

**AUDIT AND FINANCE COMMITTEE
MEETING BOOK OF
SEPTEMBER 5, 2019**



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

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

**AGENDA
7:30 AM
September 5, 2019**

**John H. Reagan Building
JHR 140, 105 W 15th Street
Austin, Texas 78701**

**CALL TO ORDER
ROLL CALL
CERTIFICATION OF QUORUM**

Sharon Thomason, Chair

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

ACTION ITEMS:

ITEM 1: Presentation, discussion, and possible action to approve the Audit and Finance Committee Minutes Summary for June 27, 2019

Mark Scott
Director of Internal
Audit

REPORT ITEMS:

ITEM 1: Presentation and discussion of the Internal Audit of the Complaint Resolution Processes at TDHCA

Mark Scott
Director of Internal
Audit

ITEM 2: Presentation and discussion of Internal Audit review of the implementation status of prior audit findings and recommendations

ITEM 3: Presentation and discussion of Internal Audit follow up visits of the Migrant Labor housing facilities

ITEM 4: Report on the status of the 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 and under Tex. Gov't Code, §2306.039.

Pursuant to Tex. Gov't Code, §551.074 the Audit Committee may go into Executive Session for the purposes of discussing personnel matters including to deliberate the appointment, employment, evaluation, reassignment, duties, discipline, or dismissal of a public officer or employee.

Pursuant to Tex. Gov't Code, §551.071(1) the Committee may go into executive session to seek the advice of its attorney about pending or contemplated litigation or a settlement offer.

Pursuant to Tex. Gov't Code, §551.071(2) the Committee may go into executive session for the

purpose of seeking the advice of its attorney about a matter in which the duty of the attorney to the governmental body under the Texas Disciplinary Rules of Professional Conduct of the State Bar of Texas clearly conflicts with Tex. Gov't Code, Chapter 551.

Pursuant to Tex. Gov't Code, §2306.039(c) the Committee may go into executive session to receive reports from the Department's internal auditor, fraud prevention coordinator, or ethics advisor regarding issues related to fraud, waste, or abuse.

OPEN SESSION

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

ADJOURN

To access this agenda and details on each agenda item in the board book, please visit our website at www.tdhca.state.tx.us or contact Mark Scott, TDHCA Internal Audit Director, 221 East 11th Street Austin, Texas 78701-2410, 512-475-3813 and request the information.

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

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

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

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

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

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

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

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

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

Action Item

1

AUDIT AND FINANCE COMMITTEE ACTION REQUEST

INTERNAL AUDIT DIVISION

September 5, 2019

Presentation, discussion and possible action on Audit and Finance Committee Meeting Minutes Summary for June 27, 2019

RECOMMENDED ACTION

RESOLVED, that the Audit and Finance Committee Meeting Minutes Summary for June 27, 2019 are hereby approved as presented.

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

On Thursday, June 27, 2019, at 7:30 a.m. the meeting of the Audit and Finance Committee (the "Committee") of the Governing Board (the "Board") of the Texas Department of Housing and Community Affairs ("TDHCA" or the "Department") was held in the John H. Reagan Building, Room JHR 140, 105 W. 15th Street, Austin, Texas. Sharon Thomason presided over the meeting, and Mark Scott served as secretary. Committee members Paul A. Braden, Leo Vasquez, and Asusena Resendiz were in attendance and represented a quorum for the committee meeting.

The first action item on the agenda was approval of the minutes of the March 21, 2019 meeting of the Committee. Minutes were adopted as presented, and were approved.

The second action item was the presentation, discussion, and possible action on the FY 2020 Housing Finance Division Budget, and was presented by Ernie Palacios, Director of Financial Administration. Ernie provided some information regarding the process involved in developing an internal operating budget, and also a comparison report with the previous year's budget. At the conclusion of his presentation Ernie offered to answer any questions that the committee may have. Mr. Vasquez asked questions regarding the comparison of the proposed budget and the FY 19 budget in regard to overall budget and also changes in each budget item such as advertising and payroll. Mr. Vasquez also encouraged everyone to recognize the reality of what's being spent on a regular basis and not only the one-time projects.

Ms. Resendiz asked about the advertisement category in the FY 20 budget and the fact that it went down by 50% compared to last year, and also how the migrant farm worker program is being advertised. Mr. Palacios said that he wasn't aware of any specific items such as that, but would get that information to the committee members later on. With no other questions the 2020 TDHCA operating budget was recommended for approval to the Board.

The last action item was presentation, discussion, and possible action on the FY 2020 Housing Finance Division Budget, and it was presented by Ernie Palacios. The Housing Finance Division budget is a subset of the larger budget that was presented, and the agency is required to submit this budget under the Texas Government Code and in compliance with the General Appropriation Act. With no questions the committee recommended the approval of the Housing Finance budget to the Board.

Ernie also acknowledged Kristi Vavra, manager of the Financial Services over budget, payroll and travel, and Paul Ford, senior budget analyst, for their work in developing this budget.

The first report item on the agenda was presentation and discussion of the internal audit of the Construction Cost Certification function at TDHCA, and was presented by Mr. Mark Scott, Director of Internal Audit.

Mr. Scott said that this audit was on TDHCA's controls over the certification process with emphasis on the audit reports that are received from the independent CPA firms, and explained the role that the independent audit firms have in this process. A recommendation was made in this audit report to set up a system where by Asset Management would verify CPAs' licenses and their standing with Texas State Board of Accountancy. As part of this Audit OIA conducted re-computations of tax credit amounts, and performed various calculations using the IRS prescribed formulas and discount rates. The test sample was accurate. It was also noted that Government Accountability Office (GAO) has conducted a nationwide audit of the tax credit program and their report cited Texas as having the lowest per unit cost of the states that they have reviewed.

With no questions from committee members Mr. Thomason moved to the next report item; Report on the status of the external audit activities. Mr. Scott said that there are several external audits taking place at this time. The state Auditor's office has started the financial statement part of the statewide audit which is an audit of the entire state's expenditures and financial activities. Part of the statewide audit is the audit of federal compliance related to the major federal programs. In the past KPMG has performed this audit, but a new firm has been assigned as of this year called Clifton Larson Allen. They've selected to audit LIHEAP and CSBG programs.

The SAO is also auditing the Manufactured Housing Division that is administratively attached to TDHCA. For this audit they're reviewing the IT services that TDHCA provides to Manufactured Housing. So far no issues have been reported. SAO is also conducting a Classification audit of TDHCA IT staff. This is a review to determine if the IT positions are correctly classified based on the responsibilities of each position. Mr. Scott then offered to answer questions regarding the ongoing external audits.

With no questions from the committee members Ms. Thomason concluded the meeting at 7:47am

Report Item

1

AUDIT AND FINANCE COMMITTEE REPORT ITEM

INTERNAL AUDIT DIVISION

September 5, 2019

Presentation and discussion of the Internal Audit of the Complaint Resolution Processes at TDHCA

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
An Internal Audit of the Complaint Resolution Process
Audit Report # 19-006

Executive Summary

The Office of Internal Audit (OIA) reviewed TDHCA's Complaint Resolution process and its policies, procedures, and controls that are currently in place. Based on our reviews and testing, the Home Resource Center (HRC) has appropriate processes in place for the Complaint Resolutions. We've identified some areas for improvement, as described in the detailed report.

Findings, Observations, and Recommendations

- OIA recommends that HRC add the requirements of Rule §1.2.c4 to their SOP to ensure compliance with all applicable rules and regulations.
- OIA recommends that TDHCA enhance the Complaint Submission System's capabilities to provide complainant with an auto response email confirming receipt of complaint along with language regarding expected time frame for a response from staff.
- TDHCA should consider adding an upload / attachment feature to the Complaint Submission System so supporting documents can be uploaded by complainants for efficiency.

Response:

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

Responsible Area:

Director of Housing Resource Center

Objective, Scope and Methodology

Our scope included a review of the Texas Government Code Section 2306.066 and 2105.101, and Texas Administrative Code (TAC) 10 Rule §1.2, as well as HRC's activities and policies related to handling and processing of complaints. Based upon our preliminary understanding of the Complaint Resolution process we identified critical points and risk, to develop audit objectives and an audit program including methodology. The Texas Internal Auditing Act, Tex. Gov't Code §2102.005 requires testing of the controls of a state agency's major programs and systems, and the controls related to them.



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

8/15/2019
Date Signed



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

www.tdhca.state.tx.us

Greg Abbott
GOVERNOR

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Sharon Thomason, Member
Leo Vasquez, Member

August 15, 2019

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

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

RE: Internal Audit of the Complaint Resolution Process

Dear Board Members:

This report presents the results of the Office of Internal Audit ("OIA") review of the Complaint Resolution Process at TDHCA. This audit was included in the Fiscal Year 2019 Annual Audit Plan and was conducted in accordance with applicable audit standards. The TDHCA Complaint Resolution Process rated high on the risk assessment due to public interest and the Department's goal and desire for transparency. Complaints related to Fraud, Waste, and Abuse are required to be handled in coordination with the State Auditor's Office and federal oversight agencies; and are not included in this audit.

For this audit we reviewed Texas Government Code Section 2306.066, Texas Government Code Section 2105.101, and Texas Administrative Code (TAC) 10 Rule §1.2. We also evaluated the Housing Resource Center (HRC) Division's activities and policies related to handling and processing of complaints received through TDHCA's Public Complaint System, as well as complaints received via other sources such as direct mail and emails. Based on our preliminary understanding of the Complaint Resolution function we identified critical points and risks, and developed our audit objectives and audit plan including methodology.

Background

The Housing Resource Center is tasked with providing educational materials and technical assistance to the public, community-based housing development organizations, nonprofit housing developers, and other state and federal agencies. In addition, HRC is responsible for the reviewing and processing of external complaints that are related to programs and funding sources that are under the purview and jurisdiction of TDHCA.

Texas Government Code 2306 and 2105 require the Department to establish a procedure where by complaints are filed, handled and resolved, and to have that information available to the public and appropriate state agencies. It also requires the agency to prepare and maintain a written plan that describes how an individual who does not speak English or who has a physical, mental, or developmental disability may be provided reasonable access to and participation in the Department's programs.

Standard Operating Procedures (SOP)

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

At the start of our review, the HRC Division's formal SOP was last revised and signed by the Executive Director in 2012. However, during our audit a new version was completed and signed by the Acting Executive Director on July 12, 2019. The new document offered more detailed guidance for processes and activities involved in the Complaint Resolution function. We reviewed and evaluated the content of both SOPs in regard to applicable rules in the TAC, and noted that the following rule is not included in either of the SOPs.

10 TAC, Rule §1.2, c4;

The department shall provide to the person filing the complaint and to each person who is a subject of the complaint a copy of this rule (TAC).

Finding Item Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
19-006.01	OIA recommends that HRC add the requirements of Rule §1.2.c4 to their SOP to ensure compliance with all applicable rules and regulations.	9/30/2019	Director of HRC

Management response:

Per TDHCA SOP 1270.05, 2, f, (ii) for each complaint received by the Department the HRC Coordinator or Backup Coordinator always sends the complainant an initial email response or letter response. With this response a copy of TDHCA's complaint rule is always attached.

The SOP will be updated by September 30, 2019 to add language which requires all TDHCA complaint Division Liaisons and Division Backup Liaisons during the course of their investigation resolving the complaint to send a copy of the complaint rule to all additional parties involved in the resolution.

Public Complaint System

The TDHCA Complaint System is available to the public for submission of complaints related to the programs that are under the purview and authority of the Department. Any complaint that is outside TDHCA's authority will be referred to the appropriate agency and / or individual for resolution.

The HRC division is tasked with handling of public complaints and has established an internal policy and procedures to resolve these complaints in an efficient manner. The procedure includes assignment of a Complaint Coordinator who reviews the Public Complaint System log on daily basis. Based on the information provided by the complainants, the coordinator forwards the complaints to the appropriate division for further review and investigation. Each complaint is also entered into the master database with a unique reference number that is generated by the Complaint system for tracking and future follow ups. The coordinator also issues a letter to the complainant to confirm the receipt of the complaint.

The current Complaint System does not have the capability of allowing the complainant to upload or attach any supporting documents along with their complaints, nor does it generate auto response emails confirming the receipt of the complaints. As a result some duplicate complaints are being submitted from time to time.

Finding Item Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
19-006.02	OIA recommends that TDHCA enhance the Complaint Submission System's capabilities to provide complainant with an auto response email confirming receipt of complaint along with language regarding expected time frame for a response from staff.	8/31/2019	Director of HRC

19-006.03	TDHCA should consider adding an upload / attachment feature to the Complaint Submission System so supporting documents can be uploaded by complainants for efficiency.	8/31/2019	Director of HRC
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Management response

Staff agrees that such improvements would be an ideal best practice for TDHCA. At this time, to make such improvements to the Complaint Submission System would be costly and put limited IT resources into working on a statutorily compliant activity, and possibly detracting from other higher priority efforts. Staff will submit a request to the Department’s Information Technology Steering Committee who will evaluate and assess the priority of this request relative to the other IT projects

Testing

For the purpose of this audit we selected 3% of the complaints that have been submitted to TDHCA in 2017, 2018, and 2019 as of the start of this audit. Using a random sample generator we selected and tested a total of 37 complaints. Our testing included verification of compliance with the requirements established by the Texas Government Code, Texas Administrative Code, and HRC’s Standard Operating Procedures. Our testing results include the following findings and inconsistencies:

- The pre-formatted response letter / email that is sent to the complainant within 15 day does not include an expected resolution date as stated in *Rule §1.2, c 5*¹
- In the sample we tested (total of 38 complains) the resolution letters and quarterly status update letters were missed in 6 cases (Rule §1.2,c 6)²
- Inconsistency within documents saved under master complaint folders.
- Notes in Complaint Tracking System don’t always match with the documentation in the complaint folder.

Finding Item Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
19-006.04	OIA recommends that TDHCA improve its documentation and record keeping of any information related to public complaints	10/01/2019	Director of HRC

¹ Rule §1.2,c5; The department shall either notify the complainant of the resolution of the Complaint within 15 business days after the date the complaint was received or notify the complainant within such period of the date the complainant can expect a response to the complaint.

² Rule §1.2, c5; The department shall notify the complainant of the status of the complaint at least quarterly and until the final disposition of the complaint.

Management response:

Staff agrees that there is room for improvement in documentation and record keeping within the complaint process. There are occasionally differences in the records kept within the Complaint Submission System and in the offline record keeping of the various divisions who handle the responses to complaints. Some of this can be attributed to the limitations of the Complaint Submission System. To that end and knowing the systems limitations, HRC and Compliance generally hold a meeting once a year to discuss Best Practices. HRC will work with Compliance and set regular meetings every 6 months beginning October 1, 2019. Additionally when submitting the request to the IS Steering Committee, noted in the prior Management Response, revisions will also be requested to better address these recordkeeping issues.

OIA extends our appreciation to management and staff of the Housing Resource Center Division for their cooperation and assistance during the course of this audit.

Sincerely,



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

MS/NS

Report Item

2

AUDIT AND FINANCE COMMITTEE REPORT ITEM

INTERNAL AUDIT DIVISION

September 5, 2019

Presentation and discussion of the Internal Audit of the Implementation Status of Prior Audit Recommendations.



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

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Leo Vasquez, Member

August 19, 2019

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

RE: Internal Audit Report on the Implementation Status of Prior Audit Recommendations,
Report # 19-007

Dear Board Members,

The TDHCA Fiscal Year 2019 Internal Audit Plan provides for a review of the implementation status of prior audit recommendations. The purpose of this report is to provide information regarding the status of management's efforts to address issues and recommendations noted during both internal and external audit work.

SCOPE AND METHODOLOGY

Our follow-up work covers TDHCA Office of Internal Audit (OIA) open findings and related recommendations made in audit reports dated through December 28th, 2018. An open finding is defined as a finding that was not completely addressed, or for which further action was still required, at the time of this review.

BACKGROUND

The TDHCA undergoes internal and external audits on a regular basis. Internal audits and external audits and reviews may include findings and associated recommendations that require follow-up to ensure that the issues identified during the audits have been addressed. External audits by the State Auditor's Office and federal oversight agencies may also include either formal findings or informally communicated issues that require follow-up. The Institute of Internal Auditors Standards state that "the chief audit executive must establish and maintain a

system to monitor the disposition of results communicated to management. The chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action. The internal audit activity must monitor the disposition of results of consulting engagements to the extent agreed upon with the client.”(I.A Standards, IPPF 2500.A1 through 2600)

The following report provides an inventory of internal and external audits, and the related open findings. Findings that have been fully implemented will not be carried forward for future follow up activities.

Internal Audit reports addressed during this follow-up project include:

A. Audit reports with carry-over open findings that were outstanding as of the follow-up report dated June 2018:

1. Internal Audit of the Fair Housing Division, Report # 16-003
2. Internal Audit review of the Operation in TDHCA’s Information Systems Division, Report # 17-001
3. Internal Audit review of the Low-Income Housing Tax Credit Program, Report # 17-003

For detailed status of each Internal Audit finding and recommendation see **Appendix A.**

B. Internal Audits reports issued between January and December of 2018:

1. Internal Audit of the Bond Finance Program’s Processes and Controls, Report # 17-002
2. Internal Audit review of the Neighborhood Stabilization Program Close-out Procedures, Report # 18-001
3. Internal Audit of the HOME Fund Tracking Program, Report # 18-003
4. Internal Audit of the Emergency Solution Grant (ESG) Program, Report # 18-004
5. Internal Audit of the Loan Servicing Division, Report # 19-001

For detailed status of each Internal Audit finding and recommendation see **Appendix B.**

External audits

External audits and reviews of TDHCA are conducted by the State auditor’s Office (SAO), the Comptroller’s Office, the Sunset Commission, and other oversight agencies. They are also conducted by Federal Funding agencies, and their various departments such as Inspector General’s Office and program monitoring. Both State and Federal audits track the status of findings related to TDHCA.

KPMG:

Low Income Home Energy Assistance Program (LIHEAP), Ref # 2016-028

For the federal fiscal year 2015 LIHEAP annual report, the TDHCA did not retain documentation for some of the reported items. The Department has developed a process that requires the

capture and retention of the backup documentation that supports the actual reported numbers in the LIHEAP Annual Report at the time of submission. KPMG considers this finding closed, and implementation of the new data system is scheduled to go live in September 2019.

U.S Department of Health and Human Services:

In 2018 the U.S Department of Health and Human Services completed on-site monitoring reviews of the TDHCA Community Service Block Grant (CSBG) and LIHEAP programs. The reviews cited various issues related to sub recipient monitoring and other aspects of the program. TDHCA provided documentation to Health and Human Services (HHS) to clear up a number of the findings. Some issues with specific sub recipients cited in the HHS reports are still being worked out.

We express our appreciation to TDHCA management and staff for their courtesy and cooperation during this work.

Sincerely,



Mark E. Scott, CPA, CIA, CISA, CFE, MBA
Director of Internal Audit

Cc: Bobby Wilkinson, Executive Director
Beau Eccles, General Counsel
David Cervantes, Director of Administration
Brooke Boston, Director of Programs
Homero Cabello, Director of Program Controls and Oversight
Monica Galuski, Director of Bond Finance
Larry Mercadel, Director of Information Services
Marni Holloway, Director of Multifamily Finance
Cate Tracz, Manager of Fair Housing
Stephanie D' Couto, Manager of Loan Servicing
Abigail Versyp, Director of HOME & Homelessness Programs

Appendix A

STATUS OF INTERNAL AUDIT RECOMMENDATIONS AS OF AUGUST 15, 2019

1) Audit Report # 16-006

Internal Audit of the Fair Housing Division, Issued on October 13th, 2016

OIA Findings and Recommendations:

It is recommended that policies and procedures for Fair Housing be written and made available to all staff of TDHCA. Requirements and checklists for applications of local public housing authorities, for-profit and not-for-profit entities, multi-family, and in some cases single-family should include certification that the entity complies with federal, state, and local Fair Housing rules and regulations. Even though there are individual policies and procedures for certain processes, there is not currently a set of formal standard operating procedures for Fair Housing.

Management's response and reported status:

Management agrees generally with the importance of SOPs; however, specific policies and procedures to comply with HUD CPD ("Community Planning and Development") programs and the duty to affirmatively further fair housing through these programs are best administered through program areas. Program areas are responsible for program funding applications, contracts, program rules and design, all of which may be tools to affirmatively further fair housing. FHDNR staff continually works to review program area SOPs as they relate to fair housing requirements.

Finding is closed

2) Audit Report # 17-001

Internal Audit review of the Operation in TDHCA's Information Systems Division, Issued on August 24th, 2017

OIA Findings and Recommendations:

IS should develop a protocol for testing information systems and designate an individual to be responsible for the internal risk assessment component of the overall governance structure.

Management's response and reported status:

Management has completed the implementation of controls to address the security testing component of this recommendation. (The internal risk assessment responsibility component of the recommendation was addressed in early FY 2017.) Management created a new TDHCA Software Development Life Cycle (SDLC) guide in April 2019, which includes a section on software security testing. Management also implemented a security information and event management solution in August 2018 that, along with existing agency firewall technologies, helped achieve security goals in this area.

The recommendation has been implemented and finding is closed

3) Audit Report # 17-004

Internal Audit review of the Low-Income Housing Tax Credit Program (LIHTC) Program, Issued on June 5th, 2017

OIA Findings and Recommendations:

- I. The division should develop a Standard Operating Procedures (SOP)
- II. Management should implement a filing system that includes consistent sub-files and verification of posted information

Management's response and reported status:

- I. Management's original response, as of June 5th, 2017, stated that "The Multifamily Finance Division accepts the finding and will update the Division's Standard Operating Procedures (SOP) prior to December 29th, 2017". As of August 15, 2019, this item was in progress.

The finding remains open

- II. Management's original response, as of June 5th, 2017, stated that "The Multifamily Finance Division will include a management sampling process in the SOP. A sample of priority applications will be performed periodically during the competitive LIHTC cycle starting in 2018 to review for accuracy and legibility of documents". No updates have been provided to OIA.

The finding remains open

Appendix B

STATUS OF INTERNAL AUDIT RECOMMENDATIONS AS OF AUGUST 15, 2019

1) Audit Report # 17-002

Internal Audit of the Bond Finance Program, Report issued March 13, 2018

OIA Findings and Recommendations:

Due to volume of the transactions OIA recommends Desk reviews of Program Administrator's records in years when site visits are not conducted

Management's response and reported status:

Bond Finance and Texas Homeownership will add an additional desk review of the Program Administrator's records in the years between site visits and plan to conduct on-site reviews no less than once every two years. Bond Finance and Homeownership are conducting an on-site audit of the Program Administrator's records in August 2019.

The recommendation has been implemented and finding is closed

2) Audit Report # 18-001

Internal Audit review of the Neighborhood Stabilization Program (NSP) Close-Out Procedures, Report issued August 23, 2018

OIA Finding and Recommendation:

NONE

3) Audit Report # 18-003

Internal Audit of the HOME Fund – Tracking Program, Report Issued October 25, 2018

OIA Finding and Recommendation:

NONE

4) Audit Report # 18-004

Internal Audit of the Emergency Solution Grant (ESG), Report Issued May 16, 2018

OIA Findings and Recommendations:

- I. The program should consider establishing program specific Standard Operating Procedure to improve efficiency and consistency within the division
- II. In order to meet future Performance Measures OIA recommends that the program re-evaluate their forecasting and program evaluation process, and make edits and revisions as needed and to set more realistic goals.

- III. To ensure consistency and compliance among Sub-recipients OIA recommends that the Division establish more precise and direct guidance for sub-recipients and collaborative partners.
- IV. To ensure timely reporting of MER and MPR, and gathering of necessary and important data, OIA recommends the program develop incentives for timely submission of reports

Management's response and reported status:

- I. The program has established program specific Standard Operating Procedures (SOP). The recommendation has been implemented and finding is closed
- II. An update to data collection and reporting methodology was finalized in March 2018. The new measures will be effective on September 1, 2019
- III. The Division has moved away from the collaborative model of contracting. TDHCA now contracts directly with each sub-recipient as of the FY2018 awards.
- IV. The ESG Program has migrated from the Community Affairs Contract System to the Housing Contract System. There are new means of tracking reporting, and payment for incurred costs is still dependent on submission of complete performance reports. The rules governing ESG at 10 TAC Chapter 7 also reduce the amount of points available under a competitive award of reports are not submitted timely, if performance targets are not met, and/or if funds are not fully expended timely.

All recommendations have been implemented and findings are closed

5) Audit Report # 19-001

Internal Audit of the Loan Servicing Division, Report issued November 28, 2018

OIA Findings and Recommendations:

- I. The division should consider establishing task specific Standard Operating Procedure to improve efficiency and consistency within the division
- II. Loan Servicing should establish processes, procedures, and guidelines to collect all required monthly reports, and to ensure that appropriate actions are taken based on the results of each reports.
- III. Loan Servicing should establish and enforce a deadline for all Habitats to have the new 2018 Loan Servicing Agreements (LSAs) signed and returned to TDHCA
- IV. Loan Servicing should ensure that all loans are being serviced by Habitats that are under a valid LSA with TDHCA
- V. The division should establish processes that would ensure completed annual verification of Primary Residency on forgivable loans and proper documentations of the outcome of the review
- VI. The division should consider establishing specific methods, such as "Random Sample Generators", to select loan samples for testing and verification.
- VII. The OIA recommends that division consider establishing processes that could provide verification on Primary Residency for repayable loans as well as forgivable loans.
- VIII. TDHCA should establish policies and procedures to ensure coverage for un-insured properties to protect its financial interest in the property.

Management's response and reported status:

- I. Updates to SOPs are substantially completed, and management continues to evaluate and update remaining SOPs.
- II. A revised SOP for Bootstrap Loan Reconciliation was executed on January 31, 2019.
- III. With the exception of one Servicer, servicing agreements are in place with Bootstrap Servicers. Management and Legal are working with the only remaining servicer on a final draft and is expected to be finalized and executed soon.
- IV. Please see III
- V. Management revised the Primary Residency SOP. The new SOP was executed on May 15, 2019.
- VI. The revised Primary Residency SOP includes instructions for using Random Sample Generator and selecting samples for testing and verification.
- VII. Management has expanded the scope of the Primary Residency review to include repayable HOME single Family Development Loans and NSP Permanent Financing loans due to the HUD liability. Due to limited staff resources the primary residence review for all loans is not feasible, and in certain instances is not enforceable under the loan documents or the program.
- VIII. TDHCA received approval from State Office of Risk Management (SORM) to proceed with submitting the executed insurance binding documents and securing the lender force placed insurance policy on July 31, 2019

All recommendations have been implemented and findings are closed

Report Item

3

AUDIT AND FINANCE COMMITTEE REPORT ITEM

INTERNAL AUDIT DIVISION

September 5, 2019

Presentation and discussion of the Internal Audit report on the Follow up Review of the Migrant Labor Housing facilities.



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

www.tdhca.state.tx.us

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August 23, 2019

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

RE: Follow up Review of the Migrant Labor Housing facilities

Dear Board Members:

This report presents the results of the Office of Internal Audit ("OIA") "*Follow up Review of Migrant Labor Housing facilities*". The purpose of this report is to provide information regarding the condition of Migrant Labor Housing facilities during harvesting seasons. For the purpose of this review we visited a number of licensed facilities in different parts of the state.

Background

In March of 2019, OIA issued an audit of the TDHCA's Licensing, Inspection, and Outreach for Migrant Labor Housing, for which the requirements are stated in TGC 2306. When the audit report was presented at the March Audit and Finance Committee meeting, members requested that follow-up site visits be conducted. The number of licensed facilities has increased from 144 in March to 220 in August 2019.

Migrant Labor Housing Facility Standards

Licensed migrant labor housing facilities must meet standards of construction, sanitation, equipment, and operation. In Texas, these standards address:

1. Facility construction;
2. Sanitary conditions;
3. Water supply;
4. Toilets;
5. Sewage disposal;
6. Storage, collection, and disposal of refuse;
7. Light and air;
8. Safety requirements;
9. Fire protection;
10. Equipment;
11. Maintenance and operation of the facility; and
12. Any other matter appropriate or necessary for the protection of the health and safety of the occupants.

Migrant Labor Farm Worker

A migrant labor farm/agricultural worker, as defined in the Act, is “an individual who is (a) working or available for work seasonally or temporarily in primarily an agricultural or agriculturally related industry and (b) moves one or more times during a year from one place to another to perform seasonal or temporary employment, or to be available for seasonal or temporary employment.” Migrant laborers who move within the U.S. may go from picking onions in Texas, to picking tomatoes in Florida, to picking strawberries in Michigan. The harvests may last a month or two; then the workers must seek work in a different harvest as seen in the map of the agricultural regions of Texas (see Appendix 1).

Migrant laborers are defined as the following two categories:

- US citizens and permanent legal residents are individuals who travel to agricultural work sites, defined by distance as greater than 75 miles is “migrant” labor; traveling less than 75 miles to the worksite is a “seasonal” farm worker.
- H2A visa holders are persons born outside the U.S. who have temporary legal permits to work in the U.S. They follow Department of Labor (DOL) protocol, which requires the agricultural employer and the visa holder to be registered with DOL.

Employers must provide housing for H2A visa holders. For domestic farm workers, the employers are not required to provide housing; however, if the employer does provide housing it must be licensed by TDHCA. In the case of H2A visa holders both the employer and the farm worker are registered with DOL through a petition process, which is the application that the agricultural employer files with DOL when they want to hire H2A visa workers.

Summary of Site visits

Our initial report, dated March 21, 2019, included visits to five licensed migrant labor housing facilities. For this follow-up review, we visited another five licensed facilities and found them to be in good condition. Below is a brief description of the facilities we visited.

The first facility we visited is located in O'Donnell in Lynn County. This facility consists of 10 units and is licensed to house up to 40 individuals. Only 4 of the units were occupied this season and at the time the site visit. The vacant units were being pressure washed and cleaned to be used later on. The representative for the facility told us that all the units will be cleaned and prepared for the next inspection which should be in September. The facility seemed to meet the minimum standards and regulations currently in place. We were also told that the farm workers that use this facility work for various farms in the area. They're mainly from valley area and travel back home at the end of the season. He's only aware of two farm workers that have traveled to another state for work in the past.

The next facility, which is also located in Lynn County, is in the city of Wilson TX. This facility consists of two buildings, with one more appropriate for families and one for single individuals who would be sharing the bedrooms. Total capacity of both buildings is 56. The first building (family section of the facility) is 6 units for 6 families, and has private bathroom, shower, kitchen area with some appliances, and a bedroom. The second building is 8 rooms / units with common kitchen area and shared bathrooms (3 showers / 3 stalls / 2 sinks). Each bedroom also has a bed frame and mattress. The individuals staying at this facility mainly work at the plant and indoor (Cotton Gin).

Third facility is located in Mayfield in Hale County. This facility works as the "middle man" between farm owners and farm workers. They contract with the farmer to harvest and process their crops. They hire the farm workers and provide housing for them while they're working for them. The types of farms they contract with are cucumber, Pumpkins, and watermelons. The cucumbers are processed and sent to pickling plant.

The representative for this facility said that for harvesting cucumbers with the new machines and technologies they typically need only 8 to 10 people, where in the past they would've needed about 30 to 40 people. The huge tractors can do what used to be the manual work for a lot of workers. They mainly need a few drivers to harvest the entire farm. Some of the workers are working at the plant during cucumber harvesting season. However, for other crops, such as watermelon and Pumpkins, they still need about 30 to 40 workers because they need to be handpicked one by one. The machines would damage these crops. She also said that due to the type of crops in that area a lot of farm workers manage to stay in the area and work throughout the year by switching between fruit and vegetable, and cotton. These workers are mainly from the Valley area and go back home after the harvest season. She said that none of the workers come from other states, or travel to other states for work.

On the day of this visit all units were occupied and workers were at the units because it was their off day. Therefore no pictures were taken from inside of the units at this facility. However, one of the units that was occupied by 3 individuals let us walk in and look around. The unit seemed to meet the minimum standards that are set by the state. We were also told that a representative from Texas workforce commission visits the fields on regular bases, and that they've implemented OSHA's requirements by providing portable potties, hand sanitizers, and drinking water in each field for the workers.

Next we visited a facility in close proximity to Austin. This facility is a nursery for growing plants and shrubs. They grow and sell their product to residential and commercial builders, in addition to local nurseries. The farm workers at this facility are all H2A visa holders and work about 9 to 10 months a year. This is the first year this facility has been licensed by TDHCA. In the past they operated solely under TWC license.

The facility consists of 3 buildings that are located on the same property. These buildings are licensed to house up to 23 individuals. We toured each building and they seemed to be in good condition and met the minimum standards that are set by the state. In one of the buildings a female farm worker is staying and the facility operators have provided a separate bathroom for her. Male farm workers share other bathroom facilities in each building. The representative for the facility told us that because of extreme heat in the last few weeks they've been sending the workers home at about 3pm to avoid heat related problems.

The last facility we visited is located south of the San Antonio area. The company produces turf grass for landscaping, sports fields, golf courses, parks, and lawns. The housing facility is one building licensed to house up to 30 farm workers. This year they have 22 individuals staying there. The building consists of a large shared kitchen, an eating area with tables and chairs, and shared bathroom. The bathroom has 4 showers and 3 stalls. The sleeping area is also a large shared space with beds around the room. The farm workers have set up blankets around their beds for privacy. The representative for the facility told us that they provide water and ice to the workers during the day, and that they work on average for 9 hours a day.

Sincerely,



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

NS, MS

Report Item

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AUDIT AND FINANCE COMMITTEE REPORT ITEM

INTERNAL AUDIT DIVISION

September 5, 2019

Report on the status of the external audit activities

Verbal Report