

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

**AGENDA  
09:30 AM  
September 1, 2022**

**Capitol Extension, Hearing Room E2.030  
1100 Congress Ave  
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:**

**ITEM 1:** Presentation, discussion, and possible action to approve the Audit and Finance Committee Minutes Summary for March 10, and June 16, 2022

**Mark Scott**  
Director of Internal  
Audit

**REPORT ITEMS:**

**ITEM 1:** Presentation and discussion of the follow up Internal Audit of Migrant Labor Housing Facilities Inspection Processes

**Mark Scott**  
Director of Internal  
Audit

**ITEM 2:** Presentation and discussion of Internal Audit of Information Technology (IT) Application Controls

**ITEM 3:** 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 Danielle Leath, 512-475-4616, 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 Danielle Leath, al siguiente número 512-475-4616 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**

**September 1, 2022**

Presentation, discussion and possible action on Audit and Finance Committee Meeting Minutes Summary for March 10, and June 16, 2022

**RECOMMENDED ACTION**

**RESOLVED**, that the Audit and Finance Committee Meeting Minutes Summary for March 10, and June 16, 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.



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

On Thursday, June 16, 2022, at 9:30 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, 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, Director of Internal Audit Division, served as the secretary. The only Committee member present was Mr. Leo Vasquez, therefore the committee did not have a quorum for this meeting and did not vote on any action items. Action items were presented as report items during the committee meeting, and were presented at the Board meeting later in the day.

Mr. Thomas started the meeting with the first report item; "Presentation, discussion, and possible action on the FY2023 Operating Budget", and Mr. Jose Guevara, Director of Financial Administration" presented it as a report item. Mr. Guevara said that this item relates to the department's operating budget for fiscal year 2023, and it was created with collaboration between the budget team and division directors and managers. This budget is within the spending limits outlined in the General Appropriations Act for the 22-23 biennium and will be the foundation for the appropriation request for the 24-25 biennium. The 2023 proposed budget is \$115.7 million, which has increased \$9.7 million or 9.1 percent. Overall the budget is reflective of 404 FTEs, 91 being Article 9 temporary, 249 are TDHCA permanent employees, and 64 are related to the Manufactured Housing Division Staff.

Mr. Guevara explained different components of the budget and changes in each component. He then offered to answer questions for the committee members. Mr. Thomas thanked Mr. Guevara for the report and how it was presented. With no other questions, Mr. Guevara moved to presenting the next item; "Presentation, discussion, and possible action on the FY2023 Housing Finance Division Budget"; and it was presented as a report items as well.

Mr. Guevara said that this item is a subset of the internal operating budget. It is in relation to the Housing Finance Budget that TDHCA is required to submit under the Texas Gov. Code 2306, and in compliance with the General Appropriations Act. This subset of the budget is specific to the fees generated by the single family and multifamily bonds, tax credit and compliance activities, typically referred to as the Housing Finance Budget. With no questions from the Committee members, Mr. Thomas moved to report items on the agenda. First report item; "Presentation and discussion of the follow up internal audit of the Physical Inspection processes at TDHCA", and was presented by Mr. Mark Scott.

Mr. Scott said that the audit of the Physical Inspections Section was a continuation of an audit started in 2020, but due COVID related limitations we could not personally visit any of the

properties subject to physical inspections. During this follow up audit, we were able to accompany the inspection manager on inspections of two properties around the Austin area. Mr. Scott then gave some details about the inspection process, and their observations during those inspections. He then offered to answer any questions the committee may have. Mr. Thomas inquired about the sampling methodology used for the inspection process, and Mr. Vasquez expressed his interest in performing more inspections and more often.

Next report item on the agenda; “Presentation and discussion of Internal Audit of the Texas Homeownership Program” and was presented by Mr. Scott. He said that this program serves as an advocate for low and moderate income would-be homeowners, primarily first time home buyers. The program navigates the would-be home buyers through the complex processes which incorporate numerous parties, including counselors, lenders, and other financial administrators. Mr. Scott then discussed the recommendations that were made by Internal Audit to improve the administration of this program.

Mr. Vasquez expressed the importance of this program and its impact on many Texans. With no further questions Mr. Scott moved to the last report item; “Report on the status of the Internal and External Audit activities”. Mr. Scott said that the CliftonLarsonAllen (CLA) is performing the statewide Single audit, and the federal programs selected for review included Emergency Rental Assistance Program, and Low Income Home Energy Assistance Program. This means that for these programs CLA will audit requirements such as eligibility, allowability of costs, financial reporting, and other basic single audit testing. Mr. Vasquez asked to confirm that this review is done by external auditors, to which Mr. Scott responded saying yes.

With no other questions Mr. Scott gave an update on the internal audit annual work plan. That concluded his presentation and he offered to answer any questions the committee may have. Mr. Vasquez asked whether or not internal audit will be able to complete all the audits on the annual plan. Mr. Scott said that he believes they all will be completed this year.

With no other questions or comments Mr. Thomas thanked everyone for their participation and adjourned the meeting at 9:50am.

# Report Item

1

**AUDIT AND FINANCE COMMITTEE REPORT ITEM**

**INTERNAL AUDIT DIVISION**

**September 1, 2022**

Presentation and discussion of Follow up Internal Audit report of Migrant Labor Housing Facilities Inspection Processes, Report # 22-006

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS**  
**A Follow up Internal Audit of the Migrant Labor Housing Facilities Inspection Processes**  
**Audit Report # 22-006**

**Executive Summary**

The Office of Internal Audit (OIA) performed a follow-up audit of the Migrant Labor Housing Facilities Inspection Processes, its processes and procedures, TDHCA's responsibilities and roles, and the collaboration between TDHCA, Manufactured Housing Division (MHD), and Texas Workforce Commission (TWC), related to inspections of Migrant Labor Housing. Based on our review and analysis, the processes for inspecting facilities in the Migrant Labor Housing Facilities Program could be improved to ensure compliance with all applicable rules and regulations. Our observations and recommendations are listed below.

**Observations and Recommendations**

- OIA recommends that TDHCA management establish a program-specific SOP for administration of the inspections and licensing of the Migrant Labor housing facilities to create consistency and efficiency in the process.
- OIA recommends that management re-visit and re- evaluate its reliance on TWC inspections for MLHF licenses, or consider a quality assurance process when relying on TWC inspections.
- OIA recommends that the inspectors complete the inspection report prior to obtaining the facility representatives' signature, and not give verbal decisions regarding the inspection result until the report is completed
- OIA recommends that management consider outsourcing the inspections of MLHFs to an outside vendor, similar to the Physical Inspection Section of the Compliance Division at TDHCA.

**Management Response**

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

**Objective, Scope and Methodology**

Our scope included a review of the applicable Texas Government Code (TGC), and the Texas Administrative Code (TAC). We also reviewed policies, processes, and procedures in TDHCA guidance and internal policies and procedures (SOPs), and rule changes since our last audit and review. We also visited several facilities during the inspection process with various inspectors, as well as facilities that have already been inspected and are holding valid licenses.

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

8/22/22

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*

August 24, 2022

*Writer's direct dial: 512.475.3813*  
*Email: 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 MIGRANT LABOR HOUSING FACILITIES  
INSPECTION PROCESSES**

Dear Board Members:

This report presents the results of the Office of Internal Audit ("OIA") "*Follow up Internal Audit of the Migrant Labor Housing Facilities Inspection Processes.*" This audit was conducted in accordance with applicable audit standards. It included the objectives of evaluating and explaining the inspection and licensing processes, TDHCA's responsibilities and roles, and the collaboration between TDHCA, Manufactured Housing Division (MHD), and Texas Workforce Commission (TWC), related to inspections of Migrant Labor Housing facilities.

This audit rated high on the annual risk assessment and was included in the approved Fiscal Year 2022 audit work plan because of legislative and public interest in this program, and the recent changes in management and rules.

The Texas Department of Housing and Community Affairs (TDHCA) administers the Migrant Labor Housing Program on behalf of the State of Texas, in rural and urban parts of the state. For the purpose of this audit we visited a total of ten facilities in different parts of the state. The details of these visits are provided in the later sections of this report.

[Date]

1

This report is divided into the following sections:

- A. Background
- B. Scope and Methodology
- C. Definitions of Migrant Labor Farm workers
- D. Collaboration with Texas Workforce Commission (TWC)
- E. Inspection and licensing
- F. Other audit work

## **A. Background**

Effective September 1, 2005, responsibility for the licensing and inspection of migrant labor housing facilities was transferred from the Department of State Health Services (DSHS) to the Texas Department of Housing and Community Affairs (TDHCA). The law that governs these matters, formerly found at Chapter 147, Texas Health and Safety Code, was transferred to Texas Government Code, Chapter 2306. The law, as amended, also empowered the Board of TDHCA to set the fee for the license required to operate a migrant labor housing facility at up to \$250 for a one-year license (*Texas Government Code §2306.929*).

TDHCA and the Manufactured Housing Division (MHD) agreed that MHD would provide the required inspections under the Migrant Labor Housing program through a Memorandum of Understanding (MOU). The issuance of licenses and other activities such as the outreach program remained the responsibility of TDHCA and was under the Program Services umbrella. In the summer of 2019, and after the retirement of the Director of Special Initiatives, the program was moved under the Compliance division. Further details regarding these changes are provided in later sections of this report.

In March of 2019, OIA issued an audit report 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 2019 Audit and Finance Committee meeting, members requested that follow-up site visits be conducted. We conducted a follow up review of this program and issued our report on August 23, 2019. Both of these reports are currently posted on TDHCA's website and available for public review.

## **B. Scope and Methodology**

Our scope included a review of the applicable Texas Government Code (TGC), and the Texas Administrative Code (TAC). We also reviewed policies, processes, and procedures in TDHCA guidance and internal policy and procedures (SOPs), and rule changes since our last audit and review. We also visited several facilities during the inspection process with various inspectors, as well as facilities that have already been inspected and are holding valid licenses.

## Standard Policies and Procedures (SOPs)

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 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.

At the time of our review for this Audit we were able to obtain and review a program specific SOP from MHD, but not from the Compliance division.

Observation Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
22-006.01	OIA recommends that TDHCA management establish a program specific SOP for administration of the inspections and licensing of the Migrant Labor housing facilities to create consistency and efficiency in the process.	November 30, 2022	Director of Compliance

### Management Response

*Migrant Labor Housing Facilities had a change in management in September of 2021. The Migrant Labor Housing Facilities has been using some of the Compliance Division's Standard Operating Procedures for documenting, processing and issuing licenses. Management agrees that the Standard Operating Procedures (SOPs) require updating and creating new ones. The process has begun and it is expected to be fully completed by November 30, 2022.*

### C. Definition of Migrant Labor Farm workers

A migrant labor farm/agricultural worker, according to Texas Gov. Code 2306.921(2), and 10 TAC §90.2(12), and for the purpose of this audit, 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 move within the U.S. based on the harvesting seasons and labor needs.

Texas is one of the top agricultural producers in the nation. Texas leads the nation in the number of farms and ranches, with 248,416 farms and ranches covering 127 million acres. According to the Texas Department of Agriculture (TDA), 86% of the land in Texas is in some form of agricultural production, and Agriculture employs one out of every seven working Texans. Texas is the top producer of cotton, hay, sheep, goats, mohair and horses, in addition



to the state's top crops such as vegetable, citrus, corn, wheat, peanuts, pecans, sorghum and rice.

According to TDA, the economic impact of the Texas food and fiber sector totals about \$100 billion. The TDA report shows that in 2017 Texas farms sold \$24.9 billion in agricultural products. Cotton is Texas' most valuable crop, generating 9% of the state's total agricultural receipts and 29% of the nation's cotton revenues, placing Texas as the # 1 cotton producer in the nation. (Appendix A)

Migrant laborers are defined as the following two categories:

- US citizens and permanent legal residents who travel to agricultural work sites, defined by distance as greater than 75 miles, are "migrant" labors. Those traveling less than 75 miles to the worksite are "seasonal" farm workers.
- H2A visa holders are Non-U.S citizens 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 the 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.

The Texas Workforce Commission (TWC) assists employers with temporary H2A agricultural job postings for recruitment of U.S workers, conducts surveys, and reviews and processes temporary employment certification forms according to DOL regulations. TWC also performs inspections of the housing facilities that are provided to H2A Migrant labor farm workers during their stay in the U.S. In January 2020, TDHCA presented to the Governing Board a request for repeal and replacement of 10 TAC Chapter 90, related to Migrant labor housing facilities. The Board approved the new rule and it went into effect as of February 5, 2020\*. The new rules gave TDHCA the ability to accept a housing facility inspection performed by another state or federal agency, such as TWC, in lieu of an inspection by TDHCA or MHD's inspectors.

***\*Rule §90.5 (d);** The fee for a License is \$250 per year, except in such cases where the Facility was previously inspected and approved to be utilized for housing under a State or Federal migrant labor housing program, and that such inspection conducted by a State or Federal agency is provided to the Department. Where a copy of such inspection conducted by a State or Federal agency is less than 90 days old, has no material deficiencies or exceptions, and is provided to the Department prior to the Department's scheduled inspection, the application fee shall be reduced to \$75.*

#### D. Collaboration with TWC

As mentioned in the earlier section, in January 2020 the Governing board of TDHCA voted in favor of a new rule (*Rule §90.5*) presented by the Staff which authorizes TDHCA to accept the inspection reports provided by other state and federal agencies, such as TWC. Applicants submit their inspection reports from TWC, along with a \$75 application fee, a TDHCA application, and a self-certificate signed by the facility owner / operator attesting to an additional 11 items that are not included in TWC inspections, in order to obtain their license. The certification includes items such as fire safety equipment, specific cooking space, and separate sleeping accommodations for each gender.

TDHCA relies on TWC's inspections and self-certifications to issue these licenses. Although the license is issued by TDHCA, the Department currently has no processes in place to verify the accuracy, completeness, and reliability of TWC's inspections. As stated in the following section, under Site Visits, it does not appear that all TWC inspections are up to the standards.

Observation Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
22-006.02	OIA recommends that management re-visit and re- evaluate its reliance on TWC inspections for MLHF licenses, or consider a quality assurance process when relying on TWC inspections.	November 30, 2022	Director of Compliance

#### Management Response

*Migrant Labor Housing Facilities does rely on and closely collaborates with TWC on inspection for the licenses of these facilities. Due to the limited funds that is generated from this activity, the Department has very limited financial resources or FTEs to commit to conducting 400-600 additional physical inspections annually that TWC is currently responsible for completing. Generally, TWC conducts inspections in person; however, at times due to lack of travel resources such as obtaining a rental car, TWC does complete inspections virtually. Management will create a "risk assessment" model and implement a process of conducting a follow up inspection when an inspection is done virtually and presents as high risk.*

## E. Inspection and Licensing

According to the data provided by the Compliance division, the current total number of licensed Migrant Labor Housing Facilities across the state of Texas is 664 facilities<sup>1</sup>, and expected to increase to approximately 700 by the end of 2022. This is a great increase from 220 licensed facilities in 2019. Of this number 475 are facilities that house H2A visa holders and generally were inspected by TWC (except for hotels, motels, and apartment complexes), and the remaining 189 were inspected by MHD inspectors.

### Migrant Labor Housing Facility Standards

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

- Facility construction;
- Sanitary conditions;
- Water supply;
- Toilets;
- Sewage disposal;
- Storage, collection, and disposal of refuse;
- Light and air;
- Safety requirements;
- Fire protection;
- Equipment;
- Maintenance and operation of the facility; and
- Any other matter appropriate or necessary for the protection of the health and safety of the farm workers

**10 TAC, Chapter 90, Rule §90.4 "Standards and Inspections"** states:

*(a) Facilities must follow the appropriate housing standard as defined in 29 CFR §500.132, (the Employment and Training Administration (ETA) and Occupational Safety and Health Administrations (OSHA) housing standards also referred to as the "ETA and OSHA Housing Standards")*

In July of 2011, TDHCA and the Manufactured Housing Division (MHD) agreed that MHD would provide the required inspections and administer the issuance of licenses under the Migrant Labor Housing program through a Memorandum of Understanding (MOU). Under this MOU, which was last revised in March 2016, MHD staff have been tasked with conducting all inspections required under the program, which may include both inspections required in connection with obtaining and maintaining a required license as well as inspection or other observation of facilities that may be conducting unlicensed housing activity. MHD staff

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<sup>1</sup> As of August 17, 2022

members performing such inspections are reimbursed by TDHCA for time worked and for their travel expenses. Licenses prepared by MHD are executed by the Executive Director of TDHCA or his designee. Under this MOU the responsibility for the development and implementation of outreach strategies to support compliance with Tex. Gov. Code, Chapter 2306, Subchapter LL remained with TDHCA.

At the time of our initial review, the program did not have a specific point of contact, nor a contract manager at TDHCA. The Migrant Labor Housing program and its related activities were then placed under the purview of the Director of Special Initiatives. In 2019, and following his retirement, the program was moved under the TDHCA Compliance division. The staff have been overseeing and managing applications and coordinating inspection schedules with MHD inspectors.

### Site Visits

OIA visited a total of ten facilities in multiple counties around Texas, in order to gain an understanding of the conditions of these facilities and to evaluate their compliance with applicable rules and regulations. In four of these inspections OIA accompanied MHD inspectors on their inspection visits, and the remaining six facilities that OIA visited were already inspected and licensed during 2022. The facilities visited by OIA were located in the following cities and counties:

- Floydada, TX (Floyd County); the city is located approximately an hour north east of Lubbock. The three Migrant Labor housing facilities we visited in this area consisted of a single family home and two Motels. The single family home and one of the motels seemed to be in good condition and in compliance with requirements and standards. The second motel did not seem to meet the standards and was lacking safety items such as smoke detectors and fire extinguishers. At the end of the inspection the inspector provided the facility operators with a blank copy of the inspection report to sign, after verbally stating that they have passed the inspection. In our follow up of this visit we found that the second motel did not receive a certificate and the inspection report was changed from “pass” to “failed” (with whiteout).
- McAllen, TX (Hidalgo County); Located approximately 45 minutes west of Harlingen. The facility in McAllen was a hotel that has already been inspected by MHD inspector in March 2022 and licensed by TDHCA. The applicant had several rooms reserved at this hotel to house his H2A migrant farm workers. It appears that TWC does not inspect facilities that they determine to be “Public accommodations” which are typically hotels, motels, or apartment complexes. Therefore this facility was inspected by a MHD inspector. The rooms seemed to be in good condition and in compliance with the applicable rules.
- Rio Hondo, TX (Cameron County); this town is located approximately 20 minutes east of Harlingen. The facility that we visited in this town was inspected by TWC as part of their H2A application process. The documents and files related to this facility show that the TWC had performed a virtual inspection of this facility in November of 2021, in which they’ve requested the facility operators to submit pictures of the interior of the facility and certain items, such as smoke detectors, in lieu

[Date]

of in-person inspection. However, no pictures were available on file or were ever submitted to TDHCA. During our visit this facility did not seem to be in compliance with the applicable standards. The issues we observed included lack of smoke detectors on the walls, holes in the walls and ground, stains on the ceiling which seemed to be from water leak and mold, and all fire extinguishers were missing their inspection tags. We reached out to the TWC inspector to obtain copies of the pictures that they've received in 2021; and we were told that she had already deleted those pictures.

- New Braunfels, TX (Comal County); this city is located approximately an hour south of Austin, and houses several nurseries that distribute their products to the surrounding larger cities and counties, and landscaping companies for commercial and residential customers. The first facility we visited was a large metal building that was divided into four large units to house H2A farm workers who worked at the adjacent nursery. The metal building seemed to have been insulated and had all the necessary amenities and appeared to meet all the standards. We also toured the nursery and their work area. The second facility was a small mobile home in an empty lot in a residential neighborhood. This facility seemed to be very old, but seemed to meet the minimum requirements. The owners did mention that they are in the process of purchasing or building another facility to replace the current one. Since this one was a landscaping company we could not tour their work sites.
- Buda, TX (Hays County); Located approximately 25 minutes south of Austin. This facility was two units at an apartment complex that houses H2A visa holders. Both units that were rented for the farm workers seemed to be in good shape and in compliance with the standards. We also toured the nursery and saw some of the farm workers and their working conditions. We were told by the nursery operators that they have been cutting down on the number of hours for their workers because of the recent extreme heat and to prevent any heat exhaustion, but we were told the workers are in fact requesting to work more than 8 hours a day.
- Kyle, TX (Hays County); Kyle is located approximately 35 minutes south of Austin, and the facility we visited was a nursery that employs H2A visa holders as seasonal farm workers. The facility consisted of a large manufactured home with multiple bedrooms, full kitchen and living room / dining room area. They had 2 – 4 beds in each bedroom but not all of the beds were being currently used. They also had another structure similar to the manufactured home but with individual units. It consisted of 4 separate bedrooms with separate bathrooms connected to each unit. The housing facilities are located out on the open field about ten minutes away from worksite. They all seemed in good condition and up to the standards.
- Austin, TX (Williamson County). In this visit we accompanied one of the MHD inspectors on her inspection of a facility that houses H2A visa holders. This facility is three units of an apartment complex which have not been inspected by TWC, and therefore required inspection by MHD on behalf of TDHCA. The nursery that they're working at is within walking distance of the apartment complex. The condition of the apartments seemed very good and in compliance with the standards.

Observation Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
22-006.03	OIA recommends that the inspectors complete the inspection report prior to obtaining the facility representatives' signature, and not to give verbal decisions regarding the inspection result until the report is completed	October 31, 2022	Director of Compliance
22-006.04	OIA recommends that management consider outsourcing the inspections of MLHFs to an outside vendor, similar to Physical Inspection section.	October 31, 2022	Director of Compliance

**Management response**

*Management agrees that facility representatives should not be signing blank forms or be given verbal results without the report being completed and approved/denied by the Department staff in accordance with the requirement in Sec. 2306.930: "the department at the time of inspection shall give the license applicant the reasons that the facility does not meet those standards". Management will reach out to MLHF to collaborate training and ensure all parties are following the same protocol and processes. If questions arise on the acceptability of conditions observed during in an inspection, staff will be instructed to contact the Department's Compliance Program Administrator to verify acceptability before completing the inspection.*

*The Agency currently has an agreement with MHD to inspect Migrant Labor Housing Facilities since they have experience inspectors and remote offices throughout Texas. Due to limited funds, the Agency does not have the financial resources or FTE's to inspect these facilities. Management will reach out to MLHF to collaborate additional training on inspections, processes and protocols.*

**F. Other audit work**

As stated in the introduction section of this report, the initial audit of Migrant Labor Housing facilities was in 2019, which included a comprehensive review of the program and all of its applicable rules and regulations, as well as housing needs of farm workers and possible funding sources for additional housing facilities. The current review focused primarily on the inspection and licensing processes, and the condition of licensed housing facilities in different parts of Texas.

OIA extends our sincere appreciation to the Director of Operations at MHD, Directors of Compliance at TDHCA, and their respective teams for their cooperation and assistance during the course of this review.

Sincerely,



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

NS / MS

# **Appendix A**

*(Source: Texas Department of Agriculture)*



# STATE AGRICULTURE OVERVIEW

## Crop Production Summary - Texas: 2020

Crop	Planted	Harvested	Yield per Acre	Unit	Production	Price per Unit
	<i>acres</i>	<i>acres</i>	<i>units</i>		<i>units</i>	<i>dollars</i>
Winter Wheat	4,900,000	2,050,000	30.0	bushels	61,500,000	5.12
Oats	470,000	60,000	45.0	bushels	2,700,000	4.17
Corn for grain <sup>1</sup>	2,250,000	1,810,000	128	( <sup>2</sup> )	231,680,000	4.40
Corn for silage	(X)	270,000	18.0	tons	4,860,000	(X)
Sorghum for grain <sup>1</sup>	1,800,000	1,500,000	63.0	bushels	94,500,000	7.57
Sorghum for silage	(X)	100,000	12.5	tons	1,250,000	(X)
Soybeans	120,000	110,000	34.0	bushels	3,740,000	9.10
Peanuts	190,000	170,000	2,850	pounds	484,500,000	0.259
Cotton	6,838,000	3,231,000	685	( <sup>3</sup> )	4,613,000	(X)
All Hay	5,010,000	5,010,000	1.92	tons	9,604,000	146.00
Alfalfa hay	(X)	110,000	4.90	tons	539,000	193.00
All other hay	(X)	4,900,000	1.85	tons	9,065,000	138.00
Pecans <sup>4</sup>	115,000	(X)	370	pounds	42,600,000	1.52
<b>Principal Crops Total</b>	<b>21,872,000</b>	<b>14,999,000</b>				

(X) Not applicable.

<sup>1</sup> Planted for all purposes.

<sup>2</sup> Yield per acre and production in bushels, price in hundredweight.

<sup>3</sup> Yield per acre in pounds, production in 480-pound bales.

<sup>4</sup> Utilized, in-shell pecans for yield and production.

## Ranking and Value of Production, Select Commodities - Texas: 2017-2020

Item	2017		2018		2019		2020 <sup>1</sup>	
	Rank	Value	Rank	Value	Rank	Value	Rank	Value
		<i>million dollars</i>		<i>million dollars</i>		<i>million dollars</i>		<i>million dollars</i>
Cattle and calves	1	7,508	1	7,434	1	7,189	1	7,245
Milk	3	2,218	4	2,173	4	2,645	2	2,759
Broilers	4	2,232	3	2,375	2	2,165	3	1,692
Cotton, Upland	2	2,950	2	2,233	3	1,763	4	1,374
Hay, other	6	947	6	918	5	1,011	5	1,233
Corn for grain	5	1,160	5	781	6	1,201	6	1,019
Eggs <sup>2</sup>	9	396	7	546	7	371	7	455
Sorghum for grain	8	333	9	231	10	310	8	392
Wheat	10	265	10	290	9	317	9	314
Cottonseed	7	394	8	332	8	318	10	270
Hogs	11	194	12	218	11	230	11	201
Rice	12	136	13	188	12	141	12	196
Peanuts	14	199	11	132	14	137	13	129
Potatoes	13	135	14	94	16	88	14	110
Hay, Alfalfa	15	96	16	160	13	108	15	101
Onion, dry	19	74	18	61	17	51	16	73
Pecans	16	110	15	56	18	74	17	65
Cabbage	21	32	22	27	(D)	(D)	18	41
Soybeans	20	61	20	32	23	16	19	33
Sunflower	29	12	29	5	25	7	20	11

(D) Withheld to avoid disclosing data for individual operations.

<sup>1</sup> Preliminary value of production. Final value of production published in the February 2022 *Crop Values Summary*.

<sup>2</sup> Marketing year.

**U. S. Ranking and State Production, Select Commodities - Texas: 2020**

Item	Rank	Total	Percent of U.S. Total
<b>General</b>			
Number of Farms ..... number	1	247,000	12.23
Land in Farms ..... acres	1	126,000,000	14.05
<b>Crops</b>			
Hay ..... tons	1	9,604,000	7.57
Alfalfa hay ..... tons	27	539,000	1.02
Other hay ..... tons	1	9,065,000	12.29
Wheat ..... bushels	9	61,500,000	3.36
Winter wheat ..... bushels	6	61,500,000	5.25
Corn, Grain ..... bushels	14	231,680,000	1.64
Corn, Silage ..... tons	13	4,860,000	3.53
Cotton ..... bales	1	4,613,000	31.58
Cottonseed ..... tons	1	1,448,000	32.11
Oats ..... bushels	7	2,700,000	4.11
Peanuts ..... pounds	4	484,500,000	7.87
Pecans ..... pounds	3	42,600,000	13.95
Sorghum, Grain ..... bushels	2	94,500,000	25.34
Sorghum, Silage ..... tons	1	1,250,000	40.00
Soybeans ..... bushels	29	3,740,000	0.09
Sunflower ..... pounds	5	79,980,000	2.68
Watermelons ..... hundredweight	3	5,510,000	16.07
<b>Animals and Products</b>			
Cattle and calves <sup>1</sup> ..... head	1	13,100,000	14.00
Cows <sup>1</sup> ..... head	1	5,300,000	13.05
Beef cows <sup>1</sup> ..... head	1	4,685,000	15.04
Milk cows <sup>1</sup> ..... head	5	615,000	6.51
Cattle on Feed <sup>1</sup> ..... head	1	2,890,000	19.65
Calf crop ..... head	1	4,600,000	13.09
Hogs <sup>2</sup> ..... head	14	1,080,000	1.41
Red meat production ..... pounds	4	4,590,200,000	8.24
Chickens <sup>2 3</sup> ..... head	6	30,895,000	5.96
Broiler production ..... pounds	5	4,636,500,000	7.80
Eggs ..... number	5	6,254,300,000	5.61
Sheep and Lambs <sup>1</sup> ..... head	1	730,000	14.12
Wool Production ..... pounds	8	1,350,000	5.84
Cattle operations <sup>4</sup> ..... number	1	152,882	17.32
Beef cow operations <sup>4</sup> ..... number	1	134,250	18.41
Milk cow operations <sup>4</sup> ..... number	27	467	0.86
Hog operations <sup>4</sup> ..... number	1	5,894	8.87
Sheep operations <sup>4</sup> ..... number	1	14,672	14.47

<sup>1</sup> Inventory on hand January 1, 2021.

<sup>2</sup> Inventory on hand December 1, 2020.

<sup>3</sup> Excludes commercial broilers.

<sup>4</sup> Year 2017 data. Data published every 5 years in conjunction with the *Census of Agriculture*.

**Record Highs and Lows, Select Commodities - Texas: 1866-2020**

Item	Year Data Series Began	Record High <sup>1</sup>		Record Low <sup>1</sup>	
		Year	Quantity	Year	Quantity
Winter Wheat					
Harvested acreage ..... acres	1909	1947	7,310,000	1909	326,000
Yield per acre ..... bushels	1909	2007	37	1925	6.5
Production ..... bushels	1909	1985	187,200,000	1909	2,575,000
Oats					
Harvested acreage ..... acres	1866	1921	1,932,000	1869	28,000
Yield per acre ..... bushels	1866	1993,98	53	1918	15
Production ..... bushels	1866	1919	65,205,000	1868	795,000
Corn for Grain					
Harvested acreage ..... acres	1866	1921	5,947,000	1972	460,000
Yield per acre ..... bushels	1866	2007,14	148	1934	8.5
Production ..... bushels	1866	2016	323,850,000	1866	13,400,000
Sorghum for Grain					
Harvested acreage ..... acres	1929	1958	7,619,000	2011	1,150,000
Yield per acre ..... bushels	1929	2010	70	1934	7.0
Production ..... bushels	1929	1973	417,000,000	1934	9,902,000
Cotton					
Harvested acreage ..... acres	1866	1926	17,749,000	1866	490,000
Yield per acre ..... pounds	1866	2007	843	1921	101
Production ..... bales	1866	2017	9,296,000	1867	215,000
Soybeans					
Harvested acreage ..... acres	1934	1982	920,000	1934,35,36,37,	2,000
Yield per acre ..... bushels	1934	2014	39	55	6.0
Production ..... bushels	1934	1982	23,000,000	1938	16,000
Peanuts					
Harvested acreage ..... acres	1909	1942	870,000	1936	40,000
Yield per acre ..... pounds	1909	2005	3,750	1910	305
Production ..... pounds	1909	2005	975,000,000	1934	24,705,000
All Hay					
Harvested acreage ..... acres	1909	2013	5,640,000	1924	622,000
Yield per acre ..... tons	1909	2007	2.76	1909	0.69
Production ..... tons	1909	2007	14,740,000	1934	515,000
Alfalfa Hay					
Harvested acreage ..... acres	1919	1955	343,000	1925	45,000
Yield per acre ..... tons	1919	2004	5.7	1925	1.6
Production ..... tons	1919	1976	1,080,000	1956	81,000
				1925	

See footnote(s) at end of table.

--continued

**Record Highs and Lows, Select Commodities - Texas: 1866-2020 (continued)**

Item	Year Data Series Began	Record High <sup>1</sup>		Record Low <sup>1</sup>	
		Year	Quantity	Year	Quantity
<b>Cattle, January 1 inventory</b>					
Beef cows ..... head	1920	1975	6,895,000	1928	2,036,000
Milk cows ..... head	1867	1945	1,594,000	1979	310,000
All cattle and calves ..... head	1867	1975	16,600,000	1873	4,600,000
<b>Sheep, January 1 inventory</b>					
Breeding sheep ..... head	1920	1943	10,539,000	2012,13	540,000
All sheep and lambs ..... head	1920	1943	10,829,000	2012	670,000
<b>Wool</b>					
Sheep shorn ..... head	1909	1943	10,607,000	2020	180,000
Fleece per sheep ..... pounds	1909	1933	9.5	1909	5.9
Total production ..... pounds	1909	1943	80,713,000	2020	1,350,000
<b>Goat, January 1 inventory</b>					
All goats and kids ..... head	1998	1998,2001	1,400,000	2003,04	1,200,000
Angora goats ..... head	1992	1992	1,620,000	2013	74,000
<b>Mohair</b>					
Goats clipped ..... head	1909	1965	4,612,000	2020	61,000
Fleece per goat ..... pounds	1909	1987,2002	8.1	1909	3.0
Total production ..... pounds	1909	1965	31,584,000	2020	340,000
<b>Hog, inventory <sup>2</sup></b>					
Breeding ..... head	1963	1970	238,000	2009,10	60,000
Market ..... head	1963	1970	1,249,000	1984	345,000
All hogs and pigs ..... head	1866	1943	3,106,000	1984	415,000
<b>Poultry</b>					
Layers, inventory <sup>2</sup> ..... head	1974	2020	23,643,000	1975	10,000,000
Egg production ..... egg	1974	2006	5,039,000,000	1974	2,292,000,000
Broiler production ..... head	1974	2019	675,000,000	1975	166,169,000
<b>Honey Production</b>					
Per colony ..... pounds	1987	1995,97	106	2012	52
Total ..... pounds	1987	1991	10,920,000	2011	4,524,000

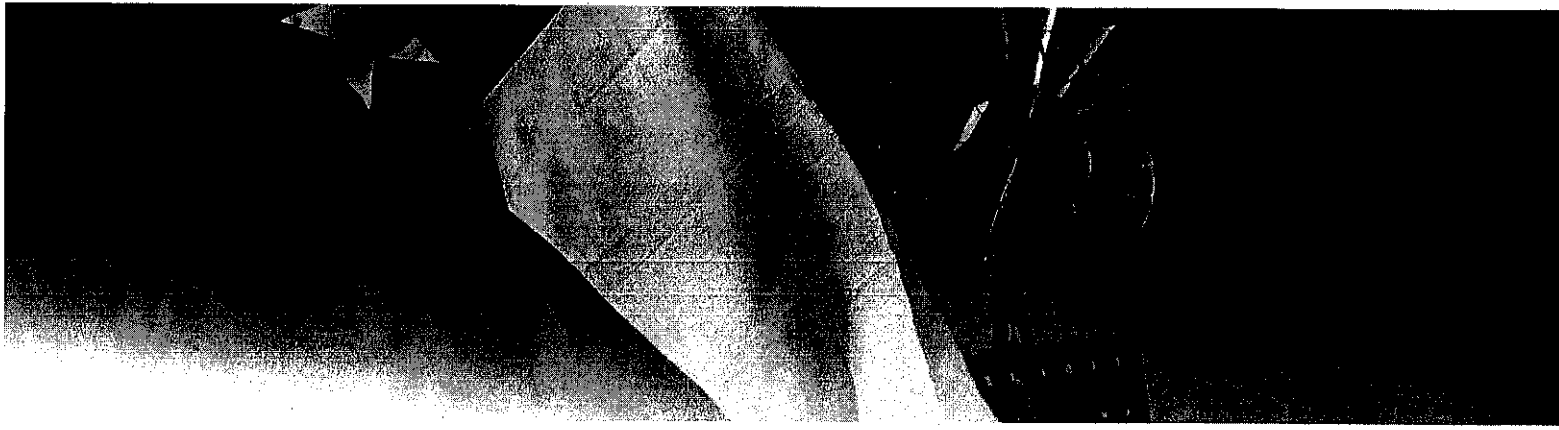
<sup>1</sup> Latest year that records were achieved. Some records were equaled in earlier years.

<sup>2</sup> Inventory changed from January 1 to December 1: Hogs in 1967, Chickens in 1969.

## Farms and Land in Farms, by Sales Class - Texas and United States: 2016-2020

[A farm is an establishment from which \$1,000 or more of agricultural products were sold or normally would be sold during the year.]

Category and Sales Class	2016	2017	2018	2019	2020	
<b>Texas</b>						
Number of Farms						
\$1,000 - \$9,999 .....	number	156,500	157,000	156,500	156,500	156,500
\$10,000 - \$99,999 .....	number	73,900	73,800	72,800	72,800	72,800
\$100,000 - \$249,999 .....	number	7,700	7,500	7,500	7,400	7,400
\$250,000 - \$499,999 .....	number	3,850	3,550	3,650	3,600	3,600
\$500,000 - \$999,999 .....	number	3,000	3,000	3,000	3,100	3,100
\$1,000,000 or more .....	number	3,550	3,650	3,550	3,600	3,600
TOTAL .....	number	248,500	248,500	247,000	247,000	247,000
Land in Farms						
\$1,000 - \$9,999 .....	1,000 acres	16,300	15,600	15,600	15,200	14,900
\$10,000 - \$99,999 .....	1,000 acres	39,500	39,100	38,300	39,000	39,000
\$100,000 - \$249,999 .....	1,000 acres	19,100	19,200	20,200	19,200	19,100
\$250,000 - \$499,999 .....	1,000 acres	15,800	15,200	14,700	14,800	14,800
\$500,000 - \$999,999 .....	1,000 acres	14,800	14,300	14,500	14,800	14,700
\$1,000,000 or more .....	1,000 acres	22,000	23,600	23,700	23,500	23,500
TOTAL .....	1,000 acres	127,500	127,000	127,000	126,500	126,000
Average Farm Size						
\$1,000 - \$9,999 .....	acres	104	99	100	97	95
\$10,000 - \$99,999 .....	acres	535	530	526	536	536
\$100,000 - \$249,999 .....	acres	2,481	2,560	2,693	2,595	2,581
\$250,000 - \$499,999 .....	acres	4,104	4,282	4,027	4,111	4,111
\$500,000 - \$999,999 .....	acres	4,933	4,767	4,833	4,774	4,742
\$1,000,000 or more .....	acres	6,197	6,466	6,676	6,528	6,528
TOTAL .....	acres	513	511	514	512	510
<b>United States</b>						
Number of Farms						
\$1,000 - \$9,999 .....	number	1,049,410	1,044,090	1,035,690	1,034,540	1,032,240
\$10,000 - \$99,999 .....	number	622,560	620,630	619,030	615,340	613,940
\$100,000 - \$249,999 .....	number	138,070	136,340	135,110	135,440	135,240
\$250,000 - \$499,999 .....	number	91,210	89,510	88,610	88,660	88,260
\$500,000 - \$999,999 .....	number	73,940	72,000	72,180	71,170	71,120
\$1,000,000 or more .....	number	80,150	79,430	78,580	78,250	78,200
TOTAL .....	number	2,055,340	2,042,000	2,029,200	2,023,400	2,019,000
Land in Farms						
\$1,000 - \$9,999 .....	1,000 acres	85,910	85,060	84,370	83,940	83,540
\$10,000 - \$99,999 .....	1,000 acres	188,090	186,660	186,770	187,100	186,550
\$100,000 - \$249,999 .....	1,000 acres	132,360	132,410	133,310	132,140	132,040
\$250,000 - \$499,999 .....	1,000 acres	129,570	129,580	128,500	128,390	128,390
\$500,000 - \$999,999 .....	1,000 acres	141,990	138,980	138,920	138,090	138,090
\$1,000,000 or more .....	1,000 acres	224,760	227,680	227,630	227,740	227,990
TOTAL .....	1,000 acres	902,680	900,370	899,500	897,400	896,600
Average Farm Size						
\$1,000 - \$9,999 .....	acres	82	81	81	81	81
\$10,000 - \$99,999 .....	acres	302	301	302	304	304
\$100,000 - \$249,999 .....	acres	959	971	987	976	976
\$250,000 - \$499,999 .....	acres	1,421	1,448	1,450	1,448	1,455
\$500,000 - \$999,999 .....	acres	1,920	1,930	1,925	1,940	1,942
\$1,000,000 or more .....	acres	2,804	2,866	2,897	2,910	2,915
TOTAL .....	acres	439	441	443	444	444



## TEXAS AGRICULTURE FACTS

- The economic impact of the Texas food and fiber sector totals about \$100 billion.
- Each U.S. farmer grows enough food and fiber for 155 people in the United States and abroad.
- 86% of the land in Texas is in some form of agricultural production.
- 98.5% of Texas' agricultural operations are still run by individuals or families.
- Agriculture employs one out of every seven working Texans.
- Texas ranks first in the nation in the number of cattle and calves, accounting for 13% of the U.S. total. Texas also ranks first in the number of cattle operations and the value of all cattle and calves.
- Texas is the top producer of cotton, hay, sheep, goats, mohair and horses. Some of the state's top crops also vegetables, citrus, corn, wheat, peanuts, pecans, sorghum and rice.
- Texas is one of the leading exporters of agricultural commodities. Some of Texas' top agricultural exports are live animals and meat, cotton and cottonseed, feed grains and products, hides and skins, wheat and products, and feeds and fodder.
- The Texas Department of Agriculture's Family Land Heritage Program has recognized more than 4,700 farms and ranches in 232 counties for being maintained in continuous agricultural operation by the same family for 100 years or more.





TEXAS DEPARTMENT OF AGRICULTURE  
COMMISSIONER SID MILLER

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### Texas Ag Stats

In 2017 Texas farms sold \$24.9 billion in agricultural products compared to 25.4 billion in 2012.

Texas leads the nation in number of farms and ranches, with 248,416 farms and ranches covering 127 million acres.

Of 408,506 producers in Texas 37% are women.

For 36% of producers in Texas, farming is their primary occupation.

Of 127 million acres in farmland, 7% (176,837 acres) is dedicated to orchards.

The average farm in Texas is 411 acres.

The average farm size in Texas decreased by 12 acres from 2012.

Although cattle farms (beef farms specifically) dominated in numbers in Texas, farms with poultry inventory showed the largest increase since 2012.

The average age of Texas farmers and ranchers is 59 years.

Texas producers with military service accounted for 50,004 farms and 52,357 producers with an average age of 68.

The average farm size of a Texas producer with military service is 385 acres.

1 of every 7 working Texans (14%) is in an agriculture-related job.

The average age of young producers (age 35 or less) was 29 and accounted for 21,304 farms.

The average farm size owned by a young producer in Texas is 385 acres.

New and beginning producers (10 years or less on any farm) came in at 118,999 operating 77,419 farms with an average size of 348 acres

The number of female producers increased 69% in Texas compared to 2012.

The category of Asian farmers in Texas increased significantly compared to 2012.

# Report Item

2



**AUDIT AND FINANCE COMMITTEE REPORT ITEM**

**INTERNAL AUDIT DIVISION**

**September 1, 2022**

Presentation and discussion of Internal Audit report of the Information Technology Application Controls at TDHCA, Report # 22-005

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS**  
**An Internal Audit of Information Technology Application Controls at TDHCA**  
**Audit Report # 22-005**

**Executive Summary**

IT Application Controls ("ITAC") are controls that apply to systems, components, processes, and data for a given technology application. The objectives of ITACs are to ensure the proper development and implementation of specific applications, as well as the security and integrity of programs, data files, and computer operations. The most common ITACs are:

- Application internal security.
- Technology planning and change management.
- Production support.
- Input data validations and output controls.
- Database integrity and verification controls.
- Vendor management, where applicable.

OIA reviewed the IT Applications Controls in place at TDHCA and found that in general, application controls are functioning as designed. Application controls are related specifically to critical information systems software programs and are necessary for the accurate and proper processing of critical business functions on the software. The audit included areas such as input and access controls, file and data processing controls, output controls and master files and data controls. Application controls were reviewed for selected applications used by TDHCA and Manufactured Housing ("MH") to manage Program and administrative data and activity.

**Findings and Observations**

1. OIA recommends a review of critical systems internal security be coordinated by the Information Systems Division ("ISD") and completed by the business users twice a year due to increased job transfer and hiring activity.
2. OIA recommends that the business user community focus on proactively identifying system-run verifications when planning future changes to critical business systems, with assistance from the ISD.
3. OIA recommends that TDHCA upgrade its Central Database Suite programming language to a more secure, modern version of Java.
4. OIA recommends additional compensating controls be implemented to monitor ISD's direct access to production files.
5. OIA recommends that management evaluate all end user applications and their criticality for inclusion into the controlled ISD environment. Management could consider alternatives to Microsoft Access to allow end users to retain data reporting capabilities.
6. Current functionality in disparate Programs should be studied to determine if processes and/or program code could be shared across systems to allow for the critical business process.
7. Because of the high use of end user applications and most security to those applications is maintained via network access, OIA recommends a review of network access security by business users twice a year.

**Management Response**

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

**Objectives, Scope and Methodology**

OIA assessed security access controls over critical business applications including the TDHCA Central Database Suite that includes the Housing Contract System ("HCS"), Compliance Monitoring and Tracking System ("CMTS") and Community Affairs Contract System ("CACs") as well as the MH Exodus system. We conducted an internal security review with the business users for these selected systems; reviewed activities of application programmers and technicians for these systems; observed and validated application input and output controls; and reviewed database and data controls in place. OIA also held extensive interviews with business users across the Department and MH to determine the end user applications in place for critical business processes.



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

8/24/2022  
Date Signed



**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS**

*www.tdhca.state.tx.us*

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August 24, 2022

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

RE: INTERNAL AUDIT OF THE INFORMATION TECHNOLOGY (IT) APPLICATION CONTROLS AT TDHCA

Dear Board Members:

This report presents the results of the Office of Internal Audit ("OIA") "*Audit of the Information Technology (IT) Application Controls at TDHCA*". This audit was conducted in accordance with applicable audit standards. IT Application Controls rated high on the risk assessment and was included in the approved Fiscal Year 2022 audit work plan. Application controls are related specifically to critical information systems software programs and are necessary for the accurate and proper processing of critical business functions on the software. The audit included areas such as input and access controls, file and data processing controls, output controls and master files and data controls. Application controls were reviewed for selected applications used by TDHCA and Manufactured Housing ("MH") to manage Program and administrative data and activity.

The Internal Auditing Act requires periodic audits of an agency's information systems. Internal TDHCA Information Systems Division ("ISD") staff deliver TDHCA and MH's technology with support from the Department of Information Resources ("DIR"). In addition to the ISD supported technology environment, TDHCA business users run a myriad of applications created via Microsoft-supported programs such as Excel, Access, and Word.

This report is divided into the following sections:

- A. Audit Results
- B. Background
- C. Applications Review and Testing
  - a. Application Internal Security Access
  - b. Input and Output Controls
  - c. Database and Data Controls
  - d. End User Applications

## **A. AUDIT RESULTS**

OIA reviewed the IT Applications Controls in place at TDHCA and found that in general, application controls are functioning as designed. OIA assessed security access controls over critical business applications including the TDHCA Central Database Suite that includes the Housing Contract System (“HCS”), Compliance Monitoring and Tracking System (“CMTS”) and Community Affairs Contract System (“CACs”) as well as the MH Exodus system. We conducted an internal security review with the business users for these selected systems; reviewed activities of application programmers and technicians for these systems; observed and validated application input and output controls; and reviewed database and data controls in place. OIA also held extensive interviews with business users across the Department to determine the end user applications in place for critical business processes. Further details regarding testing procedures may be found in Section C, Applications Review and Testing.

Suggestions for improvement included additional user access reviews for critical applications, additional monitoring of production access by ISD, evaluating critical end user applications for inclusion in the controlled ISD environment (including reporting), and enhance the identification and definition of input/output validation controls within requested system changes.

The audit covered activities and processes currently in place and during Fiscal Year 2022. OIA completed its IT General Controls review in FY2022; prior external reviews of IT Application Controls during the annual statewide audit covered specific Program (Texas Rent Relief or “TRR”) information security and business applications. In addition, OIA completed a review of the Continuity of Operations Plan that included Disaster Recovery testing, a key component of the IT environment, during FY2020.

## **B. BACKGROUND**

The Texas Internal Auditing Act requires periodic audits of a state agency’s major systems, including major information systems. TDHCA and Manufactured Housing (MH) information systems and resources are managed by the Information Systems Division (ISD). Beyond applications that exist in the ISD supported environment, business users utilize multiple end user applications such as Excel, Access and Word. In addition to the Internal Audit Act requirement to perform periodic IT audits, the Institute of Internal Auditors (“IIA”) professional practices framework and the Information Systems Audit and Control Association standards require periodic audits of various aspects of IT operations including Governance.

Based on review of the Information Technology applications in use at TDHCA and MH, OIA selected the following ISD supported systems for detailed review:

### **TDHCA – Central Database Suite that includes HCS, CMTS and CACS**

The Central Database Suite is written in Java language that is easily used across different platforms. There is a centralized database that is the data repository for all related systems (HCS, CMTS and CACS). HCS is used to manage all appropriated funds from the original fund level to Programs then to specific contracts and related expenses to those contracts. CMTS is used by Compliance to monitor primarily the Multifamily Properties built through the Low Income Housing Tax Credit and Multifamily Direct Loans, and Multifamily Revenue Bonds. CACS manages subrecipient activity for the Community Affairs Division.

## **MH – Exodus**

The Exodus system is written in Oracle PL/SQL code that is specific to Oracle databases. The system is used primarily for licensing of retail sellers, installation inspection of manufactured homes, and assisting in the release of tax liens.

IT Application Controls (“ITAC”) are controls that apply to systems, components, processes, and data for a given technology application. The objectives of ITACs are to ensure the proper development and implementation of specific applications, as well as the security and integrity of programs, data files, and computer operations. The most common ITACs are:

- Application internal security.
- Technology planning and change management.
- Production support.
- Input data validations and output controls.
- Database integrity and verification controls.
- Vendor management, where applicable.

## **C. APPLICATIONS REVIEW AND TESTING**

### ***Application Internal Security Access***

For TDHCA’s Central Database Suite, user roles and functions are defined based on job responsibilities. There is an overall inquiry access that can be assigned and update access is provided at a more granular level. These user roles are created at the time of development of the system. Most roles were created at the time of initial development of the Suite in 2006; there have been some added roles recently due to development of the Section 811 portion of CMTS. Overall the user security roles have remained relatively stable, with both internal and external access provided across the platform. OIA noted that MH’s Exodus system also has defined user roles based on job responsibility.

OIA coordinated a business user review of all internal security access for the Central Database Suite and Exodus. Based on this review, several changes and updates were identified across the systems. It has been previously noted a high level of internal transfers and new hires due to additional Program funds from the Federal Government due to the Pandemic. Additionally, OIA noted in the IT General Controls review (Report #22-001) that the systems access request process requires an Outlook form (“System Access Request”) to be completed and emailed to the appropriate parties for the required approvals. This process is not always followed within the user area to make changes; often there were no request forms in place to delete a transferred employee’s access. As a compensating control to keep the access levels to the minimum required by a person’s job, OIA suggests a more frequent review of these important internal systems access.

OIA also coordinated a business user review of the Exodus system and found similar circumstances. Staff transfer and change job responsibilities frequently; more instances of review are appropriate.

Finding Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
22-005.01	OIA recommends a review of critical systems internal security be coordinated by the ISD and completed by the business users twice a year due to increased job transfer and hiring activity.	12/31/2022	Director of Information Systems

**Management Response**

*TDHCA ISD agrees with observation 22-005.01 and will complete the appropriate user access reviews.*

**Input/Output/Processing Controls**

Input controls can include validation edits, required fields, completeness checks on data entry as well as cross referencing to predefined tables to ensure that data is associated as required. Examples of these types of controls that are programmed into the system include:

- Ensuring fields are letters or numbers
- Validating that data entered matches a specifically defined range
- Requiring that certain fields are entered in order to be complete
- Narrowing down data choices to those applicable to a higher level (e.g., only 2022 Programs may be funded via 2022 federal funds)

In the TDHCA and MH selected applications, there is a wide range of input controls. It appeared that when validations are specifically defined and requested by the user, the application worked well in processing these edits. Due to variation in how mature the system is, knowledge of the end users, and the change management process used within the Agency, there appeared to be opportunities for additional input verification to be defined by the business users.

The programming language used for the Central Database Suite is Java, a well-known and solid programming language. The benefit to its use is that Java can be utilized across multiple platforms. OIA noted that the version of Java has not been updated in many years. The Java language has been upgraded by the vendor many times since then; with each upgrade, the language is made more safe and secure based on known problems. The vendor would also release security patches in between updates. ISD applied any available patches for security when released, however the language version being used (Version 1.4) is no longer supported by the vendor. The current language presents security risks that need to be mitigated, especially since there are some external facing functions to the Internet. Another benefit of upgrading the language is that the ISD gains access to several pre-coded functions within Java that could make system changes more efficient.

OIA noted that ISD has defined a Legislative Appropriations Request for a project to upgrade the Java language for all the Central Database Suite for the 2024-25 cycle. This project would address concerns regarding the Java language version.

Most output created by the Central Database Suite is in the form of views to the Central database files. At the time of the initial implementation of the Central Database Suite in 2006, a decision was made that the end users would manage their own reporting needs using Access databases that pull data from the Central Database Suite

views. These views have not changed since the system was originally implemented, unless specific business users have requested additional fields. See more discussion below in the End User Applications section of this report.

MH’s Exodus system had many outputs defined and available, such as periodic reporting by date range or within specific activities. Outputs included the ability to print mailings directly via Exodus.

During the audit period, OIA noted that another instance occurred where a security certificate was not renewed, thereby creating downtime for at least two days for MH. Refer to audit report #22-001 IT General Controls for previous findings.

Finding Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
22-005.02	OIA recommends that the business user community focus on proactively identifying system-run verifications when planning future changes to critical business systems, with assistance from the ISD.	3/31/2023	Director of Information Systems
22-005.03	OIA recommends that TDHCA upgrade its Central Database Suite programming language to a more secure, modern version of Java.	8/31/2025	Director of Information Systems

**Management Response**

*TDHCA ISD staff will collaborate with the business owners of agency IT systems to gather information about observation 22-005.02 and decide what new controls and verifications can be implemented based on the outcome of the discussions and the direction of agency management. As noted above the agency included a capital budget project in its LAR request that would address observation 22-005.03. With the approval of this project TDHCA ISD would be able to upgrade this development environment.*

**Database and Data Controls**

The Central Database Suite contains several components, one of which is the Oracle database where the data is housed for the business applications to access. The tables environment is on a relatively recent version, Oracle Version 12; the most recent version of the environment offered is Oracle Version 19.

The Oracle database documents the timing and user of transactions created in HCS, CMTS, and CACS. Within these systems, a user can identify who completed the last update. In the case that a business user erroneously updates a data field or requires adjustment to data, a Help Desk ticket is created.

OIA found that the Software Development Manager maintains access to production data via the internal security review of these systems. The purpose of this access is to allow for quick turnaround in a business emergency; for example if a report is due and a data error was made, the update is required to allow the report to be filed.

While this situation does not occur very often, because of the direct access to production data by ISD, additional compensating controls could be implemented to monitor these instances. Monitoring when these situations occur can inform necessary changes to the system such as input verifications.

Finding Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
22-001.04	OIA recommends additional compensating controls be implemented to monitor ISD’s direct access to production files.	03/31/2023	Manger of Software Development

**Management Response**

*TDHCA ISD staff will discuss observation 22-001.04 to gather information and evaluate if and where compensating controls can be implemented based on the outcome of the discussions and the direction of agency management. TDHCA ISD is always open to review current controls and considering ways to improve and mitigate risk.*

*The Software Development Manager serves as the backup DBA for the agency. Due to small size of our IT department, many ISD staff members serve more than one role to effectively implement separation of duties as has been noted and required in past federal and state audits. In this case the Software Development Manager role would not normally have DBA access to our production database environment. However, the Software Development Manager also has the role of backup DBA. It is the backup DBA role that provides the position DBA access. The Software Development Manager does not perform any development work because of his DBA access. Ensuring that separation of duties is observed by not having both application and database access.*

*There are also audit controls in place that track what records any ISD DBA user account changes. The controls monitor and record field properties such as created by, modified by, created date and modified dates and should coincide with the closure date of submitted work orders for those actions. The work orders are created by and approved by the appropriate business staff. Some parts of the database will also go so far as to capture what changes were made in the HISTORY table. This type of tracking is usually only available to tables with higher visibility in the system.*

**End User Applications**

MH’s Exodus seems to meet most of the needs of the business, with almost no critical business functions run via end user applications by Manufactured Housing. The processing in Exodus is primarily limited to tracking activities and creating reports or mailings.

For TDHCA, the decision made with the initial implementation of the Central Database Suite was that rather than building a reports and output module, the business users would manage their own data needs by building Access databases and using Excel spreadsheets along with Word documents.

Since that decision was made almost 20 years ago, business complexity and activity has increased substantially. Discussion with key personnel within the Program and Administrative Divisions revealed the purposes of these end user applications; they fell in the following categories:



- **Workflow Management** – tracking pieces of work from one stage to the next, within and across Divisions
- **Reporting and other output generation such as mailings** – as discussed previously, reporting was out of scope in the original Central Database Suite implementation; includes critical reporting such as Performance Measures and other key reports
- **Application Processing** – accepting applications from various subrecipients, developers, individuals to access benefits offered by TDHCA
- **Quality Assurance checklists** – spreadsheets and database output to manage QA processes
- Data Calculation and Transformation – calculating business rules for an outcome; examples include the multifamily project income and rental tool currently in Excel and multiple Excel spreadsheets used to determine underwriting outcomes and asset management reviews; voluminous data downloads into Excel for the purpose of financial analysis completed by the Bond Finance Division
- **Employee productivity and coordination** – tracking how much activity is completed by employees and scheduling tasks

There are highly critical business processes currently being managed via end user applications, and the primary disadvantage of these applications from a control standpoint is a lack of audit trail and controlled change management environment. In addition, there are only two staff within the Agency who could make updates or changes to the Access reports, as the ISD does not directly support end user developed application tables, queries and reports.

The current Access version used within the Agency (primarily Access 2016) will lose support from Microsoft in 2025, with Access 2016 fully retired by 2026. The use of Access 2016 by the agency is by design. TDHCA ISD works with the divisions to stabilize all divisions across a single version of Access to make support easier and more efficient. Although, ISD does not directly support these Access databases, divisions do send help desk requests for assistance. Through TDHCA’s subscription to Office 365, the agency has licenses for the latest version of Access, as well as the other productivity applications in the Microsoft Office suite. TDHCA ISD staff will meet with agency staff when appropriate, to discuss and plan the next upgrade of Access to a later version, well before Access 2016 is unsupported.

OIA noted that a project has been requested via the 2024-25 Legislative Appropriations Request to automate Multifamily functions including Real Estate Analysis, Asset Management, and Finance that may address many of these manual processes. The Community Affairs (CA) Division has also requested a project to create a state wide CA contracts system that provides for both individuals’ application submission to the subrecipient as well as required reporting by subrecipients. Another opportunity to create efficiencies and value to the Department could be automating Bond Finance data downloads from external sources with the ability to complete more thorough financial analysis. OIA recommends exploring current solutions in place in other Program areas to determine if systems could manage critical business processes.

Finding Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
22-005.05	OIA recommends that management evaluate all end user applications and their criticality for inclusion into the controlled ISD environment. Management could consider alternatives to Microsoft Access to allow end users to retain data reporting capabilities.	8/31/2025	Director of Real Estate Analysis, Asset Management, Finance

Finding Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
22-005.06	Current functionality in disparate Programs should be studied to determine if processes and/or program code could be shared across systems to allow for the critical business process.	8/31/2025	Director of Real Estate Analysis, Asset Management, Finance
22-005.07	Because of the high use of end user applications and most security to those applications is maintained via network access, OIA recommends a review of network access security by business users twice a year.	3/31/2023	Director of Information Systems

**Management Response**

*TDHCA ISD will review the listed observations and work with divisions to discuss the observations and decide what new controls and procedures to implement based on the outcome of the discussions and the direction of agency management.*

OIA extends our sincere appreciation to management and staff across the Agency and Manufactured Housing, as well as specifically the Information Systems Division for their cooperation and assistance during the course of this audit.

Sincerely,



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

MS/SN

# Report Item

3

**AUDIT AND FINANCE COMMITTEE REPORT REQUEST**

**INTERNAL AUDIT DIVISION**

**September 1, 2022**

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

**Verbal Report**