

Texas Department of Housing and Community Affairs



Committee Book

Thursday, September 4, 2025

9:30 AM

The University of Texas at Austin's Thompson Conference Center

Room 1.110

2405 Robert Dedman Drive

Austin, TX 78712

Audit & Finance Committee

Ajay Thomas, Chair

Leo Vasquez III, Member

Anna Maria Farias, Member

Cindy Conroy, Member

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

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

ACTION ITEMS:

- | | | |
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| 1. | Presentation, discussion, and possible action to approve Audit and Finance Committee Meeting Minutes Summary for June 12, 2025 | Mark Scott |
|----|--|------------|

REPORT ITEMS:

- | | | |
|----|---|------------|
| 2. | Presentation and discussion of Internal Audit Report on the Davis Bacon Labor Standard Act, Report# 25-002 | Mark Scott |
| 3. | Presentation and discussion of Internal Audit Report of the Single-Family Mortgage Revenue Bond Program, Report# 25-005 | Mark Scott |
| 4. | Report on the status of the Internal and External Audit activities | Mark Scott |

PUBLIC COMMENT ON MATTERS OTHER THAN ITEMS FOR WHICH THERE WERE POSTED**EXECUTIVE SESSION**

The Committee may go into Executive Session (close its meeting to the public) on any agenda item if appropriate and authorized by the Open Meetings Act, Tex. Gov't Code, Chapter 551. Pursuant to Tex. Gov't Code, §551.074 the Audit Committee may go into Executive Session for the purposes of discussing personnel matters including to deliberate the appointment, employment, evaluation, reassignment, duties, discipline, or dismissal of a public officer or employee.

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

Pursuant to Tex. Gov't Code, §551.071(2) the Committee may go into executive session for the purpose of seeking the advice of its attorney about a matter in which the duty of the attorney to the governmental body under the Texas Disciplinary Rules of Professional Conduct of the State Bar of Texas clearly conflicts with Tex. Gov't Code, Chapter 551.

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

OPEN SESSION

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

ADJOURN

To access this agenda and details on each agenda item in the board book, please visit our website at www.tdhca.texas.gov or contact Michael Lyttle, 512-475-4542, TDHCA, 221 East 11th Street, Austin, Texas 78701, and request the information. If you would like to follow actions taken by the Governing Board during this meeting, please follow TDHCA account (@tdhca) on X (Twitter).

Individuals who require auxiliary aids, services or sign language interpreters for this meeting should contact Nancy Dennis, at 512-475-3959 or Relay Texas at 1-800-735-2989, at least five days before the meeting so that appropriate arrangements can be made. Non-English speaking individuals who require interpreters for this meeting should contact Danielle Leath, 512-475-4606, at least five days before the meeting so that appropriate arrangements can be made.

Personas que hablan español y requieren un intérprete, favor de llamar a Danielle Leath, al siguiente número 512-475-4606 por lo menos cinco días antes de la junta para hacer los preparativos apropiados.



Texas Department of Housing and Community Affairs

Audit & Finance Committee

Board Action Request

File #: 1139

Agenda Date: 9/4/2025

Agenda #: 1.

Presentation, discussion, and possible action to approve Audit and Finance Committee Meeting Minutes Summary for June 12, 2025

RECOMMENDED ACTION

RESOLVED, the Audit and Finance Committee Meeting Minutes Summary for June 12, 2025, are hereby approved as presented.

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

On Thursday, June 12, 2025 at 9:30 a.m. the meeting of the Audit and Finance Committee (the "Committee") of the Governing Board (the "Board") of the Texas Department of Housing and Community Affairs ("TDHCA" or the "Department") was held in the Dewitt C. Greer State Highway Building, 125 E. 11th Street, Williamson Board Room, Austin Texas. Mr. Ajay Thomas, the Chair of the Audit and Finance Committee, presided over the meeting, and Mr. Mark Scott, Director of the Internal Audit Division, served as the secretary. Committee members, Ms. Anna Maria Farias, Ms. Cindy Conroy and Mr. Leo Vasquez were present and represented a quorum for the Committee meeting.

Mr. Thomas started the meeting by taking roll and welcoming everyone to the meeting. He then moved to the first action item on the agenda; approval of the minutes from March 6, 2025 meeting of the Audit and Finance Committee. The minutes were adopted as presented and were approved.

The next action item on the agenda was the "Presentation, discussion, and possible action on the FY2026 TDHCA Operating Budget", and Mr. Paul Ford, Financial Services Manager, presented it. Mr. Ford said that this item relates to the Department's operating budget for fiscal year 2026, and it was created with collaboration between the budget team and division directors and managers. This proposal aligns with the General Appropriations Act established by the 89th Texas legislature and represents 4.8% decrease as compared to fiscal year 2025. Mr. Ford explained the three components of the budget and the changes in each component. The budget also reflects 17 new full-time equivalent positions approved in the FY 26-27 legislative appropriations request. At the end of his presentation Mr. Ford offered to answer questions for the committee members.

Mr. Holland Harper asked if there is an organizational chart for the 376 employees that are currently employed at TDHCA and MH. Mr. Ford said that he will forward the chart to Mr. Harper at a later time. Mr. Harper then asked for sub-accounts of each budget line item. Mr. Vasquez thanked staff for the briefing they provided him individually and the opportunity to ask questions prior to the meeting.

Mr. Thomas asked Mr. Ford to give a brief, high level, comparison between FY 2025 and FY 2026 budgets. Mr. Ford said that the salaries did go up a bit, which was to invest in our central resources. We did chip away in a few areas such as travel and membership fees and dues to gain more efficiencies. One of the large increases is in the capital expenditure, for about \$1.3 million. With no further questions, Mr. Thomas entertained a motion to approve the Fiscal Year 2026 Operating Budget for the full board meeting later that day. The motion passed.

The next action item on the agenda was the “Presentation, discussion, and possible action on the Fiscal Year 2026 Housing Finance Division budget”, and it was also presented by Mr. Ford as well.

Mr. Ford said that the Housing Finance Division budget is a subset of the internal operating budget submitted in compliance with Texas Government Code 2306 and the General Appropriations Act. This budget totals \$25.6 million, which represents expenses funded specifically with fees generated by single family bonds, multifamily bonds, tax credit, and compliance activities. Mr. Ford offered to answer any questions the committee members may have at the end of his presentation. Mr. Vasquez clarified that the source of these funds is through program fees, and that none of it is General Revenue. Mr. Ford confirmed that. With no other questions Mr. Thomas entertained a motion to take approval of this committee to the full board. Motion passed.

The first report item on the agenda was the “presentation and discussion of the internal audit of Rent Approval functions of the Asset Management Division at TDHCA”, and was presented by Mr. Mark Scott. Mr. Scott said that the Rent Approval function of Asset Management division was identified during the fiscal year 2025 risk assessment and rated high on the risk assessment matrix due to lack of recent internal audit of the function and its overall importance to the Department’s mission. Our scope included a review of the applicable Texas Administrative Codes, applicable CFRs, Post Award Activity manual, and SOP related to Rent Approval activities. We also conducted interviews with several division staff and performed testing and analysis of the processes involved in receiving, reviewing, and approving developments’ annual rent requests. For this audit we randomly selected 30 properties that are subject to Rent Approval requirements to review and test for accuracy, completeness, and their compliance with applicable rules and regulations. The review included verification of response time to the development by the staff after receipt of Rent Approval packet, Rent limit established for each funding source, Utility allowance, and other necessary documentation included in the packet.

Based on our reviews and testing, we found that in eight cases the staff response time / approval notice to the developments was greater than 30 days, which is the timeline established in the guidelines. In the same sample we identified two developments that were missing Rent Approval packets and approval letters for 2022, four developments for 2023, and two developments for 2024. Based on our review and testing, the Rent Approval function seems to be operating effectively in reviewing and approving annual rent approval applications and requests. We identified some areas for improvement and made recommendations to the staff. Management agreed to all our recommendations, except for one recommendation, and provided a plan of action. Management decided that a secondary review was not feasible for this function. Details of our recommendations and management responses are included in the report. We considered this to be low-risk recommendation that management did not agree with.

Mr. Thomas asked committee members if they had any questions for Mr. Scott. With no questions, he moved to the next report item on the agenda; Presentation and discussion of the internal audit of the Travel activities at TDHCA, and was presented by Mr. Scott as well. Mr. Scott

said that the travel activities were identified during the fiscal year 2025 risk assessment and rated high on the risk assessment matrix due to lack of any recent internal audit of the function.

For this audit we reviewed applicable TX Gov Code (Section 660), related SOPs, and manual and training materials available on the TDHCA intranet. We also sent out a brief anonymous survey to all TDHCA staff to evaluate their understanding and knowledge of the travel and expense report requirements. We also requested the list of all travel related transactions, in-state and out of state, from the beginning of fiscal year 2025 until the start of our testing (September 1st 2024 – April 22nd 2025). We randomly selected 17 transactions from that list that were more than \$200. The selected sample consisted of 13 in-state and four out of state transactions. The sample was reviewed for accuracy, completeness of documentation, and compliance with applicable laws. OIA did not identify any areas of non-compliance in the selected sample. Based on our review and testing the travel activities at TDHCA appear to be managed properly and in compliance with applicable laws and requirements. We had observations related to training and training materials, and made recommendations to management. Management agreed to our recommendation, and the details are included in the report.

With no questions from Committee members Mr. Thomas moved to the next and last report item on the agenda; “report on the status of internal and external audit activities”. Mr. Scott presented the verbal report and said that on the internal audit of Davis Bacon Related Act, we have been getting assistance from Carmen Roldan, who is one of the premier experts on Davis Bacon. She was previously the TDHCA Labor Standards Specialist. We think we'll have a really good, informative audit, but it wasn't ready for this meeting. We still have a few more things to look at. Davis Bacon is audited for Single Audit purposes by Clifton Larson Allen (CLA) and underwent a comprehensive audit by HUD in 2017. That audit had a few findings and we're going to check to make sure those are still properly addressed.

On the Audit of Single-Family Revenue Bond program (SFMRB), we met with Mr. Thomas on Tuesday to discuss the SFMRB. This is part of our project risk assessment for individual audit projects. We discussed what additional assurance internal audit can provide to supplement the work that the SAO does. We also discussed the chance to make the bond transactions more understandable. The Internal Auditing Act says that I can consult with SAO, and I'll certainly avail myself of that opportunity on this audit on the IT portion. After these two audits are complete, we will just have one audit left in our FY2025 audit plan, which is Real Estate Analysis.

On the external audits side we did well on last year's federal compliance portion of the Statewide audit. For this year, at this point, TDHCA does not have any programs designated as “major programs” by Clifton-Larsen Allen. That might change depending on the final tallies for LIHEAP, which may make that a major program based on the size (type A program) We don't have any high risk, or type B programs. So for the statewide audit we will just have the financial statement audits that SAO does.

On the OIG audits; HUD OIG recently completed an audit of ESG CARES Program. They had a finding related to not using funds for R&D and to make sure all elements are incorporated into

subrecipient contracts, and that finding has been cleared. Treasury OIG is still working on their audit of the TRR program. HUD will also do a review of Section 8 Rent related rules. These are audits of the agency by external parties.

Mr. Scott said that there is also oversight of agency's activities via monitoring that is less in scope than a full-fledged audit. This includes desk reviews by the Compliance Division of the agency's subrecipients and the agency's tax credit properties. These monitoring functions can leverage outside audit work like Single Audits. We have a Single Audit Review Committee and also a Fraud, Waste, and Abuse Committee that internal audit participates on as an ex-officio member. We coordinate our audit and fraud prevention work with SAO. That concluded Mr. Scott's presentation.

Mr. Vasquez asked if there was a sunset date for TRR program. Mr. Bobby Wilkinson, Executive Director at TDHCA, said that it is supposed to end by end of the calendar year. In the meantime, TDHCA still has a staffed program until it is over. With no further comments or questions, Mr. Thomas thanked Mr. Wilkinson and Mr. Scott, and adjourned the meeting at 9:53am.



Texas Department of Housing and Community Affairs

Audit & Finance Committee

Board Action Request

File #: 1141

Agenda Date: 9/4/2025

Agenda #: 2.

Presentation and discussion of Internal Audit Report on the Davis Bacon Labor Standard Act, Report# 25-002

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
Internal Audit of the Davis Bacon Labor Standard Act

Audit Report # 25-002

Executive Summary

The Office of Internal Audit (OIA) performed an audit of the Davis Bacon Labor Standard Act and its related activities. The purpose of this audit was to review, assess, and evaluate activities and processes related to monitoring of the Davis Bacon Labor Standard Act, and its compliance with applicable rules and regulations.

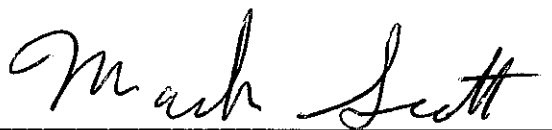
Based on our review and testing, the monitoring of Davis Bacon Labor Standards appears to be operating effectively at TDHCA in ensuring compliance with related rules and regulations. We identified some areas for potential improvement to efficiency of monitoring, as well as providing higher assurance on compliance with the Davis Bacon standards. Details of our recommendations are included in the report.

Observations and Recommendations

- OIA recommends that the MFDL staff document and retain proof of "Contractor eligibility verification" from SAM.gov for each contractor subject to DBRA.
- OIA recommends that the Compliance Monitoring section obtain and retain the sample documents that they review and test during each monitoring review for future Audit reviews.

Objective, Scope, and Methodology

Our scope for this audit included a review of applicable Texas Administrative Code (Title 10, Section § 2.401), relevant Federal Codes; 29 CFR Part 1, "Procedures for Predetermination of Wage Rates"; CFR 29 Part 4, "Labor Standards for Federal Service Contracts"; CFR 29 Part 5, "Labor Standards Provisions Applicable to Contracts Covering Federally Financed and Assisted Construction"; CFR 29 Part 6, "Rules for Practice for Administrative Proceedings Enforcing Labor Standards in Federal and Federally Assisted Construction Contracts and Federal Service Contracts", and we performed review and analysis of the current internal practices.



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

8/15/25
Date Signed



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

www.tdhca.texas.gov

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Cindy Conroy, Member
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August 13, 2025

Writer's direct phone # 512.475.3813
Email: mark.scott@tdhca.texas.gov

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

RE: Internal Audit of the Davis Bacon Labor Standard Act

Dear Board Members:

This report presents the results of the Office of Internal Audit ("OIA") review of the "*Davis Bacon Labor Standards Act*" and its related activities at TDHCA. This audit was conducted in accordance with applicable audit standards and included objectives to review, assess, and evaluate activities and processes related to monitoring of the Davis Bacon Labor Standard Act, and its compliance with applicable rules and regulations.

The Davis Bacon Labor Standard act was included in the internal audit plan for FY 2025 due to its importance in ensuring wage equality in federally funded projects, as well as lack of any recent Internal audits. For this audit we reviewed the applicable sections of 29 CFR (Code of Federal Regulations), previous audit performed by HUD, Single Audit performed by CLA, and review of documents and information provided by staff and information available on TDHCA website.

This report is divided into the following sections:

- A. Overall Result
- B. Background
- C. Scope and Methodology
- D. Roles and Responsibilities
- E. Testing and Recommendations
- F. Other Audits

A. Overall Results

Based on our review and testing, the monitoring of Davis Bacon Labor Standards appears to be operating effectively at TDHCA in ensuring compliance with related rules and regulations. We identified some areas for potential improvement to efficiency of monitoring, as well as providing higher assurance on compliance with the Davis Bacon standards. The details of our recommendations are in later sections of the report.

B. Background

According to 29 CFR part 5, the term "Davis-Bacon Labor Standards" means the requirements of the Davis-Bacon Act, the Contract Work Hours and Safety Standards Act (other than those relating to safety and health), the *Copeland Act*, and the prevailing wage provisions. The Davis Bacon Act is a federal level stipulation that indicates that all workers involved with a government project are to be compensated appropriately according to their job description and relevant skills. Davis-Bacon wage rates apply to HUD-funded projects because of labor provisions contained in Federal Labor Standards Requirements in Housing and Community Development Programs (HUD.gov) such as the U.S. Housing Act of 1937, the National Housing Act, the Housing and Community Development Act of 1974, the National Affordable Housing Act of 1990, and the Native American Housing Assistance and Self-Determination Act of 1996. Texas, as a recipient of funds related to these acts, must also comply with the Davis Bacon Act according to federal law.

48 CFR 22.403-2, Copeland Act;

The Copeland Act makes it unlawful to induce, by force, intimidation, threat of procuring dismissal from employment, or otherwise, any person employed in the construction or repair of public buildings or public works, financed in whole or in part by the United States, to give up any part of the compensation to which that person is entitled under a contract of employment. The Copeland Act also requires each contractor and subcontractor to furnish weekly a statement of compliance with respect to the wages paid each employee during the preceding week.

In addition the Copeland Act, which complements the Davis-Bacon Act, requires contractors to furnish weekly statements of wages paid to employees. This requirement is implemented through regulations at 29 CFR Part 3 and contract clauses in 29 CFR Part 5.

The Davis-Bacon Act applies to contractors and subcontractors performing on federally funded or assisted contracts in excess of \$2,500 for the construction, alteration, or repair (including painting and decorating) of public buildings or public works. Davis-Bacon Act contractors and subcontractors must pay their laborers and mechanics employed under the contract no less than the locally prevailing wages and fringe benefits for corresponding work on similar projects in the area.

29 CFR §1.5 (a) General Wage Determination;

A general wage determination contains, among other information, a list of wage and fringe benefit rates determined to be prevailing for various classifications of laborers or mechanics for specified type(s) of construction in a given area. The Department of Labor publishes general wage determination under the Davis-Bacon Act on the DOL-approved website.

29 CFR § 1.2, Prevailing wage;

The wage paid to the majority (more than 50%) of the laborers or mechanics in the classification on similar projects in the same area. If the same wage is not paid to a majority, the prevailing wage will be the wage paid to the greatest number, provided that such number constitutes at least 30% of the those employed. If no wage rate is paid to 30% percent or more, the prevailing wage will be the average of the wages paid to those employed in the classification, weighted by the total employed in the classification.

According to the Department of Labor:

- *Contractors must incorporate labor standards clauses and applicable wage determinations into their contracts, as mandated by the Davis Bacon and Related Act.*
- *The Contracting agency is responsible for ensuring these clauses are included in the prime contract, which includes all subcontract agreements.*
- *The U.S. Department of Labor (DOL) oversees the enforcement of these labor standards, ensuring that contractors meet prevailing wage rates and other labor requirements.*

The penalty increases for failure to pay overtime wage rate, at a rate not less than one and one-half times their basic rate. Agencies across the federal government must adjust penalties for inflation each year. The change affects the Contract Work Hours and Safety Standards Act (CWHSSA) under The Federal Civil Penalties Inflation Adjustment Act Improvements Act enacted in 2015. The law allows adjustments for inflation each year in January.

29 CFR § 4.114 (b), Liability of prime contractor;

When a contractor undertakes a contract subject to the ACT¹, the contractor agrees to assume the obligation that the Act's labor standards will be observed in furnishing the required services. This obligation may not be relieved by shifting all or part of the work to another, and the prime contractor is jointly and severally liable with any subcontractor for

¹ Davis Bacon Labor Standard Act

any underpayments on the part of a subcontractor which would constitute a violation of the prime contract.

C. Scope and Methodology

Our scope for this audit included a review of applicable Texas Administrative Code (Title 10, Section § 2.401), relevant Federal Codes; 29 CFR² Part 1, “Procedures for Predetermination of Wage Rates”; CFR 29 Part 4, “Labor Standards for Federal Service Contracts”; CFR 29 Part 5, “Labor Standards Provisions Applicable to Contracts Covering Federally Financed and Assisted Construction”; CFR 29 Part 6, “Rules for Practice for Administrative Proceedings Enforcing Labor Standards in Federal and Federally Assisted Construction Contracts and Federal Service Contracts”, and we performed review and analysis of the current internal practices.

D. Roles and Responsibilities

Texas Department of Housing and Community Affairs: At TDHCA all divisions that are funded by HUD funds are required to comply with the Davis Bacon Act. This includes the following programs: HOME, HOME-ARP, NSP, and PRA. The Subrecipient Monitoring section of the Compliance division is responsible for conducting desk and on-site reviews to ensure that projects are in compliance with relevant acts. TDHCA designed the 811 rental assistance programs to state Rental Assistant can only be provided if a unit is already rehabbed and does not require construction. Because of this, TDHCA 811 program is not subject to Davis Bacon act.

Labor Standard Specialist (LSS): TDHCA staff is informed of the appointment of LSO for each project / construction firm prior to approval of initial disbursement of federal fund, and issuance of Notice to Proceed (NTP). LSS issues NTP that incorporates the DOL-WHD-GWD³ Prevailing wage mandates applicable to the project and authorizes start of construction activity. The LSS is also responsible for reviewing and approving TDHCA Final Wage Compliance Report associated with the Department’s labor standards retainage release requirements.

Prime Contractor: This term refers to any person, or entity, that enters into a contract with the Department. The contractor or subcontractor has an affirmative obligation to ensure that its pay practices are in compliance with the Davis Bacon Act labor standards, including verification of subcontractors and lower-tier contractors on the SAM.gov prior to executing any construction contracts.

Labor Standard Officer (LSO): The primary individual responsible for overseeing project labor standards and records compliance mandates at the contractor’s level. The LSO is responsible for accuracy of documents prior to sending completed documents to THDA Labor Standards Specialist (LSS) for conditional approval. This includes weekly reviews of WH-347 Payroll forms

² Codes of Federal Regulations

³ Department of Labor – Wage and Hour Division – General Wage Determination

received from Prime contractors to ensure its compliance with DBRA mandates, conducting on-site interviews with workers in multiple classifications throughout the project construction phase, and documenting and processing owed overtime pay violations and enforcing liquidated damage payments. Any identified liquidated damages are collected by LSO and sent to TDHCA via check, who in turn will send it to HUD.

The LSO cannot be an employee of the Construction company, or its affiliates

Laborer / Participants: The participants in the Davis Bacon Act regulations are all workers employed on federally funded projects by contractors and subcontractors. **According to 29 CFR §1.2;** *“Every person performing the duties of a laborer or mechanic in the construction, prosecution, completion, or repair of a public building or public work, or building or work financed in whole or in part by assistance from the United States through loan, grant, loan guarantee or insurance, or otherwise, is employed regardless of any contractual relationship alleged to exist between the contractor and such person”.*

E. Testing

As part of our review of Davis Bacon Related Acts we requested from the Multifamily division a sample of completed projects that are subject to DBRA to review and test for completeness and compliance with applicable rules and standards. However, our review was limited due to the fact that there is two years gap between past awards. The MFDL program released HOME funds in FY 2022 and then again in FY 2024. The two-year lapse was due to a rather substantial increase to the Department’s National Housing Trust Fund (NHTF) grant which needed to be committed to projects by strict deadlines. This resulted in a smaller amount of HOME transactions from FY 2023 and onward. Consequently, a good portion of FY 2022 deals have still not yet had their final draw, and the DBRA information is not complete or available to review.

We received records of three deals that were closed in 2024 to review and test. These deals have not yet had their final draws and therefore did not have *“Final Wage Compliance report”* at this point. We were also unable to verify *“Contractor’s Eligibility”* for any of the contractors on file due to lack of records. This issue, and recommendation related to this issue, are included in the following section.

F. Prior Audits, and recommendations

The Texas Department of Housing and Community Affairs is subject to a yearly Single Audit conducted by a contracted external auditing agency. This Single Audit includes the Davis Bacon Act, among other federal acts. The latest audit was conducted by the external audit firm, Clifton Larson and Associates (CLA) in 2025, and involved evaluation of Davis Bacon related activities along the following guidelines: activities allowed or unallowed; allowable costs/cost principles; cash management; eligibility; equipment and real property management; matching, level of effort, earmarking; period of performance; procurement suspension & debarment; program income; reporting; subrecipient monitoring; and special tests and provisions.

During the Single Audit, a sample of projects was taken to ensure that they complied with the Davis Bacon Act. No findings were reported by CLA.

In fiscal year 2017, The Department of Housing and Urban Development (HUD), Office of Davis Bacon and Labor Standards (DBLS) conducted an on-site review of TDHCA. The review was to evaluate the Department's Federal Labor standards administration and enforcement of applicable Federal laws. The scope of the review focused on examining critical elements for labor standards such as the Department's organizational structure, monitoring procedures, and role of the Department's labor specialist.

The HUD report stated that overall TDHCA is doing an adequate job with administration and enforcement of Federal Labor Standards. It also stated that the review revealed some weaknesses in the administration and enforcement of Federal Labor Standards, and that improvements in the area of monitoring can be made. The issues identified during HUD's review were:

- *Unable to provide the verification of contractor eligibility prior to contract award for the selected sample.*
- *Need to ensure compliance with overtime requirements.*
- *Work Classification not listed on wage decision.*
- *Need to ensure employee interview forms are reviewed and signed.*

OIA followed up on these items and was able to confirm that the "verification of contractor eligibility prior to contract award" was transferred to Multifamily division, as was provided in the Management response at the time. This process is now part of the application procedure and is verified during the application review and scoring phase. However, Multifamily division does not retain any proof of the verification on file, and in some cases relies on the verbal confirmations from other divisions and staff. OIA was not able to verify this requirement for the selected sample.

Observation Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
002-001	OIA recommends that the MFDL staff document and retain proof of "Contractor eligibility verification" from SAM.gov for each contractor subject to DBRA.	Immediate	Multifamily

Management Response

Management agrees with this recommendation.

OIA was not able to verify the remaining three items from HUD's recommendations which fall under the Compliance Monitoring section of Compliance division. The monitoring section does not keep records of documents and samples reviewed during their monitoring reviews unless they're related to a finding.

Observation Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
002-002	OIA recommends that the Compliance Monitoring section obtain and retain the sample documents that they review and test during each monitoring review for future Audit reviews.	8/15/2025	CMSM

Management Response

Compliance Subrecipient Monitoring (CMSM) accepts the observation. CMSM staff were provided quarterly assignments for the last quarter of fiscal year 2025 on June 4, 2025. Four multifamily contracts were assigned with Davis Bacon for review. For these assignments and going forward, CMSM will retain all review documentation for future audit reviews.

We extend our appreciation staff and management of Multifamily, Compliance Monitoring, HOME-ARP, and Community Action divisions for their cooperation and assistance during the course of this audit.

Sincerely,



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

MS/NS



Texas Department of Housing and Community Affairs

Audit & Finance Committee

Board Action Request

File #: 1142

Agenda Date: 9/4/2025

Agenda #: 3.

Presentation and discussion of Internal Audit Report of the Single-Family Mortgage Revenue Bond Program, Report# 25-005

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
Internal Audit of the Single-Family Mortgage Revenue Bond (SFMRB) program

Audit Report # 25-005

Executive Summary

The Office of Internal Audit (OIA) performed an audit of the Single-Family Mortgage Revenue Bond program at TDHCA to review, assess, and evaluate activities and internal controls related to operation and administration of SFMRB program, and its compliance with applicable rules and regulations.

Based on our review and analysis, the Single-Family Mortgage Revenue Bond program is operating effectively at TDHCA in providing below-market interest rate loans to eligible Texans. We identified some areas for improvement to contracts and agreements between TDHCA and its vendors. The details of our recommendations and management responses are included in the report.

Observations and Recommendations

- Management should ensure that all contracts and agreements are valid and renewed on time as needed.
- OIA recommends that management include a cybersecurity clause in the contracts with vendors to ensure vendor's compliance with TDHCA's standard in cybersecurity.

Objective, Scope, and Methodology

Our scope for this audit included a review of applicable Texas Administrative Code (Title 10, Section § 2.401), Department's annual Interest Rate Risk Management policy (FY 2025), TDHCA Investment Policy for FY 2025, applicable SOPs, vendors' contracts and service agreements, and evaluating internal controls within SFMRB program.



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

8/28/25
Date Signed



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

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August 28, 2025

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

RE: Internal Audit of the Single-Family Mortgage Revenue Bond (SFMRB) program

Dear Board Members:

This report presents the results of the Office of Internal Audit ("OIA") review of the "Single Family Mortgage Revenue Bond" program and its internal controls at TDHCA. This audit was conducted in accordance with applicable audit standards and included objectives to review, assess, and evaluate activities and internal controls related to operation and administration of SFMRB program, and its compliance with applicable rules and regulations.

The SFMRB program was included in the internal audit plan for FY 2025 due to its complexity of operation, number of external parties involved in its operation, and lack of any recent internal audit. For this audit we reviewed applicable rules and regulations, internal SOPs, and contracts and agreements between TDHCA and outside entities.

This report is divided into the following sections:

- A. Overall Result
- B. Background
- C. Scope and Methodology
- D. Roles and Responsibilities
- E. Reviews and Recommendations
- F. External audits

A. Overall Results

Based on our review and analysis, the Single-Family Mortgage Revenue Bond program is operating effectively at TDHCA in providing below-market interest rate loans to eligible Texans. We identified some areas for improvement to management of the contracts and agreements between TDHCA and its vendors. The details of our recommendations are in later sections of the report.

B. Background

The Bond Finance program assists families and individuals with low to moderate income obtain home ownership. The Single-Family Revenue Bond Program (SFMRBP) provides below-market interest rate mortgage loans for qualified single-family homebuyers. The Department's ability to issue tax-exempt municipal bonds produces below-market interest rate mortgage loans. Interest income from municipal bonds generally is exempt from federal, state, and local taxes. Interest rates on "tax-exempt" municipal bonds, therefore, are lower than interest rates on "taxable" bonds. This spread between tax-exempt and taxable bond interest rates creates the subsidy required to achieve and offer below-market interest mortgage rates.

The Department's authority to issue mortgage revenue bonds (MRB) is derived from its enabling legislation and provisions of the Internal Revenue Code. On an annual basis the Department issues only a limited amount of tax-exempt single family MRBs. TDHCA has an established and extensive Mortgage Revenue Bond program, issuing nearly \$1 billion in bonds annually to fund My First Texas Home Mortgage loans and Mortgage Credit Certificates for eligible first-time homebuyers and veterans.

Bond Finance Division at TDHCA is entirely self-funded, and doesn't receive any funds from Federal, State, or local governments. Bond Finance makes quarterly contributions to TDHCA to fund the Department's portion of expenses and shared services. Bond Finance administers the Department's Mortgage Revenue Bond (MRB) and Mortgage Lending Programs and is responsible for managing the Bond Indentures.

The Single-Family Mortgage Loan Program provides first and second lien mortgage loans to very low-, low-, and moderate-income homebuyers through the My First Texas Home Program (MFTH)

and the My Choice Texas Home Program (MCTH). Mortgage loans are originated through participating lenders and must be Federal Housing Administration (FHA) insured, Rural Housing Service (RHS) guaranteed, Veterans Affairs (VA) guaranteed, or insured by private mortgage guaranty insurance and eligible for securitization into Ginnie Mae, Fannie Mae, or Freddie Mac Certificates. TDHCA utilizes SFMRBs and a secondary market To-Be-announced (TBA) Taxable Mortgage Program (TMP) to fund the Program.

Mortgage Credit Certificate (MCC) is a homebuyer assistance program designed to help lower-income families afford homeownership by allowing a dollar-for-dollar tax credit for some portion of mortgage interest paid per year.

My First Texas Home Program is available to only Veterans and first-time homebuyers (who have not owned a home in the past 3 years). It offers a 30-year low-interest rate mortgage with up to 5% of the 1st lien mortgage amount that can be used for down payment and closing cost assistance.

C. Scope and Methodology

Our scope for this audit included a review of applicable Texas Administrative Code (Title 10, Section § 2.401), Department's annual Interest Rate Risk Management policy (FY 2025), TDHCA Investment Policy for FY 2025, applicable SOPs, vendors' contracts and service agreements, and evaluating internal controls within SFMRB program.

D. Roles and Responsibilities

TDHCA

The Department finances below-market rate mortgage loans to qualified Texas homebuyers; Low-to-moderate income, first-time Texas homebuyer and veteran, through the issuance of Mortgage Revenue Bonds (MRB) and by selling mortgage loans in the TBA market (To Be Announced) through the Department's Taxable Mortgage Program (TMP).

Bond Finance Division

The Bond Finance Division is responsible for structuring, restructuring, administering, and monitoring the Department's SFMRB issues. Bond Finance coordinates all activities related to the issuance and/or remarketing of SFMRBs and notes. Bond proceeds generated by SFMRBs are allocated to the Single-Family Mortgage Loan Program.

Texas Bond Review Board

The Texas Bond Review Board was created in 1987, and is composed of the Governor, Lieutenant Governor, Speaker of the House of Representatives, and the Comptroller of Public Accounts. The Board's mission is to ensure that debt financing is used prudently to meet Texas infrastructure needs and other public purposes, to support and enhance the debt issuance and management

functions of state and local entities, and to administer the allocation of state private activity bonds.

Bond Counsel

Bracewell LLP is the Bond Counsel for TDHCA and is responsible for providing legal services to the Department in connection with the issuance of bonds and the protection of assets pledged to bond indentures, as well as providing ongoing legal services related to the program. Their responsibilities include drafting the supplemental bond indentures, bond resolutions, tax certificates, and other bond-related documents, preparing and filing-required by IRS and State forms, and reviewing and approving of Bond Yield and Mortgage Yields associated with each issuance and bond-financed loan program.

Disclosure Counsel

McCall Parkhurst & Horton assists TDHCA with disclosure documents related to public bond issuance. This includes drafting official statements or portions thereof and continuing disclosure agreements, due diligence process leading up to the issuance of the bonds including a review of past compliance with continuing disclosure agreements and the Annual Comprehensive Financial Report, Website, and other information to ensure consistency and appropriateness of information provided to the market. Disclosure counsel also assists with ongoing management of agreed upon post-issuance compliance responsibilities.

Financial Advisor

CSG ADVISORS is a full service, independent financial advisor firm, and responsible for assisting in structuring bond issues and representing the issuer on matters relating to evaluation of proposed financing plans, selection of underwriters and other service providers, financial integrity of the bonds, control of transaction costs, timing of the bond sale and pricing of the bonds.

Master Servicer

In February 2025, TDHCA began working with *The Money Source* (TMS) as Master Servicer. The Servicer's responsibilities include accepting and recording mortgage payments, paying taxes and insurance from borrower escrow accounts, negotiating workout and modifications of mortgages upon default.

Program Administrator

Hilltop Securities is the Program Administrator for TDHCA's Homeownership programs. They are responsible for providing, managing and maintaining the mortgage loan reservation system used by TDHA lenders. Their role is to oversee the mortgage application process from submission to final approval. Other duties include managing lender relationships and tracking funds, compliance review for adherence with TDHCA guidelines, and Administering the TDHCA Mortgage Credit Certificate program.

TBA Providers

TBA stands for “to be announced” and is a private sector mortgage brokerage model whereby a party, the TBA provider, commits to a price, based on mortgage rate, for mortgage-backed securities (MBS) to be issued in the future and backed by mortgage loans not yet originated. The TBA Administrator provides mortgage loan pricing daily to enable TDHCA to set mortgage rates. The TBA program is designed to improve liquidity. Hilltop Securities tracks TDHCA TBA loan reservations and takes on the pipeline risk by agreeing to purchase MBS from TDHCA at predetermined prices. This results in TBA Administrator taking on all risks associated with the TBA program including market risk extension risk, fallout risk,.. etc.

Trustee

The Trustee is the entity responsible for managing the Trust Estate under the indenture. They administer the funds or property specified in the indenture in a fiduciary capacity on behalf of the bondholders. The Bank of New York (BNY) acts as Trustee for TDHCA indentures. BNY corporate trust department serves in a fiduciary capacity for TDHCA holders. They perform duties and responsibilities assigned by the bond trust indenture such as depository for all pledged assets / revenues, and registrar to record and transfer ownership of bonds.

Warehouse Provider

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

Liquidity Provider

The Texas Comptroller of Public Accounts is the Liquidity Provider for the TDHCA’s variable rate bonds. Variable rate bonds and swaps typically require a liquidity facility. A liquidity facility is a letter of credit, standby bond purchase agreement or other arrangement used to provide liquidity to purchase securities, typically variable rate demand obligations that have been tendered to the issuer or its agent but cannot be immediately remarketed to new investors. The provider of liquidity facility purchases the securities until such time as they can be remarketed. Variable rate bonds have paid down significantly, with the Comptroller providing liquidity for \$89 million on bonds outstanding as of 8/31/2018 and \$6 million as of 4/30/2025.

E. Reviews and Recommendations

As part of this audit, we reviewed the roles and responsibilities of each vendor as it related to the operation of Single-Family Mortgage Revenue Bond program for potential gaps in coverage and controls and evaluated the internal controls currently in place within the program to ensure segregation of duties and proper internal controls. We also reviewed and evaluated contracts and agreements between TDHCA Bond finance division and its outside vendors for completeness and accuracy. We did not identify any areas of gaps in coverage or controls over the operation of

the program, or potential conflict of interest. However, we did identify one agreement that seemed to have expired in 2023 without any renewal notice being issued since then. Further review by the program staff revealed that the expiration date on the agreement was an administrative error and that the agreement should have stated August of 2025 instead of 2023 for expiration date. The program management corrected the error and executed an addendum to the agreement that is valid till August 31st, 2026.

In other contracts we noted that the signature page was not fully signed by all parties to the contract or agreement. Instead, multiple copies of the signature page were placed on file, with each copy being signed by one of the parties, or the authorized signer, to the contract.

Observation Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
25-005.01	Management should ensure that all contracts and agreements are valid and renewed on time as needed.	September 30, 2025	Bond Finance Division

Management Response

Management agrees with Observation 25-005.01. Bond Finance has identified a methodology which will enable Purchasing/Procurement to track all contracts that do not require a Purchase Requisition (PR).

Bond Finance will review all current agreements, coordinate with Purchasing/Procurement, and submit PRs on all outstanding agreements by September 30, 2025

Cybersecurity is crucial in today's digital landscape as it protects sensitive information, ensures business continuity, and safeguards personal privacy against the rising tide of cyber threats. Cyber threats, malware, and phishing attacks are becoming more sophisticated. Without effective cybersecurity practices organizations can be vulnerable to these attacks which can lead to significant financial losses and reputational damage.

OIA requested information regarding each vendor's internal controls and cybersecurity measures for review and evaluation. The program provided each vendor's internal policies, SOPs, and other related information in their effort in protecting sensitive information and preventing financial losses. However, the contracts and agreements with these vendors did not seem to include any information about the responsibility of the cybersecurity requirements.

Observation Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
25-005.02	OIA recommends that management include a cybersecurity clause in the contracts with the program vendors to ensure vendor's compliance with TDHCA's standard in cybersecurity.	To include in all new contracts	Bond Finance Division.

Management Response

Management agrees with Observation Number 25-005.02 and will include language to ensure vendor's compliance with TDHCA standards on cybersecurity in all new contracts.

F. External Audits

An external audit of the TDHCA Financial Statements is conducted annually by the State Auditor's Office (SAO), which includes the activities of the Single-Family Mortgage Revenue Bond program. The most recent audit resulted in an "Unmodified" (clean) opinion on the fiscal year 2024 financial statements.

We extend our appreciation to staff and management of Single-Family Mortgage Revenue Bond program and Texas Homeownership program for their cooperation and assistance during the course of this audit.

Sincerely,



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

MS/NS



Texas Department of Housing and Community Affairs

Audit & Finance Committee

Board Action Request

File #: 1143

Agenda Date: 9/4/2025

Agenda #: 4.

Report on the status of the Internal and External Audit activities