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

AGENDA
08:00 AM
June 17, 2021

Meeting Location: In light of the March 13, 2020, disaster declaration by the Office of the Governor, and the subsequent waivers of portions of Tex. Gov't Code, Ch. 551*, this meeting of the TDHAS Audit and Finance Committee will be accessible to the public via the telephone and web link information, below. In order to engage in two-way communication during the meeting, persons must first register (at no cost) to attend the webinar via the link provided. Anyone who calls into the meeting without registering online will not be able to ask questions or provide comments, but the meeting will still be audible. A recording of the meeting will be made available to the public as soon as possible following the meeting[1].

Committee Webinar registration:
https://attendee.gotowebinar.com/register/3614837305911894032

Dial-in number: +1 (213) 929-4212, access code 374-973-001 (persons who use the dial-in number and access code without registering online will only be able to hear the Board meeting and will not be able to ask questions or provide comments). Note, this meeting will be proceeding as a videoconference under Tex. Gov't Code §551.127, as modified by waiver.

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

CALL TO ORDER
ROLL CALL — **Sharon Thomason, Chair**
CERTIFICATION OF QUORUM

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

ACTION ITEMS:

ITEM 1:	Presentation, discussion, and possible action to approve the Audit and Finance Committee Minutes Summary for March 11, 2021	**Mark Scott** Director of Internal Audit
ITEM 2:	Presentation, discussion, and possible action on the FY 2022 Operating Budget	**Joe Guevara** Director of Financial Administration

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

ITEM 3: Presentation, discussion, and possible action on the FY 2022 Housing Finance Division Budget — **Joe Guevara**, Director of Financial Administration

REPORT ITEMS:

ITEM 1: Presentation and discussion of Internal Audit of the Tenant Selection Criteria and Affirmative Marketing plans — **Mark Scott**, Director of Internal Audit

ITEM 2: Presentation and discussion of Internal Audit of the Non-performing Loans at TDHCA

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 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 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 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.

AUDIT AND FINANCE COMMITTEE ACTION REQUEST

INTERNAL AUDIT DIVISION

June 17, 2021

Presentation, discussion and possible action on Audit and Finance Committee Meeting Minutes Summary for March 11, 2021

RECOMMENDED ACTION

RESOLVED, that the Audit and Finance Committee Meeting Minutes Summary for March 11, 2021 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 22, 2021, at 8:30 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 via telephone and web link (GoToWebinar). Committee members Sharon Thomason, Leo Vasquez, Paul A. Braden, and Ajay Thomas 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 10, 2020 meeting of the Committee. Minutes were adopted as presented, and were approved.

The second action item on the agenda was the presentation, discussion, and possible recommendation to the full Board of the State Auditor's Office (SAO) audit of the TDHCA financial statements. It was presented by Mr. Robert Pagenkopf, project manager with SAO. He stated that SAO issued two unmodified opinions as part of the audit. One for the Department's basic financial statements for fiscal year 2020, and one for the Department's revenue Bond Program financial statements for fiscal year 2020.

In both cases it was determined that the financial statements were materially correct and reported in accordance with generally accepted accounting principles, or GAAP. He 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.

SAO also issued a report on the Department's compliance with the Public Funds Investment Act for the fiscal year ending August 31, 2020. The result of that work disclosed no issues of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Mr. Pagenkopf also discussed the communication that was issued on December 18, 2020, titled "Required communication with those charged with governance", as well as an unmodified, or clean opinion, issued on the Department's fiscal year 2019 financial data schedule as it related to fiscal year 2019 basic financial statements. SAO also 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. Specifically to this work, the U.S. Department of Housing and Urban Development requested some changes related to the Department's 2019 financial data schedule, and to assist in that effort, SAO is actively auditing those changes and anticipates issuing a new opinion on the revised 2019 financial data schedule within the next week.

Mr. Pagenkopf concluded his presentation and thanked the Staff for their cooperation throughout the audit. He then offered to answer any questions for the Committee members. With no questions from Committee members, Mrs. Thomason asked for a motion to recommend approval of the State Auditor's Office report to the full Board. Motion was passed.

Next Mrs. Thomason moved to the first report item on the agenda; presentation and discussion of Internal Audit of the Continuity of Operations (COOP) at TDHCA. Mr. Scott, Director of Internal Audit presented this report item. Mr. Scott stated that this audit was on the FY 2020 Audit plan, but was delayed due to COVID 19 situation. During 2020, TDHCA had its business continuity abilities stressed and tested by the COVID 19 pandemic, and the agency was able to adapt quickly and effectively. Internal Audit (IA) started its audit after the situation had become more stable.

IA found that the agency adapted well with innovative solutions during 2020. State requirements for COOP are in the Texas Labor Code and the Texas Administrative Code. COOP refers to a group of activities designed to ensure business continuity and disaster recovery. This is a living document that is updated periodically. IA had recommendations for updating and testing the COOP more frequently. One thing in particular that needs re-evaluation by management is the recovery time objective. It is currently estimated at three days. A recent test found that this is not an accurate estimate. This is a critical path item.

This concluded Mr. Scott's presentation and he offered to answer any questions that the committee members may have. Mrs. Thomason asked how many days would be accurate as far as recovery times goes. Mrs. Nelson, Internal Audit project manager, responded to this question and said that we don't know exactly what the appropriate recovery time objective is. The three days is based on how much time the Department of Information Resources (DIR) is committed to bring the environment to TDHCA. The process that they need to go through is just kind of deriving an appropriate recovery time objective by looking at what business functions would cause the Department the most pain from a regulatory or a financial or a customer perspective.

Mr. Scott added that the recovery time objective needs to be accurate for the rest of the COOP to be accurate. Mrs. Thomason thanked IA for their response and asked the Committee members if they had any questions. Mr. Braden asked about the recent winter storm, and if anything was triggered because of that. Mr. Scott deferred that question to Mr. Wilkinson, the executive director.

Mr. Wilkinson said that we have many of the employees that are teleworking, therefore the building was relatively empty. There were several employees who couldn't work because they lost power and internet and couldn't function. But as far as the operating system at TDHCA goes; there didn't seem to be any issues or loss of any data. The new emergency rental program was being launched during that time, Feb 15th, and that was affected by the winter storm. The vendor's call center was at about one third of its capacity and a huge backlog of messages was built up, but there was no loss of data.

With no other question, Mrs. Thomason moved to the next report item; report on the status of the internal and external audit activities, and was presented by Mr. Scott.

Mr. Scott said that the State Auditor's Office (SAO) have completed their audit of TDHCA's financial statement, as it was discussed and presented by Mr. Pagenkopf. The Comptroller's office is completing their post-payment audit, and we've been in contact with them pretty regularly. The audit seems to be going well and will be finished with fieldwork by the end of this month. So far it seems they'll have minor recommendations such as taking advantage of rebates. The federal compliance portion of the statewide audit was issued by Clifton Larson Allen, and the old finding related to the LIHEAP Program's household data system has been completely resolved, and won't appear in future reports.

As far as the status of the internal audit plan goes; the IA has started work on the audit of the non-performing loans, and the Tenant Selection and Affirmative Marketing Plans. We're anticipating to have these two audits and possibly one more from the Annual plan ready for presentation at the June meeting of the Audit and Finance Committee. That concluded Mr. Scott's presentation, and he offered to answer any questions that the Committee may have.

With no questions from the Committee, Mrs. Thomason thanked everyone and adjourned the meeting at 8:46 am.

Action Item

2

AUDIT AND FINANCE COMMITTEE ACTION REQUEST

FINANCIAL ADMINISTRATION DIVISION

JUNE 17, 2021

Presentation, discussion, and possible action on the SFY 2022 Operating Budget

RECOMMENDED ACTION

WHEREAS, the Governing Board of the Texas Department of Housing and Community Affairs (the Department or TDHCA) is required to approve a SFY 2022 Operating Budget; and

WHEREAS, the Department is required to submit the budget to the Office of the Governor (OOG) and the Legislative Budget Board (LBB);

NOW, therefore, it is hereby

RESOLVED, that the SFY 2022 Operating Budget, in the form presented to this meeting, is hereby approved; and

FURTHER RESOLVED, that upon approval by the TDHCA Governing Board, the Department will submit the budget to the OOG and the LBB.

BACKGROUND

In accordance with Tex. Gov't Code §2306.112 *et seq.*, TDHCA is charged with preparing an operating budget for Board adoption on or before September 1 of each fiscal year. The budget includes operational expenses distributed among the Department's divisions. It does not include federal or state program funds that pass through to subrecipients except for administrative funds used by the Department associated with those federal or state funds that are retained and reflected in the budget. This budget anticipates maximizing all federal administrative resources. In addition, in accordance with internal auditing standards and the Board's internal audit charter, the budget includes the Internal Audit Division's annual operating budget.

This SFY 2022 Internal Operating Budget, which the Board is being asked to approve, corresponds to the first year of the biennial General Appropriations Act (GAA) passed by the 87th Texas Legislature which appropriated $427,415,156. In total, this budget provides for administrative expenditures and associated revenues of $106,027,925 or a $77,190,455 (267.7%) increase from the prior year's budget. Of that total increase $76,323,451 is associated with temporary federal funding and $557,061 is an increase in Capital Budget projects.

The budget reflects 366 Full Time Equivalents (FTEs). Of the total FTEs, 249 CAP FTEs are associated with the Department, 64 are related to the Manufactured Housing Division, and 53 are Article IX (Temporary) FTEs associated with COVID-19 stimulus federal funds.

Additionally, the Housing Finance Division budget, which is funded with fees generated from the Department's Bond, Housing Tax Credit, Asset Management, Compliance, and Migrant Labor activities, increased by $769,937 or 4.6%. This increase is primarily attributed to an increase in the Capital Budget and a supplement to General Revenue due to the mandated 5% Biennial (2020-2021 biennium) reduction issued by state government leadership.

For a complete explanation of the aforementioned budget categories and details, please see the accompanying Comparison Report.

TEXAS DEPT. OF HOUSING AND COMMUNITY AFFAIRS
SFY 2022 Operating Budget
Comparison Report
June 17, 2021

This Comparison Report provides an explanation of some of the changes to cost categories.

In total, this SFY 2022 Operating Budget is $106,027,925 or a $77,190,455 (267.7 %) increase over the prior year budget.

$76,323,451 of this increase is due to additional COVID-19 stimulus federal funding associated with the CARES Act, Emergency Rental Assistance (ERA) and the American Rescue Plan Act (ARPA).

The remaining $309,944 variance, net of the Capital Budget which increased $557,061, resulted in only a 1.13% increase. Below are the highlights of the SFY 2022 Budget describing this change. Please refer to the Comparison by Expense Object schedule on Page 3.

1. **Salaries/Wages and Payroll Related Costs.** These two line items represent 27% of the total operating budget.

   The budget reflects 366 FTE's, an increase of 46 FTE's over the previous year. Of the total FTE's, 249 CAP FTEs are associated with the Department and 64 CAP FTEs are associated with the Manufactured Housing portion of the agency, and 53 are associated with temporary federal funding.

   The Salaries and Wages line item increased by $3,817,380 or 19.8%. An increase of 42 Article IX (Temporary) FTEs related to the CARES Act, ERA and ARPA account for $3,543,600 of this increase. The remaining $273,781 variance is primarily due to the funding of 4 vacant FTEs within our CAP to support the increasing demand on Multifamily Direct Loan activity and External Affairs in addition to our normal 1% growth rate.

   Payroll related costs increased $916,171. The increase in payroll related costs is proportional to the increase in salaries.

2. **In State Travel.** In state travel decreased $6,647 or 1.2% primarily due to decreased travel needs agency wide.

3. **Out of State Travel.** Out of State Travel increased by $17,652 or 12.5%. This increase is associated with travel for federal programs including CDBG, Texas Rent Relief (TRR), and the Homeowner Assistance Fund (HAF).

4. ***Professional Fees.** Professional Fees increased by $70,374,483 primarily related to 4 outsourcing contracts to assist in the administration and oversight of the TRR program for approximately $70M.

In addition, $374,400 is associated with a Capital Budget project for the upgrade to the Compliance Monitoring and Tracking System (CMTS) used by the Compliance department.

5. **Materials and supplies.** Materials and supplies increased by $58,009 due to an increase in consumable supplies associated with incoming new temporary FTE's.

6. ***Repairs/Maintenance.** Repairs and Maintenance increased by $181,058 primarily due to temporary federal funding purchases, system software updates such as a MITAS upgrade, and an increase related to the Capital Budget for Office 365 to improve our agency's technological resources.

7. **Rentals and Leases.** Rentals and leases increased by $47,209 primarily due to the extension of a lease for office space at the Twin Tower location. It had been the intent of the agency to allow this lease to expire in SFY21, however the additional space needed for new FTE's made it necessary for the agency to retain this leased space.

8. **Advertising**. Agency advertising costs increased $55,000 or 1666.7%. The increase in advertising costs is primarily due to the anticipation of an advertising and outreach campaign for the Comprehensive Energy Assistance Program (CEAP) and Low Income Home Energy Assistance Program (LIHEAP).

9. **Temporary Help.** Temporary Help increased $1,257,292 or 522.7%. The increase in this category is primarily due to additional assistance needed outside of current FTE's for the temporary federal funding grants. This includes services for translation of printed materials.

10. ***Furniture and Equipment.** Included in this category is the Legislature's approval of the Department's Hardware and Software Replacements project for SFY22 and SFY23 as it relates to non-capital expenses such as update and replacement of end-user computers and operational software upgrades, including the replacement of desktop computers and laptops that will be six years old or older and software updates. The benefits of these planned purchases include increased security, better performance for end-user computers, and the ability to provide continued support for TDHCA's enterprise systems, such as the Central Database, CAPPS Financials, MITAS Accounting/Loan Servicing, and the Manufactured Housing System.

    This line item increased $236,803 or 290.9%, due to an anticipated increase in capital expenditures for items such as computers and printers, the majority of which occur in the first year of the biennium.

11. ***Capital Outlay.** This category is also included in the Department's Hardware and Software Replacement project as it relates to direct capital expenses such as server hardware upgrades and network equipment enhancements, to ensure systems remain supported by vendors and security and reliability remain at high levels. This line item decreased $119,323 due to an anticipated decrease in Capital Budget items purchased. These types of expenditures normally occur in the second year of the biennium which is planned to occur in fiscal year 2023.

    **The Department's Capital Projects are included in Professional Fees, Repairs/Maintenance, Furniture and Equipment and Capital Outlay. These projects include hardware and software replacements, ongoing CAPPS financials license fees, CMTS, Office 365, and the Disaster recovery services through the data center services performed by the Department of Information Resources.*

Comparison by Expense Object

	2021 Budget	2022 Budget	Variance	Percentage Change
	(a)	(b)	(b-a)	
Salaries and Wages	$ 19,282,908	$ 23,100,288	$ 3,817,380	19.8%
Payroll Related Costs	$ 4,627,898	$ 5,544,069	$ 916,171	19.8%
Travel In-State	$ 565,385	$ 558,738	$ (6,647)	-1.2%
Travel Out-of-State	$ 141,404	$ 159,056	$ 17,652	12.5%
*Professional Fees	$ 1,603,394	$ 71,977,877	$ 70,374,483	4389.1%
Material and Supplies	$ 258,294	$ 316,303	$ 58,009	22.5%
*Repairs/Maintenance	$ 639,602	$ 820,660	$ 181,058	28.3%
Printing and Reproduction	$ 29,622	$ 21,122	$ (8,500)	-28.7%
Rentals and Leases	$ 104,268	$ 151,477	$ 47,209	45.3%
Membership Fees	$ 87,380	$ 90,490	$ 3,110	3.6%
Staff Development	$ 152,954	$ 216,854	$ 63,900	41.8%
Insurance/Employee Bonds	$ 420,193	$ 508,368	$ 88,175	21.0%
Employee Tuition	$ 6,000	$ 4,000	$ (2,000)	-33.3%
Advertising	$ 3,300	$ 58,300	$ 55,000	1666.7%
Freight/Delivery	$ 23,350	$ 25,450	$ 2,100	9.0%
Temporary Help	$ 240,558	$ 1,497,850	$ 1,257,292	522.7%
*Furniture and Equipment	$ 81,397	$ 318,200	$ 236,803	290.9%
Communication and Utilities	$ 422,240	$ 629,942	$ 207,702	49.2%
*Capital Outlay	$ 119,323	$ -	$ (119,323)	-100.0%
State Office of Risk Management	$ 28,000	$ 28,880	$ 880	3.1%
Total Department	28,837,470	$ 106,027,925	$ 77,190,455	267.7%
FTE's	320	366	46	14.4%

Comparison by Expense Object

	2021 Budget	2021 Capital	2021 Temporary Funds	2021 Base Budget	2022 Budget	2022 Capital	2022 Temporary Funds	2022 Base Budget	Base Variance	Percentage change
				(a)				(b)	(b)-(a)	
Salaries and Wages	$ 19,282,908		$ 847,936	$18,434,972	23,100,288		$ 4,391,536	$18,708,753	273,781	1.49%
Payroll Related Costs	$ 4,627,898		$ 197,054	$ 4,430,844	5,544,069		$ 1,053,969	$ 4,490,101	59,257	1.34%
Travel In-State	$ 565,385		$ 20,312	$ 545,073	558,738		$ 23,000	$ 535,738	(9,335)	-1.71%
Travel Out-of-State	$ 141,404		$ -	$ 141,404	159,056		$ 21,000	$ 138,056	(3,348)	-2.37%
*Professional Fees	$ 1,603,394	51,709	$ -	$ 1,551,685	71,977,877	497,368	$70,186,967	$ 1,293,542	(258,143)	-16.64%
Material and Supplies	$ 258,294		$ 1,500	$ 256,794	316,303		$ 61,669	$ 254,634	(2,160)	-0.84%
*Repairs/Maintenance	$ 639,602	47,731	$ -	$ 591,871	820,660	129,053	$ 80,747	$ 610,860	18,989	3.21%
Printing and Reproduction	$ 29,622		$ 8,500	$ 21,122	21,122		$ 600	$ 20,522	(600)	-2.84%
Rentals and Leases	$ 104,268		$ 7,500	$ 96,768	151,477		$ 12,693	$ 138,784	42,016	43.42%
Membership Fees	$ 87,380		$ -	$ 87,380	90,490		$ -	$ 90,490	3,110	3.56%
Staff Development	$ 152,954		$ -	$ 152,954	216,854		$ 68,000	$ 148,854	(4,100)	-2.68%
Insurance/Employee Bonds	$ 420,193		$ 13,158	$ 407,035	508,368		$ 84,344	$ 424,025	16,990	4.17%
Employee Tuition	$ 6,000		$ -	$ 6,000	4,000		$ -	$ 4,000	(2,000)	-33.33%
Advertising	$ 3,300		$ -	$ 3,300	58,300		$ 5,000	$ 53,300	50,000	1515.15%
Freight/Delivery	$ 23,350		$ -	$ 23,350	25,450		$ 2,200	$ 23,250	(100)	-0.43%
Temporary Help	$ 240,558		$ -	$ 240,558	1,497,850		$ 1,295,444	$ 202,406	(38,152)	-15.86%
*Furniture and Equipment	$ 81,397	35,797	$ 4,000	$ 41,600	318,200	185,200	$ 87,000	$ 46,000	4,400	10.58%
Communication and Utilities	$ 422,240	-	$ 1,000	$ 421,240	629,942		$ 50,243	$ 579,699	158,459	37.62%
*Capital Outlay	$ 119,323	119,323	$ -	$ -	-	-	$ -	$ -	-	-
State Office of Risk Management	$ 28,000		$ -	$ 28,000	28,880		$ -	$ 28,880	880	3.14%
Total Department	$ 28,837,470	$ 254,560	$ 1,100,960	$27,481,950	$106,027,925	$ 811,621	$77,424,411	$27,791,894	$ 309,944	1.13%

Method of Finance:

General Revenue:	2021 Budget	2021 Capital	2021 Temporary Funding	2021 Base Budget	2022 Budget	2022 Capital	2022 Temporary Funding	2021 Base Budget	Base Variance	Percentage change
				(a)				(b)	(b)-(a)	
GR-General Revenue	$ 809,636			$ 809,636	$ 720,461			$ 720,461	$ (89,175)	-11.0%
GR-Earned Federal Funds	$ 2,277,954			$ 2,277,954	$ 3,016,614		874,094	$ 2,142,520	(135,434)	-5.9%
Federal Funds-Non-HERA	$ 7,106,332	72,782	86,624	$ 6,946,926	$ 7,245,981	247,330		$ 6,998,651	51,725	0.7%
Federal Funds-Neighborhood Stabilization Program (HERA)	$ 111,183			$ 111,183	$ 110,990			$ 110,990	(193)	-0.2%
Federal Funds-CARES Act	$ 1,014,336		1,014,336	$ -	$ 2,588,214		2,588,214	$ -	-	-
Federal Funds-CRBRA	-			$ -	$ 72,671,902		72,671,902	$ -	-	-
Federal Funds-ARPA	-			$ -	$ 1,290,201		1,290,201	$ -	-	-
Appropriated Receipts - Housing Finance	$ 16,728,737	181,778		$16,546,959	$ 17,533,371	564,291		$16,969,080	422,121	2.6%
Appropriated Receipts - Migrant Labor Housing	$ 34,697			$ 34,697	$ 35,702			$ 35,702	1,005	2.9%
Appropriated Receipts - Manufact. Housing	$ 511,892			$ 511,892	$ 511,546			$ 511,546	(346)	-0.1%
Interagency Contracts	$ 242,703			$ 242,703	$ 302,944			$ 302,944	60,241	24.8%
Total, Method of Finance	$ 28,837,470	$ 254,560	$ 1,100,960	$27,481,950	$106,027,925	$ 811,621	$77,424,411	$27,791,894	$ 309,944	1.13%

Methods of Finance

The SFY 2022 Budget includes the following sources:

General Revenue

State appropriated funds including Housing Trust Fund, Housing and Health Services Coordinating Council, and Homeless Housing and Services Program.

Earned Federal Funds - Federal funds appropriated for indirect costs associated with administering federal funds.

Federal Funds

Federal Funds-(Non-Housing and Economic Recovery Act (HERA)) - Core federal programs such as Community Services Block Grant (CSBG), Emergency Solutions Grant (ESG), HOME, U.S. Dept. of Energy (DOE), Section 8 Housing, Section 811 PRA Program, Low Income Home Energy Assistance Program (LIHEAP), and National Housing Trust Fund.

Neighborhood Stabilization Program - Federally appropriated funds specifically designated for HERA-NSP.

Federal Funds – (CARES Act, CRBRA, & ARPA) - Supplemental stimulus funding in response to the Coronavirus pandemic for core federal programs such as CSBG, ESG, Section 8, LIHEAP. In addition, it reflects new funding for the Community Development Block Grant (CDBG), ERA, HAF, and the Low Income Household Water Assistance Program (LIHWAP).

Appropriated Receipts - Housing Finance (HF):

Bond Admin Fees - Appropriated receipts associated with our Single Family and Multifamily bond programs such as application fees, issuance fees, and administration fees.

Low Income Housing Tax Credit Fees - Appropriated receipts associated with our housing tax credit program such as application fees and commitment fees.

Compliance Fees **-** Fees assessed to multifamily developers for the purpose of ensuring long-term compliance.

Asset Oversight Fees - Fees assessed to Tax Credit Assistance Program (TCAP) and Exchange property owners for the purpose of safeguarding the Department's financial interest in their properties.

Migrant Labor Housing Fees – Fees assessed for the purpose of inspections of migrant housing facilities.

Appropriated Receipts (MH) - Manufactured Housing Division fees generated through inspecting, licensing, and titling activities.

Interagency Contracts - Contract with the Texas Department of Agriculture for the Office of Colonia Initiatives (OCI) Self-Help Center's operation and administration; and a contract with the Texas Health and Human Services Commission (HHSC) for the Money Follows the Person program.

FISCAL YEAR 2022
OPERATING BUDGET

(September 1, 2021 through August 31, 2022)

June 17, 2021

Prepared by the Financial Administration Division

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
SFY-2022 OPERATING BUDGET

T A B L E O F C O N T E N T S

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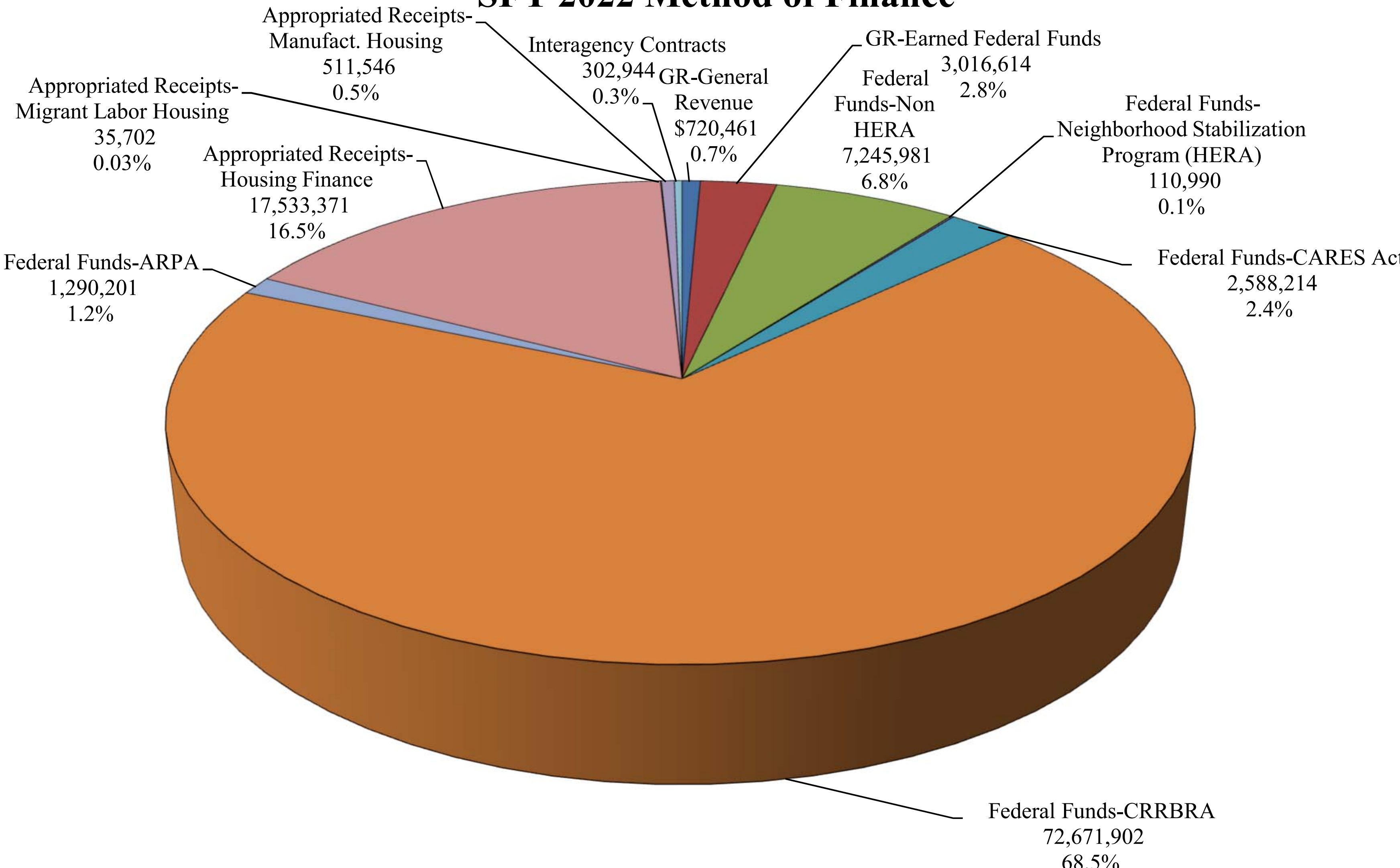
Texas Department of Housing and Community Affairs
SFY 2022 Method of Finance



Total Budget: $106,027,925

Agency Wide - By Method of Finance
September 1, 2021 thru August 31, 2022

Budget Categories	General Revenue	Federal Funds	CARES Act	CRBRA	ARPA	Appropriated Receipts	Interagency Contract	MH Appropriated Receipts	Total
Salaries	2,559,726	4,857,829	1,466,228	1,365,039	989,884	11,267,085	189,996	404,501	23,100,288
Payroll Related Costs	614,334	1,165,879	351,895	327,609	237,572	2,704,100	45,599	97,080	5,544,069
Travel In-State	33,925	176,373	11,500	10,000	1,500	318,207	7,233	-	558,738
Travel Out-of-State	2,307	39,300	6,000	10,000	5,000	96,449	-	-	159,056
Professional Fees	33,465	500,142	50,000	70,130,000	-	1,208,368	55,903	-	71,977,877
Materials/Supplies	85,324	38,718	12,983	10,228	4,742	163,307	1,000	-	316,303
Repairs/Maintenance	185,994	104,849	600	7,000	1,500	520,717	-	-	820,660
Printing and Reproduction	1,507	3,028	100	500	-	15,987	-	-	21,122
Rental/Lease	35,477	14,852	993	1,391	497	98,267	-	-	151,477
Membership Dues	1,813	28,801	-	-	-	59,876	-	-	90,490
Staff Development	15,070	36,684	10,000	50,000	7,000	98,100	-	-	216,854
Insurance/Employee Bonds	105,351	80,499	22,092	20,525	14,995	251,729	3,213	9,965	508,368
Employee Tuition	1,619	1,500	-	-	-	881	-	-	4,000
Advertising	75	51,500	5,000	-	-	1,725	-	-	58,300
Freight/Delivery	1,292	2,759	500	1,500	200	19,199	-	-	25,450
Temporary Help	25,717	50,189	621,500	660,000	5,500	134,944	-	-	1,497,850
Furniture/Equipment	8,924	78,886	5,000	60,000	16,000	149,390	-	-	318,200
Communications/Utilities	51,872	124,513	23,823	18,109	5,811	405,814	-	-	629,942
Capital Outlay	-	-	-	-	-	-	-	-	-
State Office of Risk Management	8,984	670	-	-	-	19,226	-	-	28,880
Total	**3,772,776**	**7,356,970**	**2,588,214**	**72,671,903**	**1,290,203**	**17,533,371**	**302,944**	**511,546**	**106,027,925**
Budget by Method of Finance, 2021	3,087,590	7,217,515	1,014,336	-	-	16,763,434	242,703	511,892	28,837,470
Variance from 2021	685,186	139,455	1,573,878	72,671,903	1,290,203	769,937	60,241	(348)	77,190,455

Action Item

3

AUDIT AND FINANCE COMMITTEE ACTION REQUEST

FINANCIAL ADMINISTRATION DIVISION

JUNE 17, 2021

Presentation, discussion, and possible action on the SFY 2022 Housing Finance Division Budget

RECOMMENDED ACTION

WHEREAS, the Governing Board of the Texas Department of Housing and Community Affairs (the Department or TDHCA) is required to approve a SFY 2022 Housing Finance Division Budget; and

WHEREAS, the Department is required to submit the budget to the Office of the Governor (OOG) and the Legislative Budget Board (LBB);

NOW, therefore, it is hereby

RESOLVED, that the SFY 2022 Housing Finance Division Budget, in the form presented to this meeting, is hereby approved; and

FURTHER RESOLVED, that upon approval by the TDHCA Governing Board, the Department will submit the budget to the OOG and the LBB.

BACKGROUND

In accordance with Tex. Gov't Code §2306.113, the Department shall create a separate annual budget for the Housing Finance Division to certify the housing program fee revenue that supports the Department. While at the time the statute was created such a division existed, the duties associated with the Housing Finance Division have been spread among multiple divisions in the agency as reorganizations to improve efficiency have occurred. This budget is a subset of the whole operating budget and shows the Housing Finance revenues also known as Appropriated Receipts that support the operating budget.

This SFY 2022 Housing Finance Division Budget, which the Board is being asked to approve, is $17,533,371. The Housing Finance Budget complies with the provisions of the General Appropriations Act (GAA).

In addition, in accordance with Tex. Gov't Code §§2306.117 and 2306.118, the Department incurs operational and nonoperational expenses in carrying out the functions of the Housing Finance Division. These types of expenses may be paid only from revenues or funds provided under this Chapter. The revenue and funds of the Department received by or payable through the programs and functions of the Housing Finance Division, other than funds necessary for the operation of the Housing Finance Division and appropriated funds, shall be administered outside the treasury with the Texas Treasury Safekeeping Trust Company.

Housing Finance Budget Appropriated Receipts

September 1, 2021 thru August 31, 2022

Budget Categories	Executive Administration	Agency Administration	Program Controls and Oversight	Bond Finance	Programs	Capital Budget	Payroll Related Costs	Total
Salaries	1,667,109	2,841,490	4,274,430	1,002,369	1,481,688			11,267,085
Payroll Related Costs	-	-	-	-	-		2,704,100	2,704,100
Travel In-State	47,409	8,026	220,676	22,110	19,986			318,207
Travel Out-of-State	29,794	4,793	20,350	24,700	16,812			96,449
Professional Fees	152,255	262,768	410,188	51,503	3,641	328,013		1,208,368
Materials/Supplies	18,582	53,501	54,912	14,301	22,010			163,307
Repairs/Maintenance	25,408	111,980	181,954	47,745	38,613	115,015		520,717
Printing and Reproduction	1,689	4,098	2,763	6,050	1,388			15,987
Rental/Lease	5,676	59,426	13,848	12,116	7,202			98,267
Membership Dues	49,453	2,833	6,239	1,350	-			59,876
Staff Development	11,006	30,485	26,990	14,000	15,619			98,100
Insurance/Employee Bonds	32,916	65,848	100,594	20,311	32,060			251,729
Employee Tuition	-	881	-	-	-			881
Advertising	1,500	225	-	-	-			1,725
Freight/Delivery	1,817	2,525	9,431	4,950	476			19,199
Temporary Help	69,383	19,535	11,630	23,321	11,076			134,944
Furniture/Equipment	6,500	5,932	5,245	1,800	8,650	121,263		149,390
Communications/Utilities	39,595	76,412	104,659	137,134	48,014			405,814
Capital Outlay	-	-	-	-	-	-		-
State Office of Risk Management	1,578	8,297	5,750	1,052	2,549			19,226
Total	**2,161,669**	**3,559,057**	**5,449,658**	**1,384,813**	**1,709,783**	**564,291**	**2,704,100**	**17,533,371**

Method of Finance:	
Single Family Bond Administration Fees	1,888,237
Multifamily Bond Administration Fees	594,720
Compliance Fees	3,708,745
Housing Tax Credit Fees	2,851,045
Asset Management Fees	578,666
Subtotal:	**9,621,413**
Central Support Single Family Bond Administration Fees	1,241,918
Central Support Multifamily Bond Administration Fees	1,235,770
Central Support Compliance Fees	2,797,970
Central Support Housing Tax Credit Fees	2,086,647
Central Support Asset Management Fees	549,652
Subtotal:	**7,911,958**
Total, Method of Finance	**17,533,371**

Report Item

1

AUDIT AND FINANCE COMMITTEE REPORT ITEM

INTERNAL AUDIT DIVISION

June 17, 2021

Presentation and discussion of Internal Audit report of the Tenant Selection Criteria and Affirmative Marketing Plans, Report # 21-001

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
An Internal Audit of the Tenant Selections and Affirmative Marketing Plans
Audit Report # 21-001

Executive Summary

The Office of Internal Audit (OIA) reviewed the Tenant Selection Criteria, also known as Written Policy and procedure (WPP), and Affirmative Fair Housing Marketing plans (AFHMP) at TDHCA, its internal controls, and policies and procedures that are currently in place. Based on our reviews and testing, the OIA concludes Fair Housing division conducts reviews of the WPP and AFHMP in compliance with applicable rules. The OIA has identified the following improvement areas to enhance consistency, efficiency, record keeping.

Observations and Recommendations

- OIA recommends that FHDMR division establish regularly scheduled and routine trainings related to WPP and AFHMP that would be published on TDHCA website.
- OIA recommends that FHDMR division add the voluntary review requests that are submitted by property owners to the existing database as soon as they're received to ensure timely response, and to avoid any requests from being missed or overlooked.
- OIA recommends that FHDMR division finalizes the revision of the new MOU as early as possible that would align with the current role of the FHDMR division in the process.
- OIA recommends that FHDMR division start implementing its priory model and selecting properties for review.
- OIA recommends that FHDMR division establish written SOPs specific to WPP and AFHMP, signed and dated by management, for consistency and efficiency of the operation.

Management Response

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

Objective, Scope and Methodology

Our audit scope included a review of the Fair Housing Act, and Texas Fair Housing Act (as applicable), Texas Administrative Code (TAC) Chapter 10, Subchapter F and G, and other applicable rules and regulations. We also evaluated the division's internal policies and procedures, as well as the its process of providing training and technical assistance.

Mark Scott 5/27/2021

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Mark Scott, CPA, CIA, CISA, CFE, MBA — Date Signed
Director, Internal Audit

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

www.tdhca.state.tx.us

Greg Abbott
GOVERNOR

May 27, 2021

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Email: mark.scott@tdhca.state.tx.us

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

RE: Internal Audit of the Tenant Selection and Affirmative Marketing Plans

Dear Board Members:

This report presents the results of the Office of Internal Audit ("OIA") review of the Tenant Selection and Affirmative Marketing Plans at TDHCA. This audit was included in the Fiscal Year 2021 Annual Audit Plan and was conducted in accordance with applicable audit standards. The Tenant Selection and Affirmative Marketing plans rated high on the annual risk assessment due to changes in management, as well as lack of any recent audits. These plans serve a critical aspect of the Fair Housing Act to ensure development and property owners' compliance with applicable rules and regulations.

For this audit we reviewed, as applicable, the Fair Housing Act, Texas Fair Housing Act, Texas Administrative Codes (TAC) Chapter 10, Subchapter F and G, and other applicable rules and regulations. We also evaluated the Department's internal policies and procedures related to reviewing and monitoring of Tenant Selection criteria and Affirmative Marketing plans, as well as the division's process of providing training and technical assistance to property owners.

Background

Fair Housing Act, also known as Title VIII of the Civil Rights Act of 1968, is a federal law enacted in 1968 that prohibits discrimination in the purchase, sale, rental, or financing of housing, private or public, based on race, skin color, sex, nationality, or religion. The Civil Right Act of 1964 paved the way for this legislation. The Civil Right Act was passed by Congress in direct response to the movement to end racial segregation and injustice in the 1950s and 1960s. The statue has been amended serval times since then, including in 1988 to add disability and family status to the Act. The Act is enforced at the federal level by the Department of Housing and Urban Development (HUD).

24 CFR (Code of Federal Regulation) § 100.5 (a);

- *It is the policy of the United States to provide, within constitutional limitations, for fair housing through the United States. No person shall be subjected to discrimination because of their race, color, religion, sex, handicap (disability), familial status, or national origin in the sale, rental, or advertising of dwellings, in the provision of brokerage services or in the availability of real estate-related transactions.*

In the HUD's ***Final Rule*** dated July 2015[1], HUD states that the approach to affirmatively furthering fair housing carried out by HUD program participants prior to this rule has not been as effective as originally envisioned. This rule refines the prior approach by replacing the analysis of impediments with a fair housing assessment that should better inform program participates' planning processes with a view toward better aiding HUD program participants to fulfill this statutory obligation. Through this final rule, HUD provides HUD program participants with an approach to more effectively and efficiently incorporate into their planning processes the duty to affirmatively further the purposes and policies of the Fair Housing Act.

Each state law can enhance the protections under the Fair Housing Act, but cannot reduce them. In addition, cities, counties, and other municipalities may have additional housing discrimination laws to protect additional groups. In Texas, the Texas Property Code 301, also known as Texas Fair Housing Act, delegates the powers and duties to the Texas Workforce Commission. The Texas Fair Housing Act mirrors the text of the Federal Fair Housing Act, and was passed by Texas Legislature on May 25, 1989.

Property code Title 15, Fair Housing Practices, Chapter 301, SubChapter A:

- ***Sec.301.0015;*** *Texas Workforce Commission. The powers and duties exercised by the Commission on Human Rights under this chapter are transferred to the Texas Workforce Commission.*
- ***Sec.301.021(a);*** *A person may not refuse to sell or rent, after the making of a bona fide offer, refuse to negotiate for the sale or rental of, or in any other manner make unavailable of deny a dwelling to another because of race, color, religion, sex, familial status, or national origin.*

[1] Federal Register/ Vol. 80, No 136/Thursday, July 16, 2015 / Rules and Regulations

Furthermore, the *Executive Order* dated January 17, 1994 [2] provided guidance relating to the administration of the Federal programs and activities relating to Housing and Urban Development in order to affirmatively further fair housing throughout the United States.

- ***Sec 2-20**2; The head of each executive agency is responsible for ensuring that its program and activities relating to housing and urban development are administering in a manner affirmatively to further the goal of fair housing as required by section 808 of the Act .*
- ***Sec 2-203;** In carrying out the responsibilities in this order, the head of each executive agency shall take appropriate steps to require that all persons or other entities who are applicants for, or participants in, or who are supervised or regulated under, agency programs and activities relating to housing and urban development shall comply with this order.*

As a recipient of HUD funding, the Texas Department of Housing and Community Affairs follows HUD guidelines.

Processes and Procedures

In May 2020, the oversight of the Multifamily requirements for Tenant Selection Criteria, which is also known as Written Policy and Procedures (WPP), and Affirmative Fair Housing Marketing plan (AFHMP) were transferred from the TDHCA Compliance Monitoring division to its Fair Housing Data Management and Reporting (FHDMR) division. Effective May 17, 2020, the TAC rule elements for these two functions were repealed from 10 TAC Chapter 10 Subchapter F Compliance Monitoring division, and replaced with the new 10 TAC Chapter 10 Subchapter G. This latter rule is under the purview of FHDMR division.

Prior to May 2020, the Compliance Monitoring division was tasked with reviewing and monitoring of the WPPs and AFHMPs for the properties that were under the Department's jurisdictions. These reviews were conducted along with other federally required monitoring that is performed every three to five years, depending on the funding source. The properties that did not meet the requirements of WPP and AFHMP were given the opportunity to submit their corrective action plans, and to provide proof of compliance within 90 days. Properties that failed to correct and revise their policies and procedures were referred to the Enforcement Committee at TDHCA for further action. The Enforcement Committee then worked with the property owners and representatives to correct instances of non-compliance before any disciplinary actions were taken. The disciplinary action available to Enforcement Committee include debarment and fines.

We have noted that historically the Enforcement Committee has exhausted all of the available options by providing guidance and assistance to property owners and their representatives in clearing any findings prior to considering any disciplinary actions.

[2] Executive Order 11063

Since May 2020, and transfer of these functions to FHDMR division, the staff have taken the similar approach in assisting properties in meeting the requirements of Fair Housing Act. This approach included, but not limited to, providing comprehensive and robust training and guidance to property owners. Immediately following TAC rule updates in May 2020, FHDMR staff and Compliance staff delivered a joint webinar, hosted by the Texas Apartment Association, to review all updates made to the existing TAC rules at 10 TAC Subchapter F and the new rules at Subchapter G.

FHDMR staff have also provided two trainings related to WPP and AFHMP in Feb 2021, with several more scheduled for the month of April as Fair Housing Month. In Feb more than 200 individuals attended the trainings provided by FHDMR staff. According to the management "in celebration of Fair Housing Month, FHDMR staff presented a series of six webinars, reaching over 1,400 participants. This is the largest training initiative undertaken by FHDMR staff to date". These trainings are advertised through different methods such as TDHCA website, TDHCA opt-in email distribution lists, TDHCA's social media platforms, as well as through distribution lists of other state agency partners such as the Texas Workforce Commission Civil Rights Division and the Governors Committee on People with disabilities.

Observation Item Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
21-001.01	OIA recommends that FHDMR division establish regularly scheduled and routine trainings related to WPP and AFHMP that would be published on TDHCA website	Completed	FHDMR

Management response

Management appreciates the opportunity to provide responses to the observations made in this report. Regarding the Process and Procedures summary immediately above, Management offers comments on OIA's assessment training efforts. All training webinars are recorded and posted on TDHCA's website and YouTube Channel. It has always been standard practice for FHDMR to publish these training materials on the website following a training event. The training materials include videos, presentation slides, transcripts, and relevant handouts for each webinar and are available at https://www.tdhca.state.tx.us/fair-housing/presentations.htm. Trainings will continue to be provided regularly each April during Fair Housing month and after each rulemaking action. The target completion date has been marked as completed because regular trainings already occur and all materials already appear on the website.

The next approach taken by the FHDMR since May 2020 was to offer voluntary review of the WPPs and AFHMPs to property owners. Per §10.803(i), the property owners have the ability to request a voluntary review of WPP. In the initial ramp-up of the AFHMP and WPP review process under FHDMR's purview, FHDMR staff allowed an influx of review requests for both AFHMP and WPP to test the review sheets and gain a better understanding of the technical assistance that would be required. Several submissions have been received by the staff, and the division's record shows that a total of 50 reviews have been conducted by the staff. However, internal audit was unable to determine the number of submissions that have been received so far, nor could we determine the average review and response time, due to the fact that the FHMDR division does not have a tracking list for the reviews that are being submitted. According to the staff, the submissions are kept in the FH email inbox folder until they're reviewed. The email inbox folder also contains other correspondences between staff and property owners related to WPP and AFHMP. Once the submitted plans are reviewed they're added to the tracking spreadsheet.

To assist this process further, the FHDMR division initiated the "Affirmative Marketing and Tenant Selection Criteria Review Handbook," that outlines the review process for staff and outlines the rules and regulations related to these functions. This document was created and has been effective since January 2021.

Observation Item Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
21-001.02	OIA recommends that FHDMR division add the voluntary review requests that are submitted by property owners to the existing database as soon as they're received to ensure timely response, and to avoid any requests from being missed or overlooked.	Completed	FHDMR

<u>**Management response**</u>

Management agrees with this recommendation and has created an Access database that captures all reviews by request type: Voluntary, TDHCA Initiated, or Other. With this database, FHDMR staff is able to more accurately track review times, manage workload, and consider any outstanding reviews as FHDMR reaches the one-year mark of having oversight of these reviews. Regarding the provision for review requests in §10.803(i), now that the ramp-up phase of the review oversight is completed, FHDMR is more strictly limiting review requests to WPP for portfolios of developments.

Pursuant to the Texas Government Code Chapter 2306, and Texas Property Code Chapter 301, TDHCA has entered into an agreement with the Texas Workforce Commission (TWC) to facilitate interagency cooperation between the two agencies regarding issues and complaints related to housing. The Memorandum of Understanding (MOU), outlines the responsibilities and obligations of each party in reporting, investigating, and conducting periodic reviews related to the requirements of the Fair Housing Act of 1968 as well as the Texas Fair Housing Act.

The duration of the current MOU is listed as Sep 2016 through Aug 2021, and it refers to the obligations of the Compliance Monitoring staff in reviewing, monitoring, and reporting on any instances of noncompliance. According to the staff, a revised version of the MOU is in the works, which will include the recent changes to WPP and AFHMP since their transfer from Compliance Monitoring division to FHDMR division.

Observation Item Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
21-001.03	OIA recommends that FHDMR division finalizes the revision of the new MOU as early as possible that would align with the current role of the FHDMR division in the process.	September 1, 2021 (estimated effective date of new MOU)	FHDMR

Management response

The current MOU is effective through August 31, 2021. A new MOU has been drafted well in advance of the current August 31, 2021, expiration date and is currently with TWC for review.

According to the *Affirmative Marketing and Tenant Selection Criteria Review* handbook, and per Rule §10.802, the WPPs will be reviewed periodically by the FHDMR division, or as a result of complaints received by the division. The majority of these complaints are typically received through the TDHCA complaint system and Texas workforce Commission Civil Rights Division (TWC-CRD).

The Housing Resource Center (HRC) division at TDHCA is tasked with reviewing complaints that are submitted through the TDHCA complaint system, and forwarding each complaint to the appropriate program and division based on the content of the complaint. Each division, or program, is responsible for reviewing the complaints and providing status updates to HRC division until the complaint is closed.

As of the end of our review and fieldwork, the FHDMR division has received 11 complaints from HRC, of which ten were related to reasonable accommodation under the Fair Housing Act. The complaints were submitted to TDHA as well as to TWC by the Fair Housing Council of Greater San Antonio, a private nonprofit corporation that is funded by HUD, in Feb 2021. It appears that in 2019, the council performed testing at several TDHCA properties in the area. Their complaint claims that ten properties did not meet the Fair Housing Act requirements in providing reasonable accommodation for person with disability when asked for by the tester. According to the management, TWC has indicated that two of the complaints were closed with no cause determination, and the remaining complaints are still open. FHDMR has determined that none of the properties in the complaints were noncompliant under §1.204. However, per §10.802(i), the division is performing review of all WPPs and providing technical assistance as needed. Internal Audit plans to review and evaluate the final results of these complaints during the follow up audit process in FY 2022.

It appears that FHDMR division was also involved, and consulted, in 30 other complaints with fair housing related issues along with Compliance division, with a majority of them already resolved and closed. Four of the complaints were referred to TWC for suspected FHA violations.

As of the start of this audit the reviews performed by FHDMR division of WPPs and AFHMPs have been limited to voluntary submissions and complaints received by TDHCA. The division has not implemented its priority model that is referenced in their handbook to periodically select and review properties for their compliance with Fair Housing Act requirements related to WPPs and AFHMs. Therefore, we were unable to perform any testing and evaluation of this process. Internal Audit plans to perform testing and analysis of the process during the follow up audit process in 2022.

Observation Item Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
21-001.04	OIA recommends that FHDMR division start implementing its priority model and selecting properties for review	Completed	FHDMR

<u>Management Response</u>
Management agrees with the importance of ensuring compliance with the Fair Housing Act and has already identified and initiated priority reviews for properties that have AFHMP and/or WPP are coming up on their federally required review time.

Standard Operating Procedures (SOP)

A 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. As of the end of our fieldwork phase, the division did not have SOPs related to WPPs and AFHMPs.

Observation Item Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
21-001.05	OIA recommends that FHDMR division establish written SOPs specific to WPP and AFHMP, signed and dated by management, for consistency and efficiency of the operation.	July 1, 2021 or at next revision of the Handbook,	FHDMR

		whichever occurs first	

Management response

The AFHMP and WPP Handbook serves as the SOP and has been in effect since January 15, 2021. To address the observation provided, a signature line will be added to the next revision of the handbook.

Testing

As of the fieldwork phase of this audit, the tracking spreadsheet that is maintained by the FH division indicated that the division has received and reviewed a total of 50 Voluntary Submissions from property owners for WPPs and AFHMPs combined. We randomly selected ten submissions to review for accuracy, consistency, and completion. We also reviewed some of the requests for technical assistance that were received through emails. We found that the technical assistance provided by the division was clear and effective. However, we noted that the number of days from when the submissions are received until they are reviewed by the staff varies greatly, anywhere between 8 days, and in one case as high as 190 days. We also noticed that not of all the submissions that are received are entered into the tracking spreadsheet after they are reviewed. Some submissions remain in the FH email "Inbox".

Although the Rules do not specify a deadline for the review of the plans once they are received by the division, and do not specify timeline for response back to the property owners, internal audit recommends that the division establish a procedure that would ensure consistency in the division's review process. The procedure should also enhance the accuracy and completion of the documentation process, and also avoid the possibility of oversight by staff.

Observation Item Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
21-001.05	OIA recommends that FHDMR division establish a more precise procedure for review, response, and documentation of the WPPs and AFHMPs.	Completed	FHDMR

Management Response

As noted earlier in the Management Reponses, an Access database has been created to track all request. This database also contains the review checklists for both AFHMP and WPP and links the initial review request with all subsequent review actions. Regarding the number of days noted for responses, FHDMR recognizes that some responses are simple and some may require additional research or legal guidance. In the case of the 190-day response, this particular property management company had been in communications with FHDMR staff on other matters and had received verbal communications

while FHDMR staff was awaiting legal guidance to provide formal responses in writing. FHDMR's approach to AFHMP and WPP reviews focuses on assisting housing providers with training and technical assistance to gain a better understanding of the Fair Housing Act while developing and updating compliant AFHMP and WPP documents. As FHDMR passes the one-year mark of oversight of AFHMP and WPP, staff seeks to continually improve response times and continue to provide high quality trainings and technical assistance.

OIA extends our appreciation to management and staff of the Fair Housing division, as well as Compliance division, for their time and cooperation during the course of this audit.

Sincerely,

Mark Scott

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

MS/NS

Report Item

2

AUDIT AND FINANCE COMMITTEE REPORT ITEM

INTERNAL AUDIT DIVISION

June 17, 2021

Presentation and discussion of Internal Audit report of the Management of Nonperforming Loans, Report # 21-002

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
An Internal Audit of the Management of Nonperforming Loans
Audit Report # 21-002

Executive Summary

The Office of Internal Audit (OIA) reviewed delinquency rates for the Direct Loans managed by TDHCA. We reviewed loan balances as of 8/31/2020, the end of the audited fiscal year and as of 2/28/2021, the end of our audit period. We found that the highest delinquency rates reside in the Single Family Direct Loans, with 83% of those current and 17% in some state of delinquency for various reasons at 8/31/2020 and remained constant overall at 2/28/2021. The Multifamily Direct Loans had a current rate of 88% with 12% in delinquency as of 8/31/2020. As of 2/28/2021, 87% were current and 13% were in delinquency.

Based on our reviews the function of the Management of Nonperforming Loans is performing effectively overall with some suggestions for consistency and efficiency. OIA encourages embracing the new technology upgrades to the primary bonds and loans processing system, MITAS to enhance processing and customer service.

Observations and Recommendations

1. Because of the current economic environment and increased risk of delinquencies, Internal Audit recommends that management consider a dashboard to monitor loans and delinquency status to take action as necessary.
2. Internal Audit recommends forming a committee composed of management and senior staff from Loan Servicing, Asset Management and Financial Administration that will review all process changes from the MITAS systems upgrade for effectiveness and efficiency, as well as customer service functions including electronic payment processing and account access, and plan implementation accordingly along with additional capital budget requests. User documentation including definition of system codes and statuses, as well as SOPs and training materials should be updated.
3. OIA recommends that management review the mail and check posting system to determine if any changes could be made safely to streamline the process.
4. OIA recommends that the Program Controls and Oversight Division continue its current temporary holds on loan modifications and refinancing until eligible homeowners could be referred for any programs that would assist them as part of the CARES and American Rescue Plan acts. Actions and new policies should be fully documented and approved.
5. Internal Audit recommends that while coordinating processes during the MITAS upgrade, Asset Management updates its SOPs for consistency and reliability. At that time, the delinquent loans monitoring process and REO management should be formalized including guidelines for document storage for single family REOs.

Management Response

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

Objectives, Scope and Methodology

Our objectives included explaining the Management of Nonperforming Loans function across various loan types, both those funded by revenue bond issuance and direct loans from federal funds and state general revenues; and to evaluate the administrative and internal control procedures related to the function. Our scope included a review of applicable portions of the Texas Governmental Code, Texas Administrative Code, TDHCA Board resolutions, and the Standard Operating Procedures (SOP) of Divisions tasked with managing nonperforming loans. Based upon our preliminary understanding of the Management of Nonperforming Loans we identified critical points of risk to develop audit objectives and a methodology, reflected in the detailed audit program. We reviewed the controls related to the Management of Nonperforming Loans and tested certain transactions and controls described throughout the detailed report.

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

6/4/2021
Date Signed

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

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June 4, 2021

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

RE: INTERNAL AUDIT OF THE MANAGEMENT OF NONPERFORMING LOANS

Dear Board Members:

This report presents the results of the Office of Internal Audit ("OIA") "*Review of the Management of Nonperforming Loans*". This audit was conducted in accordance with applicable audit standards. It included the objectives to explain the Management of Nonperforming Loans function across various loan types, both those funded by revenue bond issuance and direct loans from federal funds and state general revenues, and to evaluate the administrative and internal control procedures related to the function.

The Management of Nonperforming Loans rated high on the risk assessment and was included in the approved Fiscal Year 2021 audit work plan due to the ongoing Pandemic and its potential effects on the risk of nonperformance for both single and multifamily loans.

This report includes the following sections:

A. Audit results
B. Background
C. Scope and methodology
D. Types of loans facilitated or made by TDHCA
E. Processes and flow of transactions
F. Testing and review
G. Other audit work

A) Audit Results

OIA reviewed delinquency rates for the Direct Loans managed by TDHCA. We reviewed loan balances as of 8/31/2020, the end of the audited fiscal year, and as of 2/28/2021, the end of our audit period. We found that the highest delinquency rates reside in the Single Family Direct Loans, with 83% of those current and 17% in some state of delinquency for various reasons at 8/31/2020 and remained constant overall at 2/28/2021; however, as of 2/28/2021, the average number of days outstanding has increased.

The Multifamily Direct Loans had a current rate of 88% with 12% in delinquency as of 8/31/2020. As of 2/28/2021, 87% were current and 13% were in delinquency.

Single and Multifamily Bond-funded loan delinquencies are managed by external parties via contractual obligation. However, as an additional review, the Bond Finance Division has determined underlying delinquencies of loans funded by Single Family Bonds at 76% current with 24% delinquent as of January 2021 based on information provided by the loan servicer; the Multifamily Bonds are managed through trustee relationships under appropriate legal documentation or individual Trust Indentures for each Bond issue, however the Financial Administration Division performs a monthly review and accounting of payments and balances.

OIA notes that the Single Family Direct Loans, as discussed in detail below, are made to the most vulnerable and very low-income populations; default risk is high, but the Agency has put in place policies to manage and assist these borrowers. These financial products, their target borrowers, and the processes and controls surrounding the Management of Nonperforming Loans are included in the remainder of this report.

B) Background

As the State's primary housing facilitator for the benefit of cost-burdened, low-income Texans, TDHCA provides financing to both create and preserve affordable housing rental stock and allow Texans who would otherwise be unable to do so, reach the dream of home ownership. Home ownership is the main wealth accumulation vehicle for most Americans, so bringing this ability to low and very low-income Texans can be transformative.

Texas Government Code § 2306 authorizes the TDHCA Board of Directors to issue revenue bonds for the purpose of making funds available for multifamily affordable rental developments, as well as to make loans available to individuals and families of low and very low-income.

TDHCA creates these opportunities by bringing together disparate investors, thereby spreading development and ownership default risk across the market. By both issuing and acting as a conduit issuer for Revenue Bonds, and making direct loans to both potential homeowners and affordable housing developers, TDHCA facilitates liquidity in the market in which these activities are funded.

TDHCA manages a portfolio of bonds that fund underlying loans for single family homeownership and facilitates loans for affordable multifamily developments; the Agency also makes direct loan funds available to individuals, families, and affordable rental property developers. All mortgage revenue bonds are issued within Trust Indentures and because of the protections placed within the revenue bond documents, they represent either limited or no liability to TDHCA. The single family bonds fund lending to moderate, low and very low-income individuals and families which are then pooled into mortgage backed securities (MBS) guaranteed by Ginnie Mae and Fannie Mae. The origination and servicing of these loans are outsourced to external parties. The single family bond trust indentures are only responsible for advancing delinquent payments, to the extent delinquencies exceed prepayments or unplanned payments on the loans. Prepayments (such as payoffs, early principal payments) in the underlying portfolio as of January 2021 were calculated at four times the delinquent amounts, so liquidity in those instances has not been affected. Fees received on the underlying mortgage loans and repayments of second loans are deposited to the single family indentures. Both single family indentures (SFMRB and RMRB) are rated AA+/Aaa. As of January 31, 2021, the SFMRB indenture had $37 million, and the RMRB indenture had $14 million, in excess assets, excluding second mortgage loans, which totaled $121 million and $139 million, respectively.

For both single and multifamily purposes, TDHCA provides direct loans to both potential homeowners and affordable rental property developers. TDHCA is often viewed as the lender of last resort, so these types of loans tend to have more delinquency risk than the average conventional loan. As such, TDHCA applies focused tactics to managing these loans and offering multiple options to make the affordable housing financing packages work whether for the developer, an individual or a family.

The Revenue Bond Program FY2020 audited financial statement that includes single and multifamily bonds reports total assets of $2.8 billion, most of which is held in trust. The statements report total liabilities of $2.4 billion. Direct loans, both single and multifamily, are included in the General Financial Statements and represent $753 million, with a loan loss allowance of $10 million. The following presents excerpts from the financial statements, representing the Single and Multifamily Revenue Bonds included in the proprietary fund and Direct Loans made from governmental and proprietary funds, that have been explored in the scope of this audit report.

Revenue Bonds from the Proprietary Fund
Loans from Proprietary and the Governmental Funds
$ in 1,000s 8/31/2020

		Source	***Funds***
Multifamily	**$751,793**	*Revenue Bonds financials*	*Proprietary (external investors)*
Single family	**$243,750**	*Revenue Bonds financials*	*Proprietary (external investors)*
RMRB	**$889,610**	*Revenue Bonds financials*	*Proprietary (external investors)*
Total Bonds	**$1,885,153**		
Loans and Contracts- government funds	**$464,358**	*Basic financials*	*HOME, NSP, TCAP RF, NHTF, SHTF, general funds (federal and state government funds)*
Loans and Contracts- proprietary	**$278,926**	*Basic financials*	*Single Family Bond residuals (Down Payment Assistance), Habitat for Humanity Bootstrap loans*
Loans and Contracts	**$743,284**		*Net of loan loss allowance ($10M)*

The following analyses provide delinquency information as of 8/31/2020 and 2/28/2021 specifically for those Direct Loans included in OIA's review. OIA discussed these categories with Financial Administration and determined that the difference between the totals presented here versus the above exhibit is reasonable due to differences in classification between fund sources. The balances and delinquency rates below are presented specifically for those multifamily or single family loans made and serviced directly by TDHCA or via the partnership with Habitat for Humanity and is intended primarily to provide context to the discussion within the report.

Delinquency Rates in TDHCA Direct Loans as of 8/31/2020
$ in 1,000s

Type of Loan	Total Principal Outstanding	Current	Percent	30-59 days	%	60-89 days	%	90-119 days	%	120-364 days	%	365+ days	%
				Amount and Percentage Delinquent**									
Multifamily	$403,974	$357,763	88%	$13,194	3.3%	$14,887	3.7%	$5,456	1.4%	$9,202	2.3%	$3,491	0.9%
Single Family- non HFH*	$24,743	$19,026	77%	$2,356	9.5%	$899	3.6%	$578	2.3%	$1,400	5.7%	$483	2.0%
Single Family - HFH	$27,662	$24,602	89%	$2,212	8.0%	$700	2.5%	$53	0.2%	$0	0.0%	$94	0.3%
Total Single Family	$52,405	$43,628	83%	$4,568	8.7%	$1,599	3.1%	$631	1.2%	$1,400	2.7%	$577	1.1%
Totals	$456,379												

* Habitat for Humanity
** delinquency percentages calculated by amount principal outstanding per category by total principal outstanding
Source: MITAS reports as of 8/31/2020; compared to financial statements for reasonableness

Delinquency Rates in TDHCA Direct Loans as of 2/28/2021
$ in 1,000s

Type of Loan	Total Principal Outstanding	Current	Percent	30-59 days	%	60-89 days	%	90-119 days	%	120-364 days	%	365+ days	%
				Amount and Percentage Delinquent**									
Multifamily	$411,340	$358,617	87%	$22,441	5.5%	$4,822	1.2%	$0	0.0%	$15,742	3.8%	$9,718	2.4%
Single Family- non HFH*	$24,146	$16,501	68%	$4,669	19.3%	$0	0.0%	$453	1.9%	$1,876	7.8%	$647	2.7%
Single Family - HFH	$27,938	$26,530	95%	$833	3.0%	$318	1.1%	$124	0.4%	$132	0.5%	$0	0.0%
Total Single Family	$52,084	$43,031	83%	$5,502	10.6%	$318	0.6%	$577	1.1%	$2,008	3.9%	$647	1.2%
Totals	$463,424												

* Habitat for Humanity
** delinquency percentages calculated by amount principal outstanding per category by total principal outstanding
Source: MITAS reports as of 2/28/2021; compared to financial statements for reasonableness

Overall, delinquencies have aged by both dollar amount and days outstanding primarily in Single Family Direct Loans- non HFH due to Pandemic conditions where borrowers are impacted by income losses and TDHCA has self-imposed forbearance and leniency for homeowners. Should funding become available via the CARES or American Rescue Act to these borrowers, delinquencies could be impacted favorably with homeownership preserved for eligible borrowers. Multifamily Direct Loans number of days outstanding has increased because some properties have moved to later stages in the process such as foreclosure or bankruptcy.

C) Scope and Methodology

Our scope included a review of applicable portions of the Texas Governmental Code § 2306 Texas Department of Housing and Community Affairs; Texas Administrative Code Title 10, Chapter 12 Multifamily Revenue Bonds Rule, Chapter 13 Multifamily Direct Loans Rule, and Chapter 20 Single Family Programs Umbrella Rule; TDHCA Board resolutions including those providing authority for single family workouts, and the Standard Operating Procedures (SOP) of Divisions tasked with managing nonperforming loans. Based upon our preliminary understanding of the Management of Nonperforming Loans we identified critical points of risk to develop audit objectives and a methodology, reflected in the detailed audit program.

We reviewed the Management of Nonperforming loans functionally and across divisions to determine the function's goals as well as the underlying processes, divisional roles and responsibilities; we included the review of workflow between divisions. We reviewed the controls related to the Management of Nonperforming Loans and tested certain transactions and controls described throughout Sections D, E and F. The Texas Internal Auditing Act, Tex. Gov't Code §2102.005 requires auditing of a state agency's major programs and systems.

D) Types of Loans Facilitated or Made by TDHCA

- **Multifamily Bond-Funded Loans**
  TDHCA acts as a conduit issuer of Multifamily Revenue Bonds that provide funding from external investors so that TDHCA can facilitate financing to developers that build and rehabilitate affordable rental housing for low and very low-income individuals and families. The underlying loans are structured in various ways to optimize available funding and are paired with housing tax credits. The bonds and loans maintain underlying agreements that ultimately leave TDHCA with no financial liability; therefore, any activities related to delinquency monitoring reside with trustees under the terms of an indenture agreement. TDHCA through its monthly accounting and reconciliation process can be aware of these situations but simply track through to resolution with no responsibility for ensuring payment. Reference *Multifamily Revenue Bond Audit #20-001* for further detail.

- **Single Family Bond-Funded Loans**
  TDHCA issues single family revenue bonds to finance mortgage loans and to provide down payment assistance to moderate, low, and very low-income borrower homebuyers. TDHCA takes investor capital from the market and makes it available to institutions to originate loans to homebuyers that have more favorable loan terms than those for which they would otherwise qualify for in the mainstream lending market, including, in most cases, down payment and closing cost assistance. These loans are originated by qualified lenders, sold to Idaho Housing Finance Agency where they are serviced, then packaged as mortgage backed securities (MBS) that are purchased with bond proceeds and are held in trust. In turn, Ginnie Mae or Fannie Mae guarantees payment on the MBS. Principal and interest received on the MBS is applied to principal and interest due on the underlying bonds. TDHCA has innovatively used tools available from the federal government and financial institutions to provide a market for bridging the gap to many individuals and families while minimizing risk from default. *Reference Bond Finance Audit #17-002 for further detail*.

- **Multifamily Direct Loans**
  TDHCA utilizes federal funding from HOME, HTF and TCAP to fund direct loans to multifamily property developers that have committed to providing rental housing to low and very low-income individuals and families. These funds are generally low interest, construction-to-permanent loans to assist the developer to complete construction. OIA reviewed the process of monitoring multifamily direct loan delinquencies within

the portfolio that has recently transitioned more fully to Asset Management. Each Asset Manager is assigned a region and is responsible for reviewing the loans within that scope and resolving delinquency concerns. Any complex situations that may lead to options such as modification, refinance, assumption or foreclosure are closely coordinated through the Legal Division with the Asset Manager Director review and approval. (The *Audit of Multifamily Direct Loans, #21-004* is included in the FY2021 Audit Plan; origination to closing and maintenance will be further reviewed, along with the MITAS system security, processing, recovery and reliability.)

- **Single Family Direct Loans**
  TDHCA designates program funds for various loan types that assist with building or rehabilitating a home. These loans are originated through an external party then serviced by either TDHCA or a branch of Habitat for Humanity. These loans are low to no interest bearing and have long maturity periods. TDHCA staff along with Habitat for Humanity servicers are highly involved with the management of nonperforming loans for this portion of the financing portfolio. TDHCA Loan Servicing section dedicates a Senior Collections Specialist to work with borrowers, additional staff support for the Habitat for Humanity coordination, along with extensive management time and oversight. When other options are exhausted, Legal Division services are required. The transition to Loan Services of these functions from 2016 to present has reduced delinquencies from an average days delinquent in the Single Family Direct Loans from 458 days in 2015 to 193 days in February 2021, noting that several of the oldest accounts are 2nd lien subject to 1st lien loan foreclosures; therefore, TDHCA has no way of resolving them until the 1st lien foreclosure is completed. The Board of Directors took various actions to provide Program Controls and Oversight the tools and authority for delinquency resolution in 2016, 2017 and 2018, which were implemented within the processes reviewed by OIA. *Reference Loan Servicing, Audit #19-001* for further detail.

E) Processes and Flow of Transactions

Revenue Bond-funded Loans

After the issuance of Single Family or Multifamily Revenue Bonds, operational processing for underlying loans is completed by outside trustees or other servicers. Therefore, these outside parties are responsible for monitoring and working out or making changes to the underlying loans; these responsibilities are addressed within the legal agreements between the parties. The TDHCA Financial Administration Division tracks all the activities on the Bonds to ensure accuracy and timeliness; they may receive and account for payments and transfers. Reconciliations of trustee statements to internal records on the system MITAS assures that bonds are funded and reported properly. The reconciliations are a final step in the cycle that can identify issues that may need to be reported to management.

The Bond Finance Division is primarily responsible for the relationships with servicers relative to any single family bond-funded loans. Bond Finance monitors the vendor relationship including delinquencies by meeting with vendor management and discussing any issues relative to liquidity within the underlying loans. They observe the delinquency rates on an overall basis by periodically reviewing whether prepayments consistently cover any underlying loan delinquencies. Over the past six months, prepayments have outweighed delinquencies even during the Pandemic; and while the single family bond indentures are ultimately responsible for making the servicer whole for underlying loan delinquencies, TDHCA has not had to do so, and does not anticipate having to do so in the future.

Bond Finance also works with Financial Administration to provide additional analysis to management and the Board through the Quarterly Investment Report (QIR). A supplemental management report included in the QIR shows the balances of all Bonds and their respective trust indentures to show that they balance. In addition, Bond Finance creates a Bond Parity schedule that represents the par value of the assets and liabilities underlying Bond issues to provide assurance that the assets held in trust meet or exceed the values within the liabilities. When these analyses relative to the Bonds are taken together by management, they provide a view of the overall stability of the portfolio.

Direct Loans by TDHCA

Direct loans made by TDHCA result from federal funding and/or general state revenue. The Multifamily Direct Loans are primarily federal HOME or TCAP funds, while Single Family Direct Loans can be either federal such as HOME, HTF or state general revenue for programs such as Bootstrap or Homebuyer's Assistance.

Direct loans made by TDHCA for both multifamily and single family loans are originated and processed on the MITAS system. The Programs Control and Oversight Division manages the post-issue processes along with the Habitat for Humanity servicers and relies on Financial Administration for posting payments, account reconciliation and reporting. Loan Servicing completes all transactional processing within the MITAS system and updates the history of accounts; however, for multifamily loans, the Asset Management section retains some servicing functions due to their knowledge of the properties and owners/managers. These processes relate to the communication and documentation of delinquent Multifamily Direct Loans and any further action through Legal as required, until such time that further transactions are required within MITAS. The Asset Management section manages all Real Estate Owned (REO) transactions for single family homes and multifamily developments. This includes rehabilitating and selling any foreclosed homes or multifamily developments. Within the scope of this audit, OIA reviewed the vendor relationship for these purposes, including contracts and invoicing reviews, approvals and payment.

Documentation for delinquent loan review activities is retained primarily on the shared network drives for Asset Management processes, while there is a mix of documentation on MITAS and on the shared network drive for Loan Servicing and Legal processes. Through discussions with the Loan Servicing Manager, OIA was advised of the planned upgrade to MITAS that will provide a centralized location for documentation for each transaction. Along with the system implementation, the duties and strategies for monitoring and making changes to loans as well as tracking any dispositions through to completion could be made consistent for single and multifamily, allowing for a single access point to information and history.

For the most part, once a single or multifamily loan is issued, the regular process is followed in which the borrower is invoiced or provided a loan coupon book. Payments are received through the mail from all borrowers, including property developers, because TDHCA does not currently have a method of processing electronic payments for all borrowers due to current system limitations. When payments are received, they are posted based on documented procedure unless the account is flagged or the payment contains a discrepancy from expected, in which case Financial Administration will reach out to Loan Servicing who handles the exception processing and communicates how to apply payment.

As long as payments are current, the process is straightforward as payments are applied as expected; at the time a loan becomes delinquent, it comes under more scrutiny. Both Loan Servicing and Asset Management run a report from MITAS that is set up for their individual needs to review delinquent loans. For direct single family loans serviced by TDHCA, the delinquent account report is reviewed by the Senior Collections Specialist who contacts all borrowers with delinquencies of over 45 days. These contacts have varied response rates from borrowers, so often the Senior Collections Specialist must attempt contact several times before any resolution. In tandem, the Asset Management Director will disseminate an Excel spreadsheet listing delinquent multifamily direct loans to the AM team to review the loans that are over 30 plus days overdue in their specifically assigned region. They document their actions on a spreadsheet and consult with the Asset Management Director when loan workouts are needed.

In order to avoid foreclosures, the Loan Servicing section manages the nonperforming loans for single family owners with the understanding that these borrowers are a vulnerable and very low-income population. Loan Servicing calls, emails, offers language translations, and effectively does all the section can to assist the homeowner retain ownership. Barring a lack of interest or effort on the borrower's part, there are many options available:

- Verbal repayment agreements
- Trial repayment agreements
- Written repayment agreements
- Loan modifications
- Loan refinancing, both interest rate reduction and longer maturity dates

However, outside the Pandemic conditions, the Loan Servicing Senior Collections Specialist follows a structured process of communication via mail and FedEx when the borrower does not respond:

- 120 day notice
- Loss mitigation package
- Final Demand Letter

Transaction Review

OIA reviewed transactions from the Single and Multifamily loan delinquencies reports from MITAS to select samples of loans in various conditions as noted above. In addition, OIA selected and reviewed transactions from MITAS reports during the audit period that had moved into other stages of the process such as charge-offs, foreclosures, short sales, modifications, and refinancing.

Although all of these details are tracked internally within Programs Control and Oversight, OIA noted there is no consolidated reporting to management about the overall delinquencies being experienced within the various financing vehicles. Given that delinquencies have gone up during this time despite efforts by TDHCA, these loans should have additional management review to determine how if any federally funded programs can be utilized to keep these borrowers in their homes, or determine next steps.

TDHCA self-imposed a moratorium from foreclosing on any single family properties as a superior lien holder. When in the position of a subordinate lienholder, TDHCA has little decision making ability and simply books excess proceeds when notified. Recently, the Senior Collections Specialist has heard feedback from borrowers that their first lien mortgages are foreclosing.

At year-end, Financial Accounting completes an analysis of the historical loan delinquencies to determine the appropriate loan loss reserve. This analysis includes all direct loans, single or multifamily. OIA reviewed the loan loss reserve analysis and underlying documentation; the balances were also verified and audited by the State Auditor's Office in tandem with the audit of the financial statements.

Review of Payment Posting Process

OIA reviewed the mail and check posting process within the context of loan payments. Due to the Pandemic, mail is delayed; not only from a US Post Office slowdown but also from processing mail two days a week due to safety concerns. This creates potential delays in posting checks, thereby requiring review of accounts that are not in fact delinquent, which OIA noted during its sample testing. Additionally, delays require Staff Services to make copies for various departments to alert them to check receipt.

OIA observed that there is a cash receipts system that lists payor names, check numbers and date of check receipt once Financial Administration inputs them, which is within the day after mail processing. Financial Administration has adjusted its deposit timeline to six from three days as a result. The system provides for an inquiry-only access to this information. Overall, OIA believes that mail processing is being completed as quickly as possible given the changes required due to the Pandemic; however, there may be ways to disseminate information and improve the process going forward and leveraging workflow components of MITAS.

Throughout the audit, OIA noted several manually intensive processes that require input and reconciliation between systems or handoffs between sections or Divisions. These included: manually performing Negative Escrow Analysis (for accounts delinquent over ninety days); all transactional input to the general ledger system; managing digital documentation across locations in the network; and manual input of payoffs.

Again, a MITAS systems upgrade should provide opportunities to further drive not only efficiencies, where it may replace heavy manual processes, but also effectiveness to allow staff to focus on analysis and assistance as opposed to manually duplicating transactional details. This will allow for a better understanding of when loan modifications and refinancing make sense, as these tend to be successful about half the time for single family loans but carry significant internal and external costs. In addition, there will be customer-facing functionality in the form of online account access and electronic payment, which may be identified as additional capital projects in future budget requests.

When requesting Standard Operating Procedures from each section, the Loan Servicing area was able to provide detailed SOPs for each process reviewed; however, the SOPs received from Asset Management needed to be updated as changes have occurred with delinquency monitoring and REO processing. Additionally, given the transitional nature of these processes into Asset Management, it is a good time to define and fully implement these processes consistently.

Observations:

Observation Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
21-002.01	Because of the current economic environment and increased risk of delinquencies, Internal Audit recommends that management consider a dashboard to monitor loans and delinquency status to take action as necessary.	8/31/2021	Program Controls and Oversight
21-002.02	Internal Audit recommends forming a committee composed of management and senior staff from Loan Servicing, Asset Management and Financial Administration that will review all process changes from the MITAS systems upgrade for effectiveness and efficiency, as well as customer service functions including electronic payment processing and account access, and plan implementation accordingly along with additional capital budget requests. User documentation including definition of system codes and statuses, as well as SOPs and training materials, should be updated.	12/31/2021 for the Customer Service Portal	Program Controls and Oversight; Financial Administration; Information Services
21-002.03	OIA recommends that management review the mail and check posting system to determine if any changes could be made safely to streamline the process.	7/31/2021	Staff Services; Financial Administration
21-002.04	OIA recommends that the Program Controls and Oversight Division continue its current temporary holds on loan modifications and refinancing until eligible homeowners could be referred for any programs that would assist them as part of the CARES and American Rescue Plan acts. Actions and new policies should be fully documented and approved.	12/31/2021	Program Controls and Oversight
21-002.05	Internal Audit recommends that while coordinating processes during the MITAS upgrade, Asset Management updates its SOPs for consistency and reliability. At that time, the delinquent loans monitoring process and REO management should be formalized including guidelines for document storage for single family REOs.	12/31/2021	Asset Management

Management Responses:

21-002.01: *Loan Servicing and Asset Management will create a report of delinquency data, trends and activities.*

21-001.02: *Currently any modification or upgrade to MITAS is conducted through a collaboration between Financial Administration, Information Systems, and Loan Servicing. They evaluate system upgrade needs, proposed changes, set timelines for the project and evaluate the impact on current processes. Management will work to formalize this process and incorporate any other section that may be impacted going forward.*

The MITAS upgrade project is a two-part project comprised of 1) implementation of a Customer Service Portal that provides customer online account access capabilities and an automated (ACH) payment option; and, 2) implementation of conversion from a Windows based MITAS version to the Web based MITAS version. Implementation of the Windows based MITAS to Web based MITAS is not planned until early 2022 after the annual financial statement audit is complete in December 2021.

The funding for the Customer Service Portal will be available September 1, 2021 at which time the Customer Service Portal will be implemented in a phased approach; the online account access will be available first and followed by the automated (ACH) payment option to be rolled out to a select portion of the loan portfolio, i.e. multifamily loans and a small population of single family loans, to ensure payment rules and processing are working properly before offering the ACH capabilities portfolio-wide. Financial Administration, Information Systems, Loan Servicing and external stakeholders such as Comptroller of Public Accounts will be involved in the decision making related to borrower account information and documentation that will be made available and the creation of payment rules and processes related to ACH capabilities.

21-002.03: *Management will review the mail and check posting system to determine if any changes can be made safely to streamline the process.*

21-002.04: *Loan Servicing will evaluate which loan modifications and refinances can continue on hold while CARES and American Rescue Plan program guidelines are finalized and implemented to determine a delinquent borrower's eligibility for mortgage assistance.*

21-002.05: *While coordinating processes during the MITAS upgrade, SOPs will be updated for consistency and reliability. At that time, the delinquent loans monitoring process and REO management will be formalized including guidelines for document storage for single family REOs.*

F) Testing and Review

As part of the audit, OIA held multiple interviews with management and staff and reviewed samples of transactions selected either randomly or judgmentally based on the ability to stratify and normalize the population. Detailed transactions were reviewed for timely monitoring and resolution within the various options by tracking them within the processes noted above and through to the accounting systems and reports, ensuring appropriate authorization and verification at key control points. In addition, as noted in Section B, OIA reviewed Texas Government Code, Texas Administrative Code, TDHCA rules, and Division level policy, procedures and SOPs to confirm uniformity. Based on our reviews the function of the Management of Nonperforming Loans is performing effectively overall with some suggestions for consistency and efficiency. OIA encourages embracing the new technology upgrades to MITAS to enhance processing and customer service.

G) Other audit work

OIA has conducted audits of Multifamily Revenue Bonds (2020), Bond Finance (2017), Loan Servicing (2019), and the Enforcement Committee (2019) that OIA relied upon in the context of reviewing the Management of Nonperforming Loans. This audit targeted the function's processes and controls that specifically pertain to managing nonperforming loans across TDHCA's portfolio. TDHCA contracts with the Texas State Auditor's Office ("SAO") to conduct annual financial statement audits of the Revenue Bond Program and the Agency as a whole. The latest audit was issued in December 18, 2020, and stated that the financial statements were presented in accordance with Generally Accepted Accounting Principles ("GAAP").

OIA extends our sincere appreciation to the Program Controls and Oversight, the Legal and the Financial Administration Divisions for their cooperation and assistance during the course of this audit.

Sincerely,

Mark Scott

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

MS, SN

Report Item

3

AUDIT AND FINANCE COMMITTEE REPORT REQUEST

INTERNAL AUDIT DIVISION

June 17, 2021

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

Verbal Report