

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
An Internal Audit of the Program Services division at TDHCA,
Audit Report # 24-002

Executive Summary

The Office of Internal Audit (OIA) performed an audit of the Program Services division at TDHCA, its processes and procedures, as well as internal controls and applicable rules and regulations under which it operates. Based on our review, evaluation, and observations the Program Services Division appears to be operating effectively in facilitating processing and compliance of federal mandates and departmental requirements for a variety of programs that are funded through TDHCA. We've identified some areas for improvement, and they are described in the detailed report.

Observations and Recommendations

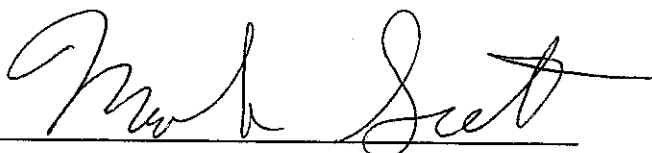
- OIA recommends that management continue to review and revise all SOPs related to Program Services.
- OIA recommends that the division cross train other staff to serve as the backup for the Environmental specialist, if and when needed, to ensure continuity of operation.
- OIA recommends that management consider converting the temporary position to a permanent position to ensure accuracy and completion of loan documents.
- OIA recommends establishing a system for revising and updating the QA checklists through liaisons from each program area.

Management Response

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

Objective, Scope and Methodology

Our scope included a review of the applicable federal regulations (24 CFR Part §58), review of HUD requirements, as well as the National Environmental Policy Act (NEPA). We also reviewed internal controls and the SOPs related specifically to the activities under the Program Services division, and other applicable rules and regulations governing each funding source. We also conducted interviews with staff and analysis of the documents and records.



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

2/26/24
Date Signed



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

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Feb 27, 2024

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

RE: Internal Audit of the Program Services Division at TDHCA

Dear Board Members:

This report presents the results of the Office of Internal Audit ("OIA") "*Audit of the Program Services Division at TDHCA.*" This audit was conducted in accordance with applicable audit standards and included the objectives to review, assess and evaluate the internal controls related to the activities and responsibilities under Program Services Division, as well as accuracy and compliance of those activities with applicable rules and regulations.

The Program Services Division was identified during the fiscal year 2024 annual risk assessment, and rated high on the risk assessment matrix due to lack of any recent audits of the division, as well as management's interest in audit of this function.

For this audit we reviewed the applicable federal regulations (24 CFR Part §58), information and instructional materials from The US Department of Housing and Urban Development (HUD), internal policies including function specific SOPs, and other applicable rules and regulations governing each funding program.

This report includes the following sections:

- A. Overall Result
- B. Background
- C. Scope and Methodology
- D. Activities under Program Services
- E. Testing and Recommendations

A. Overall Results

Based on our review, evaluation, and observations the Program Services Division appears to be operating effectively in facilitating processing and compliance of federal mandates and departmental requirements for a variety of programs that are funded through TDHCA. We've identified some areas for improvement, and they are described in the detailed report.

B. Background

Texas Department of Housing & Community Affairs established the Program Services Division in September 1, 2009. The Division facilitates adherence, processing, and completion of federal mandates and departmental requirements affecting a variety of programs administered by the Department. Compliance with federal mandates can affect release of funds and future program eligibility. These mandates and requirements include; Environmental Review & Clearances, Loan Closings, and Quality Assurance (Commitments and Disbursements) of federal funds. Each of these mandates are explained in more details in later sections of this report.

C. Scope and Methodology

Our scope included a review of the applicable federal regulations (24 CFR Part §58), review of HUD requirements as well as the National Environmental Policy Act (NEPA). We also reviewed internal controls and the SOPs related specifically to the activities under the Program Services division, and other applicable rules and regulations governing each funding source

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

In reviewing the SOPs related to responsibilities of the Program Services division we noticed that some SOPs were very old and needed to be revised. The management indicated that they're in

the process of revising and updating all applicable SOPs to reflect current rules and regulations, and having them signed by the current manager.

Observation Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
24-002.01	OIA recommends that management continue to review and revise all SOPs related to Program Services	5/1/2024	Brenda Hull

Management Response

Management concurs with the recommendation and will undertake a complete review of all Program Services SOPs and will ensure all SOPs are updated by May 1, 2024.

D. Activities under Program Services division

OIA reviewed the main activities and responsibilities of the Program Services Division. For this review we met with individual staff in different roles and in charge of different activities, reviewed their processes, practices, and internal controls. Below is a brief summary of each activity’s background and history, along with our observations and recommendations.

➤ **Environmental Reviews and Clearance;**

The National Environmental Policy Act (NEPA) of 1969 was enacted by Congress to ensure that federal agencies consider and address environmental impacts resulting from the activities and projects they sponsor. The Act was signed into law by President Richard Nixon on January 1, 1970. This action formed the Environmental Protection Agency (EPA) and the Council of Environmental Quality. Congress and Presidents have subsequently enacted a series of statutes and Executive orders dealing with specific Environmental issues. NEPA is the umbrella under which the Environmental review is conducted with a wide range of environmental authorities and factors to be considered.

Program Services at TDHCA currently has one Environmental specialist who is tasked with receiving and reviewing all environmental reviews that are submitted to the Department. The level of review varies depending on the source of funding and specific program rules and requirements. The US Department of Housing and Urban Development (HUD) provides routine trainings to the specialist on changes to applicable rules.

Observation Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
24-002.02	OIA recommends that the division cross train other staff to serve as the backup for the Environmental specialist, if and when needed, to ensure continuity of operation.	3/4/2024	Brenda Hull, Jaclyn Leasure and Amanda Del Cueto

Management Response

Amada Del Cueto is the environmental backup, as indicated in Internal Control Questionnaire and noted in Amanda’s job description. Management will schedule a quarterly environmental training with the Environmental Specialist and the Environmental backup, to ensure backup staff is up-to-date with workload pipeline and any environmental policy or process changes.

➤ **Loan Closing;**

The Department’s housing programs assist homeowners, buyers, and developers with deferred, forgivable, or repayable loans. The Program Services division processes Single Family and Multifamily loans, and the Program Services staff advise and assist program area specialists on collecting documents required by federal and state rules. Program Services personnel ensure compliance with all applicable regulations when collecting, receiving, verifying, and filing documents on behalf of those requesting housing assistance, and preparing loan packages evaluated by the legal division. Program Services specialists also coordinate loan closing procedures with title companies.

Loan closing team of Program Services consists of three permanent positions and one temporary position. The three permanent positions serve as multifamily and single family loan closers, and are responsible for reviewing loan closing due diligence from developers and preparing loan closing files for submission to the legal division, as well as outside counsel for loan document preparation. Other responsibilities include reviews of executed single family loan documents for accuracy and completion, and preparation of loan servicing files for transfer to Loan Servicing division.

The temporary position serves as the multifamily post-closing reviewer. This position is responsible for reviewing executed multifamily loan documents for accuracy and completion, and preparation of loan servicing files for transfer to the Loan Servicing division. This position is expected to continue for one more year. According to management there are no plans in place to convert this position into a permanent position.

Observation Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
24-002.03	OIA recommends that management consider converting the temporary position to a permanent position to ensure accuracy and completion of loan documents.	9/1/2024	Brenda Hull

Management Response:

Program Services will research the availability of an FTE and source of funds for a permanent position.

➤ **Quality Assurance;**

Program Services division currently has two quality assurance (QA) specialists who verify eligibility and accuracy of federal fund commitments and expenditures. QA specialists perform and expedite final review, evaluation, and approval of data submitted via the Department's Contract System and verify corresponding support documentation for program set-ups committing federal funds and processing disbursement requests from program participants in accordance with federal, state, and Department requirements. QA specialists support program area specialists and program participants with closing out individual contract activities and entire contracts.

QA specialists use check lists that were created in-house as a toll to ensure completion, accuracy, and consistency in their reviews. Different check lists were created for different programs based on the rules, regulations, and requirements of each program and the funding source. Any changes in the rules and related requirements have to be reflected on these check lists to ensure continued compliance with all applicable laws. Currently, the Program Services manager receives any related updates through routine management meetings with program area directors. QA specialist also work with program area staff in resolving and clearing any errors or deficiencies in documentation prior to release of funds.

Observation Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
24-002.04	OIA recommends establishing a system for revising and updating the QA checklists through liaisons from each program area.	3/4/2024	Brenda Hull

Management Response:

Management concurs and will address QA checklist updates in regular, periodic meetings with program areas.

E. Testing and Recommendations

As part of our review for this audit we randomly selected ten applicants' files from a total of 549 Quality Assurance reviews, and 17 draw requests from a total of 1678 that were submitted during 2023. The sample numbers were based on the low level of internal control risk that was identified during our review of each activity. We found that the files were generally accurate and complete. We also reviewed and tested the employees' access to the division's folders that contain applicants' personal information and found that all accesses were appropriate and related to individual's job functions.

During our interviews with staff we found out that one of the responsibilities of the office administrator is to notarize managements' and deputy directors' signatures on loan documents. The process appears to be that the loan documents are not signed in the presence of the notary. Instead the signed documents are forwarded to the office administrator to be notarized after they have been signed.

Observation Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
24-002.05	OIA recommends that the Division establish a procedure that would be in compliance with Texas laws in regards to presence of the notary at the time of signature.	3/4/2024	Brenda Hull

Management Response:

Program Services concurs and will implement process changes to ensure the presence of the notary at time of signature.

We conducted this performance audit in accordance with applicable auditing standards. We provided our findings and recommendation based on evidences obtained through our reviews and based on our audit objectives.

We extends our appreciation to Program Services management and staff for their cooperation and assistance during the course of this audit.

Sincerely,

A handwritten signature in black ink that reads "Mark Scott". The signature is written in a cursive, flowing style.

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

MS/NS