirmed that currently there's no database for those contracts. Mr. Homero Cabelo, Deputy Executive director of program controls, said that the information is pulled from the compliance database to see if they're in compliance with the program. If there are any unresolved monitoring findings or if they're not in compliance with the program rules, that data is then pulled and put into the spreadsheet. Mr. Vasquez asked a follow up question; does this spreadsheet generate any kind of report like a dashboard? Mr. Cabello said the dashboard report, if done, would be on an individual basis on applications that are received.

Mr. Wilkinson added that there are other more critical areas on Excel spreadsheets that's something we're looking to remedy this next session as much as we can to get more serious data solutions. With no other comments or questions the Chair moved to the third and last report item; "Report on the status of the Internal and External Audit activities", and was presented by Mr. Scott.

Mr. Scott started with the first external audit, which was presented earlier by SAO over Financial statements. He said that later this month the statewide audit which TDHCA is a component of, will be issued. This audit focuses on Federal financial assistance received by state agencies. There are two findings, one regarding IT General Controls primarily related to user access review, change management and vendor management, and the second finding is related to TDHCA regarding sub-recipient versus vendor designation in the Rental Assistance program. Also related to Rental Assistance program, the SAO is working on various fraud allegation cases that they either received directly or that we have forwarded to them.

So far on the annual audit plan we have completed the Previous Participation Review, and Internal Audit of IT General Controls. The next audits that we plan to conduct are the Texas Homeownership program, and the audit of the various inspection programs which includes the TDHCA Tax Credit properties. That concluded Mr. Scott's presentation on Internal and External audit activities.

With no questions from the committee Members, and no comments, Mr. Thomas thanked everyone for their participation and adjourned the meeting at 9:33am.



# Action Item

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**TO BE POSTED  
NOT LATER THAN  
THE THIRD DAY  
BEFORE THE  
DATE OF THE  
MEETING**

# Action Item

3

**TO BE POSTED  
NOT LATER THAN  
THE THIRD DAY  
BEFORE THE  
DATE OF THE  
MEETING**

# Report Item

1

**AUDIT AND FINANCE COMMITTEE REPORT ITEM**

**INTERNAL AUDIT DIVISION**

**June 16, 2022**

Presentation and discussion of Internal Audit follow up of the Physical Inspection section of Compliance Monitoring division at TDHCA, Report # 22-004

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS**

**A Follow up Internal Audit of the Physical Inspection section of the Compliance Monitoring division  
Audit Report # 22-004**

**Executive Summary**

The Office of Internal Audit (OIA) performed a follow up audit of the Physical Inspection section of the Compliance Monitoring division at TDHCA, its processes and procedures, vender management, as well internal controls and rules and regulations under which it operates. Based on our review and analysis, the Physical Inspection section at TDHCA seems to be operating effectively in monitoring properties and developments that are funded through TDHCA for compliance with all applicable rules and standards.

**Observations and Recommendations**

- OIA recommends that the Physical Inspections section revise and update all current SOPs to reflect current information to create consistency and efficiency for all parties involved.
- OIA recommends that the Physical Inspections section create a formal contract with On-Site Insight (OSI) that would:
  - Outline the roles and responsibilities of each party in avoiding any apparent or possible conflict of interest between OSI inspectors and TDHCA properties that they're assigned to inspect.
  - Ensure consistency in the performance of the inspections, as well as compliance with all applicable standards.
- OIA recommends that the Physical Inspections section management establish and document a training program and modules focused on requirements of each funding program in order to create consistency and reliability in the inspections that are being performed by the staff.

**Management Response**

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

**Objective, Scope and Methodology**

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 Standard Operating Procedures (SOPs) related specifically to Physical Inspection section and its processes. We also accompanied the Inspection manager on two of his inspection visits to observe his processes.

*Mark Scott*

*6/7/2022*

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

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Date Signed



## TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

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

Greg Abbott  
GOVERNOR

**BOARD MEMBERS**  
Leo Vasquez, *Chair*  
Brandon Batch, Member  
Anna Maria Farías, Member  
Kenny Marchant, Member  
Ajay Thomas, Member

June 7, 2022

Writer's direct dial: 512.475.3813  
Email: [mark.scott@tdhca.state.tx.us](mailto:mark.scott@tdhca.state.tx.us)

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

RE: FOLLOW UP INTERNAL AUDIT OF THE PHYSICAL INSPECTION SECTION AT TDHCA

Dear Board Members:

This report presents the results of the Office of Internal Audit ("OIA") "Follow up Internal Audit of the Physical Inspections Section of the Compliance Monitoring Division at TDHCA." 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.

Follow up Internal Audit of the Physical Inspections section 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. This audit was initially conducted in FY 2020, and a report was issued on August 14, 2020. However, due to scope limitations imposed by COVID19 pandemic, and interest expressed by Committee members, OIA planned to review this unit more comprehensively once the pandemic related restrictions were lifted. The division also had two changes of management in less than three years.

This report is divided into the following sections:

- A. Overall Results
- B. Background
- C. Scope and Methodology
- D. Parties involved in the Physical Inspections processes
- E. Funding Sources subject to Physical Inspections
- F. Inspection visits



## G. Other audit work

### A) Overall Results

Based on our review and analysis, the Physical Inspection section of Compliance Monitoring Division at TDHCA seems to be operating effectively in monitoring properties and developments that are funded through TDHCA for compliance with all applicable rules and standards.

### B) Background

The Physical Inspection section performs and administers inspections for developments monitored by the Department throughout the affordability period<sup>1</sup>. 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

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<sup>1</sup> 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.

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.

### **C) 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 Standard Operating Procedures (SOPs) related specifically to Physical Inspection section and its processes. Based upon our preliminary understanding of the Physical Inspections Section we identified critical points and risk, to develop our audit objectives and an audit program including methodology.

During the restrictions imposed by COVID-19 pandemic, the physical inspections of properties under TDHCA purview were limited to mid construction inspections for new constructions of multifamily properties with Direct Loan financing. Per HUD guidelines, these inspections were required to be completed as before. All other inspections were placed on hold for safety reasons. In addition, planned changes to key processes by management and major regulatory updates that were expected in early 2021, limited the scope of our initial audit in FY 2020.

A management change within the Physical Inspection section took place in February 2020, and was followed by another change in management in late FY 2021. The new Physical Inspection management has been focused on bringing all pending inspections up to date as fast as possible, while hiring and training new inspectors. Due to the volume of inspections that is required on annual basis, as well as the deadlines associated with some of the programs that funds those properties, the division contracts with an outside vendor, Onsite Insight (OSI), to perform some of the inspections. More details related to OSI are provided in a later section of this report.

### **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.

Since our last review of this section in 2020, the Physical Inspection Section management has worked on standardizing processes and documenting them into SOPs. During our follow up review we've verified that the division has created a new set of SOPs that outline the process of Physical inspection for different funding sources from initial steps of scheduling an inspection to post-inspection and follow up on findings and areas of non-compliance as applicable. However, we also have noted that some of the information, as well as processes, in the current SOPs are already outdated and need to be revised and updated to include the current processes and information.

Observation Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
22-004.01	OIA recommends that the Physical Inspections section revise and update all the current SOPs to reflect current information and to create consistency and efficiency for all parties involved.	September 30, 2022	Director of Compliance

**Management Response**

*Physical Inspection had a change in management in September of 2021 and some processes have been changed and/or been updated. Management is aware Standard Operating Procedures (SOPs) require updating and the process to identify outdated SOPs has begun. Additionally, Management has selected two senior inspectors to assist with this process. All SOPs will be updated immediately and this process is expected to be fully completed by September 30, 2022*

**D) Parties involved in the Physical Inspections process**

• **TDHCA Staff**

At the conclusion of this audit the Physical Inspections Section consisted of 15 staff, including the Manager and ten Inspections Specialists, operating under the Director of Multifamily Compliance. This team completes all the physical inspections of multifamily properties operating under one or more of the many TDHCA managed Programs. 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 UPCS inspections have to meet the standards of IRS §42<sup>2</sup>, Low Income Housing Credit Program. TDHCA's inspectors use UPCS4 software in calculating the property score and issuing a report after each inspection. The software is set up to calculate and produce a score based on the information and citations entered and according to IRS §42 standards. Properties that score 60 or below are placed on accelerated inspection schedule and are scheduled annually until their score improves and reaches 75 or more.

The inspection report, along with any identified deficiencies, will be sent to the property management no later than 45 days after the inspection date. The property management is required to submit an action plan to the Department within 90 days, unless they ask for extension which can postpone the deadline for another 90 days. Due to COVID-19 Pandemic, the IRS has extended this deadline for all properties until December 31, 2022<sup>3</sup>.

- **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 the specified time period.

The Department offers training sessions in the Uniform Physical Conditions Standards (UPCS) for property owners and their representatives to ensure compliance with all program requirements. UPCS training is co-sponsored by the Department's Inspection staff and either the Rural Rental Housing Association of Texas (RRHA) or the Texas Apartment Association (TAA). Focus is on the basics of the inspection protocol, common deficiencies, and corrections with an emphasis on helping property managers and staff prepare for inspections.

- **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 regulations through the Physical Inspections and periodic compliance monitoring reviews.

- **On-Site Insight inspectors**

UPCS, or Uniform Physical Condition Standards, are inspections that are performed every three years to ensure that the property's physical condition remains in compliance with the applicable standards. Due to the number of properties that are subject to periodic inspections, and the division's limited resources, TDHCA assigns some of its multifamily development physical inspections to its contractor On-Site Insight (OSI). The assignments are typically made after the Physical Inspections staff have

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<sup>2</sup> IRS §42 program provides tax incentives for investors to make equity investment. In exchange for equity, investors receive tax credits and other tax benefits associated with ownership of the project to offset federal income taxes for a ten year period.

<sup>3</sup> IRS Notice 2022-05

reached their maximum number of inspections for the year, and for UPCS inspections in areas that would be more cost effective to have the inspections performed by OSI inspectors. The division administers inspections performed by the OSI inspectors. The OSI inspectors submit their report, along with any possible findings, to the physical inspection division which is then responsible for issuing the report to the property owners and following up on citations and action plans as needed.

OSI uses a software to score the properties inspected by them before submitting their report to PI section. The software used by OSI is not the same as the one used by TDHCA, UPCS4, and was selected and purchased by OSI directly. The division does not have any assurance of its compatibility to UPCS4, or its compliance with IRS §42 standards. The current contract with OSI does not outline any guidelines for selecting the software used in the inspection process. This issue can create inconsistency in the inspection of properties under TDHCA purview.

The contract between TDHCA and OSI is renewed annually through a “Request For Proposal” (RFP) that is posted for public proposals by the procurement division. The contract with OSI has been renewed for the last several years after receiving their new RFP each year. The term of the current contract is due to expire on September 30, 2022. According to their RFP, OSI seems to outsource 100% of the inspections that are assigned to them by TDHCA.

In reviewing RFP documentation and the renewal process, we’ve noted that the current contract with OSI does not contain a clause related to the responsibility of monitoring and avoiding any possible conflict of interest between OSI inspectors and the TDHCA properties that they inspect. OSI appears to have a conflict of interest clause in their contract with their inspectors / sub-contractors related to OSI itself, but they do not have any policies in place for TDHCA properties. We also noted that the Compliance division has a policy in place that would prohibit the PI inspectors and Compliance monitors from inspecting any property that they’ve worked for in the last five years to avoid any appearance of conflict of interest.

Observation Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
22-004.02	<p>OIA recommends that the Physical Inspections section create a formal contract with OSI that would:</p> <ul style="list-style-type: none"> <li>a) Outline the roles and responsibilities of each party in avoiding any apparent or possible conflict of interest between OSI inspectors and TDHCA properties that they’re assigned to inspect.</li> <li>b) Ensure consistency in the performance of the inspections, as well as compliance with all applicable standards.</li> </ul>	October 1, 2022	Director of Compliance

## Management Response

Management has identified areas of improvement concerning the contractual relationship with On Sight Insight (OSI). Management will update its contract with (OSI), to outline roles, and responsibilities, timelines for inspections scheduling of inspections, payments and will address any conflict of interest between OSI inspectors and TDHCA properties. Management will ensure that OSI inspectors are trained within UPCS inspection protocols and complies with all standards and policies. Management will work with Financial Services and Legal Divisions, as needed, to ensure the contract is updated in the renewal contract by October 1, 2022

### E) Funding sources subject to Physical Inspections

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 property could be funded by one or multiple sources of funding, therefore it could be subject to multiple standards. All of the programs above, except for Single Family Housing Program, require an inspection of the property every three years throughout the affordability period. Single Family Housing Program are subject to inspection by TDHCA’s sub-recipients for initial and final inspections. Properties that have multiple sources of funding are subject to the most restrictive standards and requirements. The developers are required to submit an inspection report that shows compliance with all the applicable rules and regulations for their funding sources during the Construction Cost Certification process. An outstanding deficiency on the physical inspection report can delay this process and prevent the developer from completing their funding process.

Due to the pandemic and Governor’s issuance of disaster declaration on March 13, 2020, the Governing Board of TDHCA authorized the Executive Director to waive or extend certain construction inspection requirements as of May 21, 2020. This waiver has not be revoked as of the completion of this audit, however the Physical Inspections staff have resumed all regular inspections and are in the process of performing all inspections that have been pending since the waiver was issued in 2020. The division has hired two more inspectors recently to keep up with the volume of the inspections needed. The new inspectors need to be trained on different program requirements, including ADA (American with Disability Act) and HUD standards.

Observation Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
22-004.03	OIA recommends that the Physical Inspections section management establish and document a training program and training modules focused on requirements of each funding program in order to create consistency and reliability in the inspections that are being performed by the staff.	August 24, 2022	Director of Compliance

**Management Response**

*Management strives to adhere to the various program rules and regulations and to ensure consistency of work among the inspectors by implementing mandatory trainings and meetings. Management will create training materials for inspectors that focus on the requirements of each funding program Management has also scheduled a mandatory ADA, and Fair Housing training for all staff on August 22 -24, 2022*

## **H) Inspection visits**

To gain a better understanding of the Physical Inspection process, internal auditors accompanied the Physical Inspection manager on two of his scheduled inspections and shadowed him throughout his inspection process. The first inspection was a UPCS inspection for the phase two of a development in Austin area which consisted of four buildings. The inspection included review and inspection of the ADA accessibilities, fire sprinkler heads in each unit, fire extinguishers in the hallways and the leasing office, smoke detectors in each unit, as well as other items in common areas and the common amenities. The second inspection was the Final inspection for a Tax Credit development. This property was a single building with 65 total units, from which 55 units are under Low Income rent restrictions and ten units are rented at market rates. The property was fully occupied at the time of the inspection.

Prior to each of the visits the Physical inspection manager selected 10% of the units at each property to be inspected. He selected the units based on the occupancy report on CMTS. All of the units were occupied at the time of our visit and were under the programs administered by TDHCA. We noted that the sampling methodology was appropriate, and the selection process was done properly, which resulted in variety of units to be inspected representing different types of tenants. Although under the same program, the inside condition of some the units differed greatly from one to another based on each tenant. The manager inspected all of the units according to the same rules and standards.

A general observation related to the second inspection visit; this development was a newly completed property and the building structure was still in a very good shape. However, the conditions inside of each unit varied greatly. Some units were very organized and clean, while some were in need of cleaning.

In both visits the inspection process seemed to follow all of the applicable rules and requirements, and the inspector seemed very thorough in his review and evaluation of safety measures. The property representatives were responsive to all of the identified deficiencies that were brought up to their attention and seemed committed to correcting them as soon as possible.

## **I) Other audit work**

As stated in the introduction section of this report, the initial audit of the Physical Inspection section was performed in 2020 and a report was issued in August of that year. This review was focused primarily on the areas that were not reviewed during the initial audit due to restrictions imposed by COVID19 pandemic, as well as follow up to our observations and recommendations during the previous audit.



OIA extends our sincere appreciation to the Directors of Compliance and 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

NS / MS

# Report Item

2

**AUDIT AND FINANCE COMMITTEE REPORT ITEM**

**INTERNAL AUDIT DIVISION**

**June 16, 2022**

Presentation and discussion of Internal Audit of the Texas Homeownership Program, Report # 22-003

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS**  
**An Internal Audit of the Texas Homeownership Program**  
**Audit Report # 22-003**

**Executive Summary**

The Office of Internal Audit (OIA) reviewed the Texas Homeownership Program at TDHCA and found that it has been consistently successful in providing loanable funds to qualified individuals both when allocated through Single Family Revenue Bonds issue or via Taxable Mortgages. Since 2020, the Program has funded approximately \$5 billion in primary mortgages, down payment assistance and mortgage credit certificates, assisting 24,750 Texas homebuyers to purchase their own homes, with 98% buying a home for the first time.

**Program Accomplishments**

- On-boarded 28 new mortgage lending institutions with 10 additional lenders in process of approval and issued approximately 4,800 new user credentials to loan officers and other lender staff for access to the loan reservation portal;
- 52,497 Potential borrowers completed the TDHCA free, online Homebuyer Education Courses;
- Launched a monthly “Lender Lunch and Learn” series and provided specific programmatic training to approximately 2,200 lender staff (loan officers, processors, underwriters, closers, shippers, etc.);
- Trained over 400 Affordable Housing Specialist Realtors in collaboration with the Texas Association of Realtors from 2020-2022;
- Partnered with local Housing Finance Corporations (HFC) to assist with generating awareness of their homeownership options. Through the initiative, the HFC was able to assist homeowners in their jurisdiction by providing over \$112,000 in additional down-payment assistance;
- Launched a new dynamic website- [www.TheTexasHomebuyerProgram.com](http://www.TheTexasHomebuyerProgram.com). The website is mobile friendly and provides helpful tools for consumers, lenders, Realtors and housing counselors. Upgraded the Homebuyer Education portal with increased accessibility components for hearing impaired homebuyers and edited components explaining required FICO scores for Homeownership programs to reflect current guidelines; and
- Completed a comprehensive Strategic Marketing Analysis; currently integrating many of the suggested improvements to the Texas Homebuyer Program website as an ongoing project, including providing more targeted referral lists for Realtors and Lenders who are specialists in affordable home buying.

**Observations**

1. OIA recommends that segregation of duties between authorization, asset custody, recordkeeping, and reconciliation be maintained to ensure the Program meets its stated goals and objectives. Should these duties be combined in the future, additional compensating controls may be necessary to avoid undue risk to TDHCA.
2. OIA recommends that the TSHEP educational program be reviewed to determine strategy for implementation as in-person activities have resumed.
3. OIA recommends that the Program staff continue with its efforts to manage the tracking of the lender approval documents along with retention of the underlying files.
4. OIA recommends increased frequency of monitoring of reservations as they reach the amount determined by Bond Finance, coordinated with Texas Homeownership Program management. In addition, targeted area allocations should be reviewed consistent to the monitoring of loan reservations, at the same frequency.
5. Exceptions to stated policy and contract obligations should be tracked and analyzed to determine the number of exceptions and their impact so that appropriate changes may be made where necessary.
6. OIA recommends that management determine if the benefits of maintaining detailed records for loans on both the IHFA and TDHCA systems outweighs the costs of doing so. If not, then current resourcing could be allocated to more necessary tasks.
7. Due to the manual nature of the process, OIA recommends that the Division implement a secondary review of the MCCs prior to mailing.

### Observations (continued)

8. OIA recommends that the Procurement Division continue its efforts to improve the RFP process including monitoring of contract expiration dates, timing of RFPs, and training evaluators about their responsibilities within the process. Technological solutions should be considered.
9. Vendor management monitoring should be strengthened with a risk-based assessment of each contract and management decision on how the contract is monitored; then implemented as deemed necessary.
10. OIA recommends that the Texas Homeownership Program staff establish written SOPs for appropriate processes, signed and dated by management, for consistency and efficiency of the operation.

### Management Response

Management agreed with our recommendations. Detailed responses are included in the body of the report.

### Objectives, Scope and Methodology

OIA assessed current compliance with the Texas Government Code Chapter 2306 *Texas Department of Housing and Community Affairs* (TGC) and Texas Administrative Code (TAC) 1 Part 10, Chapters 27 *Texas First Time Homebuyer Program Rule* and 28 *Taxable Mortgage Program* (TMP); reviewed activities of the internal resources dedicated to the Program; validated the process of creating and mailing Mortgage Credit Certificates (MCC); evaluated vendor procurement, management and monitoring procedures; evaluated available Homebuyer Education courses; and reviewed current program specific Standard Operating Procedures (SOP).



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

6/6/2022  
Date Signed



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**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS**

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

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GOVERNOR

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June 6, 2022

*Writer's direct phone # 512.475.3813*  
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Board Members of the Texas Department of Housing and Community Affairs (TDHCA)

RE: INTERNAL AUDIT OF THE TEXAS HOMEOWNERSHIP PROGRAM

Dear Board Members:

This report presents the results of the Office of Internal Audit (OIA) "*Review of the Texas Homeownership Program*". This audit was conducted in accordance with applicable audit standards. It included the objectives to explain the structure of the Texas Homeownership Program, its use of vendors for key processes and to evaluate the administrative and internal control procedures related to this program.

The Texas Homeownership Program rated high on the risk assessment and was included in the approved Fiscal Year 2022 audit work plan due to lack of any prior audits by OIA.

This report includes the following sections:

- A. Audit results
- B. Background
- C. Scope and methodology
- D. Key Accomplishments of the Texas Homeownership Program
- E. Structure of the Texas Homeownership Program
- F. Processes and flow of transactions
- G. Testing and review
- H. Other audit work

## A) AUDIT RESULTS

OIA reviewed the Texas Homeownership Program at TDHCA and found that it has been consistently successful in providing loanable funds to qualified individuals both when allocated through Single Family Revenue Bonds issue or via Taxable Mortgages. Since 2020, the Program has funded approximately \$5 billion in primary mortgages, down payment assistance and mortgage credit certificates, assisting 24,750 Texas homebuyers to purchase their own homes, with 98% buying a home for the first time.

OIA assessed current compliance with the Texas Government Code Chapter 2306 *Texas Department of Housing and Community Affairs* (TGC) and Texas Administrative Code (TAC) 1 Part 10, Chapters 27 *Texas First Time Homebuyer Program Rule* and 28 *Taxable Mortgage Program* (TMP); reviewed activities of the internal resources dedicated to the Program; validated the process of creating and mailing Mortgage Credit Certificates (MCC); evaluated vendor procurement, management and monitoring procedures; evaluated available Homebuyer Education courses; and reviewed current program specific Standard Operating Procedures (SOP). Further details regarding testing procedures may be found in Sections E, F and G of this report.

## B) BACKGROUND

As the State's primary housing facilitator for the benefit of cost-burdened, low-income Texans, TDHCA provides financing to enhance the ability of Texans who would otherwise be unable to do so, to reach the dream of home ownership. Home ownership is the chief wealth accumulation vehicle for most Americans, so providing assistance in the form of low interest loans, down payment assistance, and reduction of federal tax liability (in the form of MCCs) to low and very low-income Texans can be transformative.

*TGC Section 2306.142 "Authorization of Bonds"* confers the authority to TDHCA to conduct and market the Texas Homeownership Program:

*"g) The department may use any source of funds or subsidy available to the department to provide credit enhancement, down payment assistance, pre-homebuyer and post-homebuyer counseling, interest rate reduction, and payment of incentive lender points to accomplish the purposes of this section in a manner considered by the board to be consistent with the reasonable financial operation of the department."*

TDHCA creates these opportunities by bringing together disparate investors, thereby spreading development and ownership risk across the market. By both issuing and acting as a conduit issuer for Mortgage Revenue Bonds (Bonds) as well as providing the Taxable Mortgage Program (TMP), TDHCA facilitates liquidity in the market in which these activities are funded. These funding sources allow for mortgage loans and down payment assistance; based on qualification of the buyer and product choice, the down payment assistance can range from 2-5% of the loan value.

There are four product offerings provided by the TDHCA Homeownership Program, noted by funding source:

- *My First Texas Home Program*: offers mortgage loan and down payment assistance opportunities to qualifying first-time buyers and veterans, including government 30-yr fixed rate mortgage loan options; funded through Bond issue.
- *Combo Loans with MCC*: qualifying homebuyers may combine a My First Texas Home loan with an MCC that reduces federal tax liability; funded by TMP for the loans and the US Treasury for MCCs.

- *My Choice Texas Home Program*: offers mortgage loan opportunities to qualifying first time and non-first time homebuyers, including government and conventional 30-yr fixed rate mortgage loan options; funded via the TMP.
- *Texas stand-alone MCC Program*: makes homeownership more affordable by providing first-time homebuyers, veterans and those who have not owned a home in the last three years, with an ongoing federal income tax credit for the life of the loan; funded by the US Treasury.

The Texas Homeownership Program staff fulfills the marketing function and advocates for the borrower by assisting all parties in finding the best fit for the specific borrower when necessary. The Bond Finance Division identifies and provides funding for the loans in the financial markets through Bond issue that supports the first time homebuyer products and the TBA (To Be Announced) market that supports the TMP, as described further below.

### **C) SCOPE AND METHODOLOGY**

Our scope included a review of applicable portions of the Texas Government Code Chapter 2306 *Texas Department of Housing and Community Affairs* and Texas Administrative Code 1 Part 10, Chapters 27 *Texas First Time Homebuyer Program Rule* and 28 *Taxable Mortgage Program*; TDHCA reports to the Board including those providing authority for single family revenue bonds; review of loan transactions for compliance to applicable rules; review of MCCs creation and mailing; vendor procurement and monitoring documentation; approval of participating lenders; and the Standard Operating Procedures of Divisions tasked with managing aspects of the Texas Homeownership Program. Based upon our preliminary understanding of the Texas Homeownership Program we identified critical points and risk, to develop audit objectives and a methodology reflected in the detailed audit program.

We reviewed the Texas Homeownership Program to determine the Program’s goals as well as the underlying processes, roles and responsibilities; we included the review of workflow between divisions and vendors. We reviewed the controls related to the Texas Homeownership Program and tested certain transactions and controls described throughout Sections E, F and G. The Texas Internal Auditing Act, Tex. Gov’t Code §2102.005 requires auditing of a state agency’s major programs and systems.

### **D) TEXAS HOMEOWNERSHIP PROGRAM ACCOMPLISHMENTS**

The Texas Homeownership Program was first codified by Texas Government Code in 1993 with various updates since that time. The Program is highly complex due to the layers of government oversight including the Internal Revenue Service, Department of Housing and Urban Development (HUD), and federally created entities such as Ginnie Mae and Freddie Mac, as well as Texas statute and rules and investor requirements. The number of partnerships that must be established and nurtured, as well as watching the markets for necessary adjustments by TDHCA, create additional intricacies that are unique to the Program and require financing expertise.

While activity has been fairly consistent over time, 2020 brought large increases to the Program due to the overall demand for housing during that time. The following is a list of accomplishments since 2020:

- Assisted 24,750 Texas homebuyers access The Texas Homebuyer Program by providing approximately \$5 Billion in first mortgages, down payment assistance and mortgage credit certificates;



- On-boarded 28 new mortgage lending institutions with 10 additional lenders in process of approval and issued approximately 4,800 new user credentials to loan officers and other lender staff for access to the loan reservation portal;
- 52,497 Potential borrowers completed the TDHCA free, online Homebuyer Education Courses;
- Partnered with local Housing Finance Corporations (HFC) to assist with generating awareness of their homeownership options. Through the initiative, the HFC was able to assist homeowners in their jurisdiction by providing over \$112,000 in additional down-payment assistance;
- Launched a new dynamic website- [www.TheTexasHomebuyerProgram.com](http://www.TheTexasHomebuyerProgram.com). The website is mobile friendly and provides helpful tools for consumers, lenders, Realtors and housing counselors. Upgraded the Homebuyer Education portal with increased accessibility components for hearing impaired homebuyers and edited components explaining required FICO scores for Homeownership programs to reflect current guidelines;
- Completed a comprehensive Strategic Marketing Analysis; currently integrating many of the suggested improvements to the Texas Homebuyer Program website as an ongoing project, including providing more targeted referral lists for Realtors and Lenders who are specialists in affordable home buying;
- Launched a monthly “Lender Lunch and Learn” series and provided specific programmatic training to approximately 2,200 lender staff (loan officers, processors, underwriters, closers, shippers, etc.);
- Trained over 400 Affordable Housing Specialist Realtors in collaboration with the Texas Association of Realtors from 2020-2022;
- Beginning in April 2021, Texas Homeownership staff was heavily involved with all aspects of the startup and design of the Homeowner Assistance Fund (HAF) including: assisting in the draft request to Office of the Governor; writing the first draft of the HAF Plan; establishing the HAF landing page on the TDHCA website; managing public notice and public comment for HAF plan; managing all incoming HAF calls and emails; requesting and monitoring the HAF inbox; promoting HAF initiative through numerous community engagement calls, meetings, visits, and webinars;
- Seamlessly transitioned Program staff from the normal in-office setting to remote working with no interruption to administration of program or level of responsiveness to program partners and consumers. Recently transitioned phone system to Jabber (a virtual phone system), which allows for straight-through access for customer service; and
- Integrated two new staff members in 2022 and implemented robust cross training for key functions, along with streamlining document retention systems and processes.

## E) TEXAS HOMEOWNERSHIP PROGRAM STRUCTURE

### • **Texas Homeownership Program Staff**

The primary focus of the Texas Homeownership Division (Division) is to advocate for the borrower by managing relationships with lenders, counselors, Realtors, and the vendors such as HDS/eHousing and Idaho FHA in order to make mortgage loans under the Bond and/or TBA programs and/or providing TDHCA MCCs. The Division generates public awareness of the TDHCA Homeownership options available in Texas. The programs have been marketed historically through a variety of outreach programs including direct calls, participation in homebuyer fairs and consumer events, specialized training for participating lenders and Texas Realtors, and industry trade shows and publications. During COVID, these outreach campaigns were inaccessible in-person; however, staff was able to participate in web based marketing events, homeownership fairs, State and National conferences and assist in initial HAF program community engagement efforts while simultaneously marketing the Homeownership Program and reaching areas that may not have been accessible before.

The technology and adaptation of new software provided by the Information Systems Division, staff was better equipped and even more accessible during the influx of demand during 2020 and into 2021.

The Division is composed of four employees that include one Director and a Business Development Officer; these positions are the primary outward view of the Division and are heavily involved in, including but not limited to: Program and product changes; training the entities bringing in loans including lenders, counselors, and Realtors; managing processes such as lender approvals and MCCs; and coordinating closely with the Bond Finance Division and other parties to monitor the financial and operational aspects of the Program. The team also has two support staff primarily focused on administration that includes customer service functions such as calls from the toll-free Texas Homebuyer hotline and answering the Texas Homebuyer dedicated email; creating and mailing MCCs; gathering and storing lender approval documentation; and posting rates to the Texas Homebuyer website, among other administrative duties.

Division staffing has remained constant despite the large increase in volume over the audit period and complexity of the Program since inception. According to Division management, the size and structure of the team are comparatively smaller than other state Housing Finance Authorities. Management could consider the Program's structure as it relates to vendors and internal resourcing to explore various options for administering and marketing the Program to reach more potential homebuyers.

- **TDHCA Bond Finance Division**

The Bond Finance Division consists of five employees, which includes the Director of Bond Finance (at the start of this audit, the title was Chief Investment Officer; the current position is vacant), Manager of Bond Finance, and three Senior Financial Analysts. The responsibilities and authority of the team includes, but is not limited to: providing financing of the Texas Homeownership Program through the Single Family Revenue Mortgage Bond, Taxable Mortgage Program and MCC Programs; managing the bond indenture and funds; managing down payment assistance Programs; working with outside bond counsel, financial advisors, investment bankers, and bond trustees in the issuance of Bonds; management of funds and programs; setting mortgage rates; and managing vendor relationships.

Both the Texas Homeownership and Bond Finance Divisions receive a contribution to their budgets from the excess funds from the indentures; therefore, the volume of TMP transactions can affect the amounts available for that purpose.

- **Lenders**

Banks, mortgage companies and other authorized entities are the conduit by which the single family loans are originated. These entities must file certain legal documentation with TDHCA and be approved by the Master Servicer to be listed on the TDHCA Texas Homebuyer Program website and authorized to lend funds under the Texas Homebuyer Program. TDHCA provides training and product expertise to the lenders, thereby assisting in the lenders meeting certain requirements through the Community Reinvestment Act (CRA). The CRA encourages certain insured depository institutions to help meet the credit needs of the communities where they are chartered, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of these institutions.

- **Counselors**

These individuals are financial counselors who provide information and assistance to individuals looking to improve their financial situation. TDHCA partnered with NeighborWorks America, a nationally recognized organization, to administer the Texas Statewide Homebuyer Education Program (TSHEP) prior to the

Pandemic. The goal of this program has been to teach local nonprofit organizations the principles and applications of comprehensive pre- and post-purchase homebuyer education; it also served as the method by which TDHCA certified participants as providers and allow them to be listed on the externally facing Texas Homebuyer Program website.

- **Realtors**

Any licensed Texas Realtor may participate in the Texas Homebuyer Program and assist their clients in finding homeownership; however, to be listed on the Program's website, they must complete Continuing Education courses as defined by the Texas Homeownership Program staff.

- **Issuer**

TDHCA is the issuer of Bonds for the primary purpose of providing funds for the origination of low cost mortgage loans to first time homebuyers. Those loans are packaged into mortgage-backed, pass-through certificates guaranteed as to timely payment of principal and interest by either the Government National Mortgage Association (Ginnie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac) or the Federal National Mortgage Association (Fannie Mae), which represent beneficial ownership of pools of the Mortgage Loans originated under the Program. These pass-through mortgage backed securities are held in the master trust indentures utilized for the MBS program.

- **Trustee**

The Trustee is the entity responsible for managing the Trust Estate under the indenture. The Trustee administers the funds or property specified in the indenture in a fiduciary capacity on behalf of the bondholders. Currently the Department's Trustee for single family bonds is Bank of New York Mellon.

- **Master Servicer**

The Master Servicer is a loan servicer that purchases, services and pools into mortgage backed securities, mortgage loans originated through the Department's Texas Homeownership Program. The Master Servicer issues the mortgage-backed securities through Ginnie Mae, Fannie Mae, or Freddie Mac. Currently, the Department's Master Servicer is Idaho Housing and Finance Association (IHFA).

The Master Servicer must be approved by Fannie Mae and Freddie Mac to sell and service conventional mortgage loans, and must meet all of the eligibility requirements, including current net worth requirements. In addition, on a monthly basis, the Master Servicer will provide TDHCA with an invoice setting forth the details of the amounts due to the Master Servicer, if any. Amounts due to the Master Servicer, after netting amounts owned by the Master Servicer to TDHCA, are paid by the relevant indenture.

- **Program Administrator**

The Program Administrator is the entity responsible for completing the Compliance Review (specifically for TDHCA's rules regarding the Program) of loan documentation and requirements after closing with selected lenders. Currently the Department's Program Administrator is HDS/eHousing. HDS/eHousing is responsible for onboarding and training lenders regarding TDHCA's Program compliance requirements. The various lenders complete the initial testing of the borrowers' eligibility to participate in the Program. HDS/eHousing verifies that the lenders have gathered the appropriate documentation that evidences borrower eligibility. TDHCA monitors eHousing's records on a periodic basis by Program and Bond Finance Division staff.

- **TBA Provider**

TBA stands for “To Be Announced” and is a private sector mortgage brokerage model whereby a party, the TBA Provider, commits to a price, based on a mortgage rate, for mortgage backed securities to be issued in the future and backed by mortgage loans not yet originated. Price commitments are typically reset each day, unless significant market movements occur, in which case the TBA Provider publishes a new price and rate sheet. Currently the Department’s TBA Warehouse Provider is Hilltop Securities.

The TBA program is designed to improve liquidity. Because of the speed of its execution of transactions, the TBA program does not involve the same degree of risk involved in the MBS market; within the TBA provider agreement, the Department’s TBA provider accepts both interest rate and delivery risk, thereby protecting the indentures. Mortgages can be delivered in a to-be-announced package; and there are criteria set by the parties, which TDHCA has determined will mirror the IRS requirements for MBS loans.

- **Warehouse Provider**

The Warehouse Provider is responsible for providing funds to the Master Servicer (IHFA) for the purchase of Mortgage Backed Securities (MBS) that will secure single family mortgage revenue bonds issued by the Department. The Warehouse Provider sells the same MBS to the bond Trustee (Bank of New York Mellon) as instructed by the Department, typically concurrent with issuance of the Bonds. Currently the Department’s Warehouse Provider is Hilltop Securities.

At the beginning of this audit, the Texas Homeownership Division reported to the Chief Investment Officer along with the Bond Finance Division. These reporting relationships created ownership of the entire process of administering the Texas Homeownership Program without segregation of duties including authorization, custody of assets, recording of transactions and reconciliation activity.

When reviewing the Program, OIA also identified vendor relationships that could be problematic from a segregation of duties control standpoint. Specifically, the Master Servicer, TBA Administrator, and Program Compliance should be separated; if one vendor manages any two of these functions, the segregation of duties would be diminished and create additional risk to TDHCA. For example, if the same vendor were to act as both TBA Administrator and Program Compliance, the vendor would have both authorization of the loans and custody of the underlying assets within the TBA structure. See **Exhibit A** for a visual representation of the current vendor relationships for the Program. See **Exhibit B** for additional guidance regarding segregation of duties.

Observation Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
22-003.01	OIA recommends that segregation of duties between authorization, asset custody, recordkeeping, and reconciliation be maintained to ensure the Program meets its stated goals and objectives. Should these duties be combined in the future, additional compensating controls may be necessary to avoid undue risk to TDHCA.	8/31/2022	Deputy Executive Director of Program Controls and Oversight

**Management Response:**

*Management will evaluate to determine appropriate segregation of duties and controls.*

## **F) Processes and Flow of Transactions**

### ***Homebuyer and Counselor Education***

One of the primary functions of the Texas Homeownership Program staff is to provide homebuyer education to both potential borrowers and the counselors who assist them. The counselors play an important role in the Program by working with potential borrowers to determine feasibility of applying to the Program. Their interest is focused completely on the borrower and their specific situation as to what options are available to them. Along with the lenders and Realtors, these individuals use the Program’s marketing materials and resources to advise borrowers about the various loans and down payment assistance for which they could qualify.

In 2021, Program staff implemented a new website, [www.TheTexasHomebuyerProgram.com](http://www.TheTexasHomebuyerProgram.com) that presents resources for potential homebuyers, counselors, lenders and Realtors. The website is the home of the Texas Homebuyer University courses for learning about mortgages and Mortgage Credit Certificates. The general homebuyer education course (“Becoming a Homeowner”) includes important topics such as the advantages of homeownership, lender credit requirements, qualifying income levels, and details of how mortgages work. The MCC course outlines the benefits of the credit, how it can be used to offset income tax liability, and limits upon its use (such as recapture provisions).

Borrowers are required by the Program to obtain homebuyer education to apply for a loan, down payment assistance, and/or MCC; along with TDHCA’s Texas Homebuyer University courses, the Program accepts other accredited training such as from a HUD certified counselor. Ongoing homeownership education and counseling for the borrowers is offered by IHFA.

The Texas Statewide Homebuyer Education Program (commonly known as TSHEP) was codified in TGC Section 2306.253 in 1997. The Code states:

*“(a) The department shall develop and implement a statewide homebuyer education program designed to provide information and counseling to prospective homebuyers about the home buying process.”*

Historically, the Department has employed TSHEP as a five day, in-depth training and discussion in partnership with NeighborWorks, a nationally recognized organization that also includes a large network of counselors. The training sessions are focused to “train-the-trainer” to maximize impact of the training investment. The courses had been highly successful in generating interest and knowledge of the TDHCA Homeownership Program.

Observation Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
22-003.02	OIA recommends that the TSHEP educational program be reviewed to determine strategy for implementation as in-person activities have resumed.	8/31/2022	Texas Homeownership Division

### **Management Response:**

*Historically, through various Divisions, TDHCA has met the statutory requirements of 2306.253 through the Texas Statewide Homebuyer Education Program (TSHEP). The Division assumed the role from the Housing Resource Center of overseeing TSHEP and has had tremendous success in training hundreds of counselors through the years. In 2016, the Division launched Texas Homebuyer U, offering free online homebuyer education courses*

available in both English and Spanish. The “Becoming a Homeowner” online homebuyer course aligns with the National Industry Standards for Homebuyer Education and Counseling. Additionally, Texas Homebuyer U offers a course specific to the benefits and responsibilities of a Mortgage Credit Certificate. Approximately 100,000+ potential homebuyers have completed the trainings since inception. It is important to note that by offering an online platform we have been able to expand access to homebuyer education statewide and to the least likely to apply. It has been determined by TDHCA that through the availability of this online course, statutory requirements of 2306.253 are met. Although in-person activities have resumed, many organizations have adapted and shifted to virtual events and acknowledge a higher outreach all over Texas since it is more accessible for both organizers and the attendees. Virtual methods have proved to be efficient and to have expanded reach and reduced costs. It has become in many instances a replacement to in-person activities in difficult to reach areas where the least likely are to apply. Staff will re-evaluate if in person courses are needed.

### **Mortgage Lender Participation**

The Texas Homeownership Program staff is tasked with generating awareness of the Program among mortgage lenders through marketing and other outreach activities. eHousing coordinates closely with the Division to provide detailed training as necessary, as well as answering lender calls and questions. Recently, the Division implemented webinar-based, interactive “Lender Lunch and Learn” sessions to enhance outreach to the lenders, especially during the time of the Pandemic and massive increase of activity during 2020-21.

Any qualified lender can participate in the Program if they meet the established requirements and guidelines. The mortgage lender approval process is a shared process between TDHCA and Idaho FHA. Interested mortgage lenders are required to submit an IHFA Lender Approval Packet directly to IHFA along with the TDHCA Lender Application Packet submitted directly to TDHCA.

The TDHCA Packet includes the Application to Participate in the Program, Master Mortgage Origination Agreement and/or Master MCC Program Participation Agreement, Lender Form of Board Resolution, the Lender Opinion of Counsel, and a confirmation of the IHFA Lender Application submission. Final TDHCA approval is given once IHFA determines that the lender meets the requirements of transferring the loan to IHFA to prepare it for securitization within resulting Mortgage Backed Securities.

Once all the documents are submitted and reviewed, TDHCA notifies the Applicant and informs eHousing of their approval of the new participating lender. eHousing is in charge of setting up any necessary system access, forms, and training for the lender.

OIA reviewed lender Program participation documentation to verify approvals as noted above. We used a random number generator to select 25, or 10%, of the lenders listed on the Approved Lenders list from the eHousing website; we tested to verify that all required documentation was in place with TDHCA. Test results indicated several inconsistencies in retention of the files; however it should be noted that there was a transition of the paper documents to digital that had not been completed and in process. In addition, as the Division recertifies the lenders annually, the documentation is being brought up to date through the recertification process.

OIA also tested loan transactions to ensure the loans were originated by approved lenders by comparing the lender name to the Approved Lender list on the eHousing system. No exceptions were noted in this testing.



Observation Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
22-003.03	OIA recommends that the Program staff continue with its efforts to manage the tracking of the lender approval documents along with retention of the underlying files.	8/31/2022	Texas Homeownership Division

**Management Response:**

*Beginning in February 2022, the Division began to implement a new electronic tracking mechanism that will be included in the updated SOP. In addition to eHousing training, the Division includes an additional layer of one on one lender onboarding training on specific Division processes, procedures and loan guidelines, once a lender has been approved.*

***Loan Reservation and Program Compliance***

Once the borrower has applied for a loan with an approved lender, the lender reserves the loan within the eHousing system. These reservations are tracked and reported by eHousing; balances by loan type and Bond tranche are readily available to authorized users online. At the point of reservation, eHousing gathers the required compliance documentation to ensure adherence to Program rules such as verifying first time homebuyer status (as applicable), affidavits regarding occupancy and use, and that income as well as home purchase price are within prescribed limits.

OIA noted that during the audit period, there was an unexpected overage on the loan reservation for the Program 99 Bond (P99) allocation. Every bond issue is over reserved by at least 20% to ensure all funds are utilized. Because loans take several months to move through the pipeline, managing the level of reservations for each bond program is a balancing act between over and under reservations. If too many loans are reserved, additional loans are delivered into the next bond transaction or through the TMP Program. If too few loans are reserved, bonds will be called from unexpended proceeds; investors view an unexpected bond proceeds redemption negatively, and this will impact future bond sales. To reduce the risk of calling bonds, each bond program is routinely over reserved approximately 20% based on historical pipeline cancellation rates, as directed by the Bond Finance Division.

At the beginning of the reservation period for P99, allocations were established within the eHousing system to accept an additional 20%. Every Wednesday, the Bond Finance Division reviews the pipeline, prepares projections and emails the summary analysis to Bond Finance, Homeownership, and the Department’s financial advisors. In this case, over reservations on P99 above the established 20% threshold were from the rapid and significant increase targeted area demand and the requirement to fulfill those reservations at P99 mortgage rates after the regular allocation was fully reserved. This situation had not occurred in the past due to more stability in interest rates. Targeted area allocations are managed in accordance with guidance from counsel to comply with federal regulations; this guidance is reviewed with each Bond transaction.

The Department’s continuous funding model allows the flexibility of delivering loans into either the TMP or Bond Programs. Due to the rapid rise in market interest rates, it is more efficient and to the benefit of TDHCA’s

borrowers to settle lower rate targeted area loans through the bond program rather than the TMP Program. The P99 targeted area loans will be purchased with bond proceeds from Program Bond 100 (P100). The offset of lower rate targeted area loans will be absorbed within the Bond indentures; mortgage rates for P100 remain below those offered through the TMP program.

Given the need to make decisions based on market conditions, and that volatility can happen at any time, management could consider additional sensitivity analysis to help guide decisions going forward.

Observation Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
22-003.04	OIA recommends increased frequency of monitoring of reservations as they reach the amount determined by Bond Finance, coordinated with Texas Homeownership Program management. In addition, targeted area allocations should be reviewed consistent to the monitoring of loan reservations, at the same frequency.	Complete	Bond Finance Division

**Management Response:**

*The Bond Finance Division agrees to increase the frequency of pipeline reporting from once weekly to at least twice weekly when a program is 75% reserved, and will continue to distribute the pipeline analysis to management. Targeted area allocations will continue to be reviewed with counsel for each bond transaction and reservations will be monitored accordingly.*

OIA used a random number generator to select sample of loans on the eHousing compliance system for the 2021-22 period and reviewed both the system information and underlying documents for compliance to the TAC rules for all products. Borrowers’ occupations included teachers, state employees, police officers, and construction workers, revealing a wide range of livelihoods of the persons served by the Program. No exceptions to compliance testing were noted.

During the sample testing, and per review of the Texas Homebuyer email inbox, OIA noted that occasionally exceptions are made that include but are not limited to: the one acre requirement stated in the Master Mortgage Origination Agreement (this is steadily increasing as more borrowers access manufactured homes due to the large increase in Texas home prices); working with lenders and IHFA for debt-to-income ratios over the limit of 55% (where IHFA has the final decision due to investor requirements); and omission of documentation for homebuyer education.

Observation Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
22-003.05	Exceptions to stated policy and contract obligations should be tracked and analyzed to determine the number of exceptions and their impact so that appropriate changes may be made where necessary.	8/31/2022	Texas Homeownership Division



**Management Response:**

*The Division self-identified and implemented a process to retain exemption requests. Through this process the Division will analyze for potential trends and recommend policy updates as needed.*

***Loan Purchase and Administration by Master Servicer***

IHFA determines compliance of the loans post-closing to ensure that the loans can be packaged into the MBS pass-through securities. Once approved, these loans are loaded onto the IHFA system, HomeLoanServ, and serviced throughout the life of the loan. It should be noted that if the loan is not approved for purchase, the lender is not reimbursed for that loan and must retain or otherwise dispose of the loan. Since the lenders are to underwrite based on Agency guidelines, TDHCA holds them responsible for this requirement through the IHFA purchase review and approval process. Per management, this situation happens rarely and IHFA works with the Division as well as the lenders to clarify and address it.

IHFA provides customer service and counseling for the borrowers as well as processing payments and other transactions such as loan payoffs, managing escrow balances, and handling delinquent accounts for both first lien mortgages and any down payment assistance loans.

While reviewing the process for loan servicing, OIA found that there are duplicative processes occurring specifically for the TDHCA owned down payment assistance loans. Since 2016, monthly, IHFA provides a spreadsheet to TDHCA for all new loans, payments, and payoffs. Prior to upgrade in 2021, the TDHCA Loan Servicing Division handled all input into MITAS (TDHCA’s loan servicing system) manually. During the upgrade, MITAS automated a portion of the input through system uploads, although not all manual activity has been eliminated. There is a monthly reconciliation between the two systems, HomeLoanServ and MITAS. Review of these reconciliations and discussions with staff revealed that the differences are small and usually timing differences.

The Bond Finance Division stated that the decision was made to further protect the interest of the bondholders since the DPA loans are held in trust. However, the Bond Finance Division takes data directly from the IHFA system for its financial analysis rather than from the internal TDHCA system (MITAS). Financial Administration stated that because the TDHCA down payment loans are held as assets in the Trust, as opposed to the first lien mortgages that are securitized and sold, that there is a need to have the loans processed through MITAS and the accounting system. It seems that loan detail could remain on the system of record, the IHFA HomeLoanServ system, with the balances input to the accounting system thereby eliminating the need for detail-level duplicate processing.

Observation Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
22-003.06	OIA recommends that management determine if the benefits of maintaining detailed records for loans on both the IHFA and TDHCA systems outweighs the costs of doing so. If not, then current resourcing could be allocated to more necessary tasks.	1/31/2023	Director of Financial Administration; Manager of Loan Servicing

**Management Response:**

*Financial Administration and Loan Servicing will collaborate to evaluate the monitoring and reconciliation processes of down payment assistance to determine if utilizing only an outside source for loan activity will create any significant risks for the Department that will outweigh any efficiencies.*

***Mortgage Credit Certificates***

Mortgage Credit Certificates (MCCs) are reserved and reviewed for compliance by the eHousing staff. These certificates are generated monthly through a process by which eHousing provides a spreadsheet with the required information to TDHCA; the Division takes these files, manually changes all social security numbers to the last four digits; then creates a cover letter and the MCC in-house. The reason for this exception process is that eHousing does not include any part of the social security number on MCCs for any other client due to privacy concerns. Bond counsel has determined that at least the last four digits are required per the IRS.

When reviewing the sample of MCCs selected, OIA found no exceptions regarding the information that is provided on the documents. However, we did note that the process is completed by one party without independent review by another individual. Since the process is manually intensive, and the data must be changed on the file before the documents are generated, an independent review would be useful.

Observation Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
22-003.07	Due to the manual nature of the process, OIA recommends that the Division implement a secondary review of the MCCs prior to mailing.	8/31/2022	Texas Homeownership Division

**Management Response:**

*The Division agrees and will initiate a quality assurance process for MCC Issuance. The SOP will be updated to reflect the new quality assurance process.*

***Vendor Procurement and Monitoring Procedures***

Because vendor relationships are critical to the Texas Homeownership Program’s success, it is paramount to take great care in the Request for Proposal (RFP) process. Proposals are requested at an interval determined by management. OIA reviewed the most recent RFPs solicited for the three functions currently filled by vendors: Program Compliance (eHousing), TBA / Warehousing (Hilltop), and Loan Servicing / Investor Compliance (Idaho FHA). OIA also reviewed the monitoring procedures in place for these vendors addressing ongoing and daily activity; monthly and annual reviews; and audit or contract compliance activity.

Based on our review, it appears that the RFP process should be reviewed to enhance transparency and adherence to the process. One of the RFPs reviewed did not have nepotism or Conflict of Interest forms on file; there were errors in the scoring process that were not caught through multiple reviews by different Divisions; and the team did not seem to fully understand the rules and requirements of the evaluation team.

This situation appeared to be impacted at least partially by staff turnover, but additionally there is not a centralized database tracking the various contracts managed by TDHCA so that RFPs can be planned well ahead of the contract expiration dates. Reliance is placed on the Program areas to initiate these RFPs, so that the Procurement area is in reactive mode to post the information and manage the process, which should be expected to take around six months. Discussions with management revealed that there may be a Department of Information Resources approved technological solution available utilized by several State agencies; however priority and resources have not been allocated to analyze and implement such a solution. The Procurement Division has recognized these concerns and is updating procedures to address them.

Vendor oversight and monitoring, especially in this particular Program, is critical to ensuring that vendors are performing all contract obligations and to be aware of and address any developing problems or issues. As stated in Statewide Procurement Division documentation,

*“Agencies should implement a monitoring system that has well-defined follow-up actions. The results of monitoring efforts should be periodically reviewed by the Contract Manager to*

- *Ensure corrective actions have been taken,*
- *Identify common problem areas that might require training, and*
- *Improve contract requirements for future contracts.*

*Agencies may select from different monitoring methods including desk reviews, site visits, and third-party monitoring. Other monitoring methods include status telephone calls, expenditure document review, spot audits, and scheduled audits.”*

For the three vendors currently in place, OIA reviewed the process of monitoring the vendors:

- Idaho FHA and Hilltop: status calls, activity reports (daily and monthly), and consistent communication amongst the parties were the primary methods utilized.
- eHousing: status calls, activity reports (accessible on the eHousing system), consistent communication amongst the parties existed as well as a desk review or onsite visit performed by the Division on a biennial basis.

Because of TDHCA’s heavy reliance on these vendors, they pose risks regarding performance as well as information security and privacy. TDHCA could partially mitigate these risks by requesting Service Organization Control Reports (commonly called SOC reports) applicable to the vendor’s processing and reviewing them for any issues and complementary user entity controls. Applicable SOC reports take care to point out what controls must be in place at TDHCA in order to rely on the vendor’s controls.

Currently this type of monitoring is being done to some degree in the Financial Administration and Information Systems Divisions; however not all high-risk vendors are considered nor are these procedures applied to them. TDHCA depends on many different vendors to implement various aspects of the Department’s Programs and activities; in the past two years, the reliance on vendors has increased and is expected to continue. In order to appropriately manage the risk presented by the management of these vendor contracts, procurement (pre-award) and monitoring (post-award) procedures should be strengthened to more completely manage and report performance of the vendors.

Observation Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
22-003.08	OIA recommends that the Procurement Division continue its efforts to improve the RFP process including monitoring of contract expiration dates, timing of RFPs, and training evaluators about their responsibilities within the process. Technological solutions should be considered.	12/31/2022	Manager of Financial Services
22-003.09	Vendor management monitoring should be strengthened with a risk-based assessment of each contract and management decision on how the contract is monitored; then implemented as deemed necessary.	12/31/2022	Manager of Financial Services

**Management Response:**

*The Procurement Division will continue its efforts to monitor contract activity in order to advise business users regarding the timing of upcoming RFPs. It will also evaluate the RFP process to implement guidance to business users on how to establish processes that will facilitate their contract monitoring to provide feedback to the Procurement Division.*

**G) TESTING AND REVIEW**

As part of the audit, OIA held multiple interviews with management and staff and reviewed samples of transactions selected either randomly or judgmentally based on the ability to stratify and normalize the population. Transactions included those in the lender approval, Mortgage Credit Certificate, and loan compliance (to Program rules). Detailed transactions were reviewed for timely monitoring and resolution within the various options by tracking them within the processes noted above, ensuring appropriate authorization and verification at key control points. In addition, as noted in Section B, OIA reviewed applicable Texas Government Code and Texas Administrative Code, as well as Division level SOPs to confirm uniformity. Based on our reviews the Texas Homeownership Program is accomplishing its overall mission of facilitating (primarily first time) home ownership for low- and moderate- income households.

An SOP defines expected practices in a process where quality standards exist and plays an important role in any 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. In our review we noted that the Texas Homeownership Division did not have current SOPs in place.

Observation Item Number	Status Pertaining to the Observations and Actions to be Taken	Target Completion Date	Responsible Party
22-003.10	OIA recommends that the Texas Homeownership Program staff establish written SOPs for appropriate processes, signed and dated by management, for consistency and efficiency of the operation.	8/31/2022	Texas Homeownership Division

**Management Response:**

*The Division is currently working on updating existing policies and procedures that are consistent with new processes and to clarify current operations.*

**H) OTHER AUDIT WORK**

OIA has conducted audits of Bond Finance (2017), the Management of Non-Performing Loans (2021) that OIA utilized in the context of reviewing the Texas Homeownership Division. TDHCA contracts with the Texas State Auditor's Office (SAO) to conduct annual financial statement audits of the Revenue Bond Program and the Agency as a whole. The latest audit was issued in December 20, 2021, and stated that the financial statements were presented in accordance with Generally Accepted Accounting Principles (GAAP).

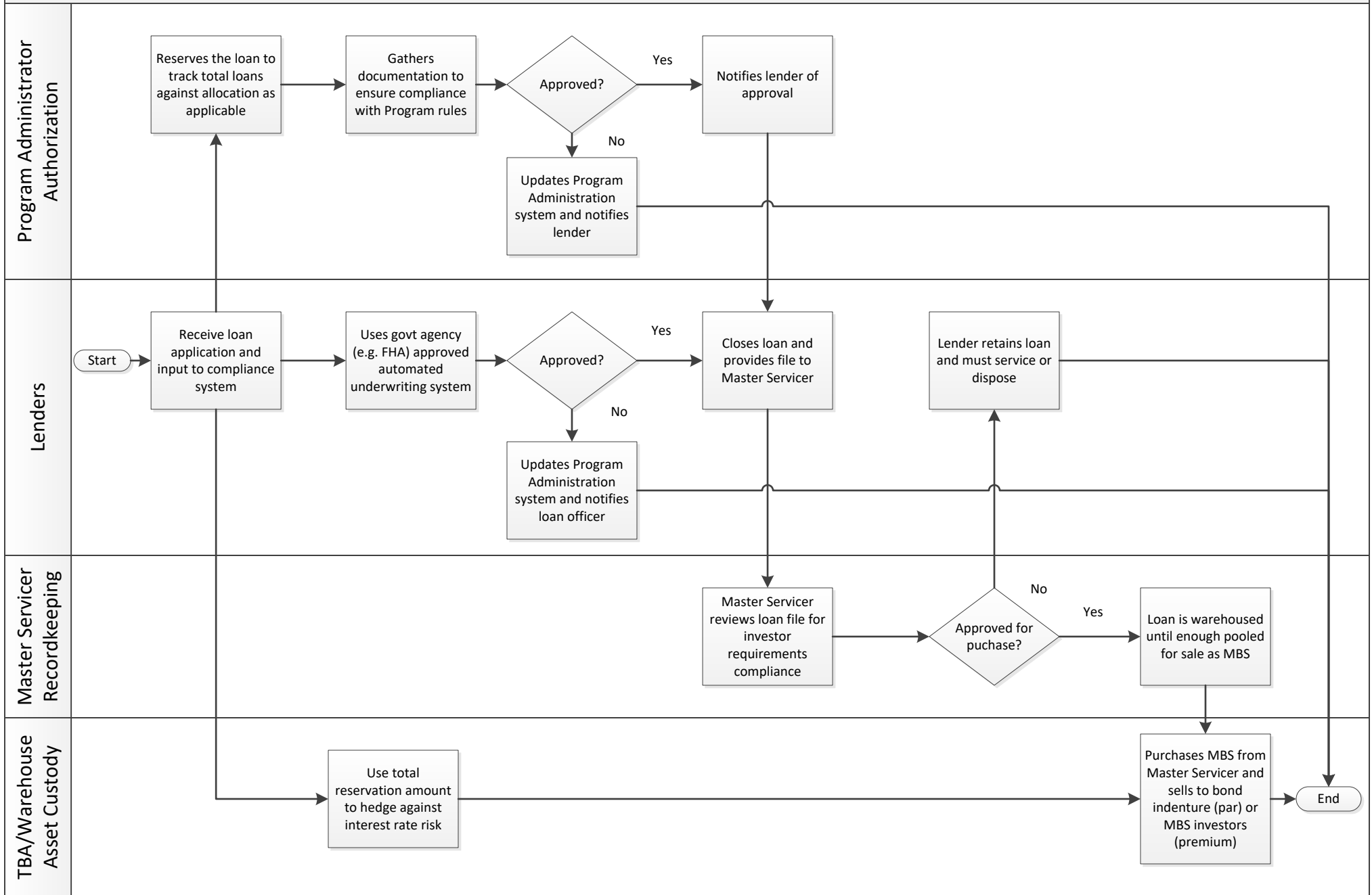
OIA extends our sincere appreciation to the Texas Homeownership Division, Bond Finance Division, the Legal Division and the Financial Administration Divisions for their cooperation and assistance during the course of this audit.

Sincerely,



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

MS,SN



Note: TDHCA Bond Finance Division fulfills the reconciliation function.

## What is Segregation of Duties?

Segregation of Duties (SoD) is an internal control measure that all organizations should adopt to stop error and fraud, and is especially important when complying with regulations like the US Sarbanes-Oxley Act of 2002 (SOC). SoD ensures that more than one person carries out the tasks required to bring a sensitive business process to completion.

An employee with multiple functional roles within an organization can exploit their knowledge and power. This is why SoD should be a key part of any effective risk management approach in any enterprise.

A basic principle of SoD is that one person should never be responsible for any complete business task, when that task has an implication on the company's security, financials, or financial reporting. For instance, one person can make an order from a supplier, but a different person needs to record the transaction for that order. This dramatically reduces the risk of fraud—for example, by preventing individuals making illicit orders and then failing to report the transactions, or reporting them with the wrong value.

## Examples of Roles that Require SoD

Here are a few organizational roles that commonly require segregation of duties:

- Record keeping roles—individuals who create and maintain financial records for an organization's transactions must be segregated from issuing or approving those transactions.
- Authorization roles—individuals who evaluate and approve transactions should be segregated from recording, reconciling, or reviewing those transactions.
- Asset custody roles—individuals who manage or access physical assets like inventory or cash, should not also be responsible for recording inventory, reconciling bank accounts, or approving transactions.
- Reconciliation roles —individuals who control and check that transactions have been correctly completed should be segregated from requesting or approving transactions.

# Report Item

3



**AUDIT AND FINANCE COMMITTEE REPORT REQUEST**

**INTERNAL AUDIT DIVISION**

**June 16, 2022**

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

**Verbal Report**