State Auditor's Office

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An Audit Report on

The Single Family Mortgage Revenue Bond Program at the Department of Housing and Community Affairs

August 2008

Report No. 08-043

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Overall Conclusion

The Department of Housing and Community Affairs (Department) is effectively managing the cash flows needed to fund the Single Family Mortgage Revenue Bond Program's (Program) debt service payments. However, it could improve its monitoring to ensure that all Program cash flows are adequately managed and accounted for by the Program trustee and master servicer.

The Department performs consistent monitoring activities, but it could strengthen its reviews, analysis, and reconciliations of Program financial information provided by its master servicer (Countrywide Home Loans, Inc.) and trustee (The Bank of New York Mellon Corporation[1]). The Department also could improve its monitoring of the Program's master servicer to ensure Program funds are used for qualified borrowers' mortgages that meet all Program requirements.

Additionally, the Department could strengthen its policies and procedures related to its use of interest rate swaps (swaps). While the Department's use of swaps has been highly effective to date, the Department could further reduce the Program's exposure to risks associated with swaps and variable interest rates by further defining the parameters under which it uses swaps and ensuring that Program financial information is as complete and accurate as possible.

Department of Housing and Community Affairs and the Single Family Revenue Bond Program

The Department of Housing and Community Affairs (Department) oversees 19 programs, one of which is the Single Family Mortgage Revenue Bond Program (Program). The Department's fiscal year 2008 appropriations totaled $152.6 million, which includes $128.7 million in federal funds. The Department had 284 full-time equivalent positions in the second quarter of fiscal year 2008.

The Program provides below-market interest rate mortgages to lower income, first time home buyers. The Program also provides down payment assistance to some qualified borrowers. The Department issues tax-exempt bonds to fund the mortgages.

The bond debts issued by the Department for the Program are repaid using revenues generated by mortgage-backed securities that pass through principal and interest payments from Program mortgages; the bond debts are not general obligations of the State.

As of August 31, 2007, the Program had an outstanding bonds payable balance of $1,045,708,000 and had used its funds to issue more than 4,900 mortgage loans with a total initial principal of more than $559 million during fiscal years 2006 and 2007.

The Department is statutorily required to use a portion of the proceeds from each of the Program's new bond issues to provide mortgages to very low income borrowers and borrowers in certain targeted geographic areas of the state. (See Appendix 2 for more information on Program targets.)

Sources: Department Web site and financial records, and the General Appropriations Act (80th Legislature).

Program expenditures recorded by the Department are reasonable and generally necessary; however, the Department

[1] On July 2, 2007, The Bank of New York merged with the Mellon Financial Corporation and now operates under the name of The Bank of New York Mellon Corporation.

lacks a formalized methodology to distribute indirect administrative costs to the Program. Without a methodology to assign agency-wide costs, the Department cannot ensure that administrative costs are accurately allocated to the Program.

Key Points

The Department could improve its monitoring of mortgage-backed security purchases and its Program master servicer.

The Department effectively monitors its cash flows to ensure that actual revenues from mortgage-backed securities are sufficient to meet debt service payments on a timely basis. However, the Department could more closely monitor its purchase of mortgage-backed securities to ensure that the purchase price is based on the total principal of the underlying mortgages contained in the securities.

In addition, the Department could improve its monitoring of the Program master servicer by developing a compliance review plan to verify that all mortgages funded through the Program meet all requirements. The master servicer is responsible for reviewing all borrower applications for compliance with Program requirements. It should be noted that auditors' testing indicated that mortgages originated during calendar years 2006 and 2007 benefited intended recipients and complied with Program requirements.

The Department could improve its reconciliation of data received from its Program trustee and master servicer to ensure that Program bonds are redeemed appropriately.

Although the Department accurately records financial data received from its master servicer into its internal accounting system, the Department does not reconcile the bond redemption schedule created by its trustee with the mortgage payment data received from its master servicer to ensure that Program bonds are redeemed in an appropriate and timely manner.

The Department should strengthen its policies and procedures to minimize risks associated with interest rate swaps.

The Department's use of interest rate swaps (swaps) is generally sound and has limited potential risk. The Department's use of swaps has proven to be highly effective by industry and accounting standards. However, the Department could improve its current policies and procedures to strengthen the Program's controls over the use of swaps.

The Department lacks a process to track and allocate administrative costs for the Program.

The Department tracks direct Program expenses for the Texas Homeownership Program Division, which is dedicated solely to the operation of the Program;

however, the Department does not track Program administrative expenses that are shared with other divisions. Additionally, the Department lacks a documented allocation schedule or formal process to identify and allocate all appropriate Program costs.

The Department does not include statutorily required language in all Program contracts.

The Program's contracts do not contain the statutorily required language granting the State Auditor's Office audit authority and access to records. These contracts include those with bond counsel, The Bank of New York Mellon Corporation, and Countrywide Home Loans, Inc. Contracts that do not contain this statutorily required language may limit the State's ability to provide effective oversight of contract terms, contractors, and the use of state funds. Access to records is an essential element of auditing.

Summary of Management's Response

The Department agrees with the recommendations in this report, and it provided the following summary of its responses:

> *Overall, the Department agrees with the recommendations in the report and plans to implement them. The Department is committed to helping Texans achieve the dream of homeownership through its First Time Homebuyer Program. Over the past two state fiscal years, the Department helped 4,900 families achieve their dream and provided a majority of funds (approximately $318 million out of $557 million) to borrowers earning 80 percent of the area median family income or below. Moreover, the report clearly shows that the Department's Single Family Programs are well administered and have earned the confidence of Texas taxpayers, as well as investors in the market.*

Detailed management responses are included in the Detailed Results section of this report.

Summary of Information Technology Review

Auditors reviewed access controls over the MITAS System, the Department's internal accounting system for the Program. The MITAS System includes data on the Program's expenditures, mortgage purchases, and mortgage payments received. The MITAS System is an accounting software package that the Department purchased from the MITAS Group.

The Department has adequate general controls and security controls over its network and adequate password parameters. However, it lacks detailed, written policies on password parameters and procedures. In addition, system security weaknesses expose some Program data to an increased risk of undetected or unauthorized changes (see Chapter 3 for more information).

Summary of Objectives, Scope, and Methodology

The audit objectives were to:

- Determine whether the Department effectively manages the Program to ensure that cash flows from mortgage investments are sufficient to meet the debt service requirements over the life of the bonds.
- Determine whether Program expenditures are necessary and reasonable and made in accordance with the terms of the bond indentures and service provider contracts, as applicable.

The scope of this audit covered the Department's processes of managing Program bond payments, interest rate swaps, mortgage payment receipts, and expenditures from September 1, 2005, to January 31, 2008.

The audit methodology consisted of conducting interviews; collecting and reviewing information; and performing tests, procedures, and analysis against predetermined criteria.

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Detailed Results

Chapter 1

The Department Effectively Manages Program Cash Flows to Meet Its Debt Service Payments; However, It Could Improve Its Review Processes of Program Financial Information

> **Single Family Mortgage Revenue Bond Program**
>
> The Single Family Mortgage Revenue Bond Program (Program) was authorized by the 66th Legislature to provide below-market interest rate mortgages to lower income, first time home buyers. The Program also provides down payment assistance to some qualified borrowers. The Department of Housing and Community Affairs (Department) issues tax-exempt bonds to fund the mortgages.
>
> As of August 31, 2007, the Program had an outstanding bonds payable balance of $1,045,708,000 and had used its funds to issue more than 4,900 mortgage loans with a total initial principal of more than $559 million during fiscal years 2006 and 2007.
>
> The Department is statutorily required to use a portion of the proceeds from each of the Program's new bond issues to provide mortgages to very low income borrowers and borrowers in certain targeted geographic areas of the state. (See Appendix 2 for more information on Program targets.)
>
> Source: Department fiscal years 2006 and 2007 financial records and externally audited financial statements.

The Department of Housing and Community Affairs (Department) has effectively managed the cash flows needed to fund the Single Family Mortgage Revenue Bond Program (Program) debt service payments; however, it could improve its monitoring to ensure that all Program cash flows are adequately accounted for by the Program master servicer and trustee.

Although the Department performs consistent monitoring activities, it could improve its monitoring of cash flows by strengthening its reviews, analysis, and reconciliations of Program financial information provided by its master servicer and trustee. The Department also could improve its monitoring of the Program master servicer to ensure the master servicer complies with Program requirements.

Additionally, the Department could strengthen its policies and procedures related to its use of interest rate swaps (swap). While the Department's use of swaps has been highly effective to date, it could further reduce the Program's exposure to risks associated with swaps and variable interest rates by further defining the parameters under which it uses swaps and ensuring that Program financial information is as complete and accurate as possible.

Chapter 1-A

The Department Could Improve Its Monitoring of Program Cash Flows and Its Program Master Servicer and Trustee

The Department effectively monitors its cash flows to ensure that actual revenues from mortgage payments are sufficient to meet debt service payments on a timely basis. However, the Department could improve its monitoring of cash flows by:

- More closely monitoring mortgage-backed securities to ensure that the purchase price is based on the total principal of the underlying mortgages contained in the securities.

- Reconciling mortgage payment data received from the Program master servicer and trustee to ensure the Program trustee is accurately accounting for Program funds.

The Department could also improve its monitoring of the Program master servicer by assessing risk and developing a monitoring plan to ensure the master servicer complies with Program requirements.

> **Program Funding**
>
> The Program uses bond proceeds to fund Program mortgage loans. Loans issued using Program funds are traditional, fixed-rate, 30-year mortgages. The Department uses a network of participating lenders to issue mortgage loans using Program funds to qualified home buyers. After an approved borrower closes on the mortgage with the originating lender, the Department's master servicer purchases the mortgage loan. The master servicer pools the Program loans and converts them to mortgage-backed securities that are guaranteed by Ginnie Mae, Fannie Mae, and Freddie Mac.
>
> The mortgage-backed securities purchased by the Department's trustee include only Program-funded mortgages. The Program uses revenue from mortgage-backed securities to pay its bond debt service liability. The Texas Government Code and bond indenture terms require the bond debt to be fully repaid using the proceeds generated from Program mortgages. These revenue bond debts are solely obligations of the Department and payable soley from Program funds. They are not general obligations of the State.

The Department could improve its monitoring of Program mortgage-backed security purchases by reconciling them at the loan level. The Department purchases mortgage-backed securities through the Program's master servicer, Countrywide Home Loans, Inc. (Countrywide)[2] (see text box). These securities include only Program-funded mortgages. The Department receives detailed mortgage information for all mortgage-backed securities (pools) from Countrywide. Additionally, the Department receives summary pool purchase information from The Bank of New York Mellon Corporation, the Program's trustee. The Department reconciles this pool purchase data with the information it receives from Countrywide. However, the Department's reconciliation does not verify that the individual pools purchased are supported by the principal amounts of the underlying mortgages. Without a reconciliation of the underlying mortgages, the Department cannot adequately ensure that the pool purchase prices are accurate. It should be noted that auditors did not identify any discrepancies in the pool purchases tested.

The Department could improve its reconciliation of mortgage payment data received from Countrywide and The Bank of New York Mellon Corporation to ensure that Program bonds are redeemed appropriately. The Department receives monthly data from Countrywide on the payments received from holders of Program-financed mortgages. The Department also receives and accurately records in the MITAS System, its internal accounting system, corresponding payment information from The Bank of New York Mellon Corporation detailing Program revenues posted to the Department's accounts. Also, every six months, the Department receives a bond redemption schedule from The Bank of New York Mellon Corporation, which is based on compiled mortgage payment data. However, the Department does not sufficiently reconcile the bond redemption schedule to the monthly mortgage payment data to ensure that bonds are being redeemed in a timely manner. Auditors compared Countrywide payment data to The Bank of New York Mellon Corporation data for 18 months for 3 corresponding bond issues during fiscal years 2006 and 2007 and identified discrepancies totaling $250,291, resulting in an error rate of 1 percent of the total principal received for these three bond issues during this period. These discrepancies included

[2] Countrywide groups similar mortgages together, based on specific guarantor and other loan distinctions, and "pools" them into mortgage-backed securities for the Department to purchase with Program bond proceeds.

both overpayments and underpayments of bond principal. Reconciling the mortgage payment data will assist the Department to ensure that bond redemptions are accurately calculated.

The Department does not adequately monitor the performance of the Program's master servicer to ensure that bond proceeds have been used to fund only mortgages that meet all Program requirements. The Department does not perform any reviews of the mortgage loan files to ensure that the borrowers qualify for the Program. Auditors' testing indicated that mortgages originated during calendar years 2006 and 2007 benefited intended recipients and complied with Program requirements. However, without adequate compliance monitoring, there is an increased risk that the Program could fund mortgages to borrowers who do not meet the Program requirements.

The Department should document its current procedures for issuing Program bonds. The Department has not documented its procedures for issuing bonds under the Program. Detailed, written policies and procedures are a key management control that helps the Department ensure that desired results are achieved and that current procedures are continued in the event of staff turnover.

Recommendations

The Department should improve its monitoring of cash flows by:

- Expanding its mortgage-backed security purchase reconciliation process to include verification of pool purchases by individual mortgage principal amounts.
- Reconciling mortgage payment data and bond redemption schedules received from Countrywide and The Bank of New York Mellon Corporation to ensure that Program bonds are redeemed timely.
- Developing a risk-based compliance monitoring process of its master servicer to ensure all Program requirements are met.
- Document its current policies, procedures, and control processes for issuing Program bonds.

Management's Response

The Department agrees to implement these recommendations as follows:

- *The Department intends to reconcile the individual loan pools purchased to the principal amounts of the underlying mortgages to ensure pool purchase prices are accurate. To accomplish this, the Department anticipates contracting with an independent third party provider to perform program monitoring responsibilities.*

***Target Date for Completion**: March 31, 2009*
***Person Responsible**: Director of Texas Homeownership Division*

- *In April 2008, a process was implemented to compare pool level repayment data provided by Countrywide to the financial data reported by Bank of New York on a monthly basis. To date, no discrepancies have been found. Additionally, effective June 2008, the semi annual Bank of New York supplemental payment schedules were reconciled to actual cash receipts for the previous six month period. The Department will continue these reconciliations semiannually.*

  ***Target Date for Completion**: Implemented*
  ***Person(s) Responsible**: Financial Services Team Leader; Bond Financial Analyst*

- *In order to supplement and enhance the current agreement with Countrywide to perform a tax compliance review on each loan, the Department proposes to develop a risk-based compliance monitoring process of its Master Servicer in conjunction with an independent third party provider.*

  ***Target Date for Completion**: March 31, 2009*
  ***Person Responsible**: Director of Texas Homeownership Division*

- *The Department intends to consolidate documentation on its current policies, procedures, and control processes by preparing a Standard Operating Procedure for issuing bonds. The Department currently maintains detailed bond transcripts, flow charts, calendars, board resolutions, applications and documents indicating compliance with all applicable laws and regulations.*

  ***Target Date for Completion**: December 31, 2008*
  ***Person Responsible**: Bond Financial Analyst*

Chapter 1-B

The Department Should Strengthen Its Policies and Procedures to Minimize Risks Associated with Interest Rate Swaps

Interest Rate Swaps

The Department uses interest rate swaps when it issues variable interest rate bonds for the Program. These interest rate swaps require the Department to make interest payments to the financial institution based on a fixed rate, and the financial institution makes payments to the Department based on a variable interest rate. It is important to note that an interest rate swap does not eliminate the Department's obligation to pay the bond's variable interest rate payments.

Because of recent economic conditions, these swaps have resulted in the Department incurring more expenses than it would have incurred if it not entered into the interest rate swaps. However, these swaps protect the Department against rising interest rates in the future (which may be higher than the revenues it receives from the fixed-rate mortgages). Swaps expose the Department to additional risks that must be effectively managed. (See Appendix 2 for more information on the risks of swaps.)

The Department's use of interest rate swaps (swaps) is generally sound and has limited potential risk. The Department uses interest rate swaps to synthetically convert a variable interest rate to a fixed interest rate on revenue bonds it issues (see text box). The Department is generally prepared to react quickly to the risks associated with swaps, and its use of swaps has proven to be highly effective by industry and accounting standards. However, it could improve the current policies and procedures to strengthen the Program's controls over the use of swaps. As of August 31, 2007, the Department had entered into swaps with a total notional value[3] of $365 million and had total outstanding Program bonds valued at $1.04 billion.

The Department should improve its documented swap polices. The Department's documented policies for swaps address many significant issues related to the risks of swaps. However, the Department could improve its current policies by addressing other swap issues, including:

- Forward-starting swaps–These are swaps with effective dates that are delayed until a specified time after the issuance date of the bonds. Using these swaps creates a risk because the Department is not protected from interest rate increases on its variable rate bonds until the effective date of the swap. The Department's current swap policies do not limit the duration of forward-starting swaps, which could increase the Department's exposure to interest rate fluctuations.

- Fixed notional value swaps and declining notional value swaps–Two of the Program's five current swaps have notional values that decline similarly to that of the corresponding bond principal. The remaining three swaps have a notional value that is fixed for the first 9 to 10 years, at which point the notional value systematically declines. Fixed notional value swaps may place the Department at risk of incurring an incrementally higher interest expense if the related bond principal is paid off early (due to mortgage prepayments or other circumstances) than it may have incurred if the swap had been based on a declining notional value. The Department's policies do not establish parameters for use of fixed and declining notional value swaps.

- Knock-out options–These are swap options that cause the swap to be terminated if interest rates escalate or decline beyond levels specified in

[3] Notional value of a swap is the principal amount to which the fixed rates and variable rates are applied.

the swap. Currently, the Department does not have any swaps that contain these options, and its policies do not address the use of knock-out options, which could expose the Department to higher interest rates if it enters into future swaps with these options.

The Department should improve its monitoring of the fair values of its swaps. The Department does not have an internal process to monitor and validate the fair value of its swaps, which is disclosed in the notes to its financial statements. As a result, it cannot adequately evaluate the accuracy of the swap valuations received from its financial advisors. The accuracy of a swap's fair value becomes significant if the swap is terminated before its expiration date. The Department has not terminated, nor does it anticipate terminating, any of its swaps. The Department has the option to terminate its current swaps at its discretion. The current swaps could also be terminated under certain situations, such as the financial institution participating in the swap files bankruptcy or changes in laws allowing the use of swaps. As of August 31, 2007, the Department's five Program swaps had an estimated fair value of negative $5.8 million, as reported by its swap advisor. This represents a payment the Department would be required to make if early termination occurs for all five swaps.

The Department should ensure it complies with its recently adopted policy requiring diversification of swaps. Currently, the Department has $241 million (66 percent) of its swap notional value with one financial institution, Bear Stearns Financial Products, Inc. The Department approved a swap policy in January 2008 that requires the Department to diversify its swaps among financial institutions. Department management stated it intends to follow this policy when entering into future swaps. In March 2008, Bear Stearns Companies Inc. (parent company to Bear Stearns Financial Products, Inc.) experienced financial difficulties and was acquired by JPMorgan Chase & Co., with the help of the federal government. Bear Stearns Financial Products, Inc. had credit ratings of AAA and Aaa from Standard and Poor's and Moody's, respectively, as of April 2008.

Recommendations

The Department should:

- Improve its written swap policies to:
  - Address the allowable and unallowable uses of forward-starting swaps by defining the allowable duration and amount of such swaps.
  - Establish parameters for the use of fixed notional value and declining notional value swaps.
  - Establish parameters for the use or prohibition of knock-out options.

- Develop, document, and maintain a methodology to calculate and monitor the fair values and termination values of interest rate swaps.
- Implement, as soon as feasible, its recently adopted policy to diversify its interest rate swaps among various financial institutions for future swaps.

Management's Response

The Department agrees to amend its Interest Rate Swap Policy by:

- *Addressing the allowable and unallowable uses of forward-starting swaps by defining the allowable duration and amount of such swaps.*
- *Establishing general parameters for the use of fixed notional value and declining notional value swaps depending on transaction structure and the appropriateness of either type of swap.*
- *Establishing general parameters for the use of knock-out options, however under current market conditions it is not the intention of the Department to use knock-out options.*

Target Date for Completion*: January 2009*
Person Responsible*: Director of Bond Finance*

The Department agrees to:

- *Develop, document, and maintain a methodology to calculate and monitor the fair values and termination values of interest rate swaps. In October 2005, the Department selected an independent third party advisor, Swap Financial Group, as its Interest Rate Swap Advisor & Consultant to primarily be responsible for duties and services necessary or advisable for monitoring and managing risks associated with TDHCA's interest rate swaps. Swap Financial Group will continue to provide quarterly fair values and termination values, however the Department will actively work to document the methodology for each calculation.*

  Target Date for Completion*: September 30, 2008*
  Person Responsible*: Bond Finance Project Manager*

- *Diversify swap counterparties as directed by the current swap policy, which was revised in January 2008. To date, no additional swap contracts have been negotiated.*

  Target Date for Completion*: upon negotiation of a new swap contract*
  Person Resp*onsible: Director of Bond Finance*

Chapter 2

The Department Effectively Uses Program Funds as Required by Bond Indentures and Contracts; However, It Should Develop a Process to Track and Allocate Administrative Costs for the Program

Although the Program expenditures recorded by the Department are reasonable and generally necessary, it could improve its monitoring of the use of Program funds. The Department does not have a formalized methodology to distribute indirect administrative costs to the Program. The Department does have a federally approved cost allocation plan that it uses to allocate administrative overhead costs to federal grants and contracts. However, it does not identify and allocate administrative costs to the Department's non-federal programs. Without an agency-wide cost allocation methodology, the Department cannot ensure that administrative costs are accurately allocated to select programs.

The Department tracks direct Program expenses for the Texas Homeownership Program Division, which is dedicated solely to the operation of the Program; however, the Department does not track Program administrative expenses that are shared with other divisions. Additionally, the Department lacks a documented allocation schedule or formal process to identify and allocate all appropriate Program costs.

The Program's bond indenture allows the Department to be reimbursed for "expenses of carrying out and administering its powers and duties and functions" in connection with the Program. The bond indenture further states that these expenses are to be "properly allocable to the Program." To comply with these requirements, all Program costs should be accurately identified and tracked, including administrative overhead costs. This would allow the Department to determine whether Program funds transferred to the Department for administration costs are insufficient or excessive.

According to the Department's fiscal year 2007 financial statements and accounting records, the Department transferred a total of $2.12 million from Program funds and Residential Mortgage Revenue Bond Program funds to its general fund to reimburse itself for administration of these two programs.

At auditors' request, the Department prepared its best estimate of fiscal year 2007 administrative costs for both the Program and the Residential Mortgage Revenue Bond Program. Based on this estimate, the Department's total cost to administer these programs for fiscal year 2007 was $2.17 million. The Department may have undercharged these programs by a total of $50,000 for administrative overhead costs during fiscal year 2007. This indicates a need to develop a methodology to allocate costs to the Program.

Recommendations

The Department should:

- Develop and document a cost allocation methodology that includes appropriate allocations to the Program.
- Ensure that reimbursements of administrative costs from Program funds do not exceed actual costs.

Management's Response

The Department concurs with the recommendation to develop and document a cost-allocation methodology for allocating program funds and to periodically evaluate administrative Program costs to ensure that the reimbursement of administrative costs does not exceed actual costs.

Target Date for Completion*: November 30, 2008*
Responsible Person*: Manager of Financial Services*

Chapter 3

The Department Has Adequate Information Technology Controls Over Its Network; However, Improvements Are Needed to Ensure the Protection of Its Internal Accounting System

Overall, the Department has adequate general controls and security controls over its network and adequate password parameters. However, it lacks detailed, written policies on password parameters and procedures. In addition, system security weaknesses expose some Program data to an increased risk of undetected or unauthorized changes.

Specific weaknesses include:

- The Department has not enabled the audit trail feature in the MITAS System, its internal accounting system used for the Program.
- The Department does not consistently enforce its policy requiring shared MITAS System passwords to be changed at least every six months.
- The Department uses shared passwords to access certain restricted information in the MITAS System.
- The Department has not performed and documented a security risk assessment since 2005, and has it not tested its disaster recovery plan in more than two years.

Internal Controls

Internal controls are the policies and procedures, as well as the overall control environment, established by management to protect the government's assets and to ensure the integrity and comprehensiveness of accounting data used in external and internal reporting.

Source: *An Elected Official's Guide to Auditing*, Government Finance Officers Association, 1992.

Title 1, Texas Administrative Code, Section 202.25 Requirements

- Information resources systems must provide the means whereby authorized personnel have the ability to audit and establish individual accountability for any action that can potentially cause access to, generation of, modification of, or effect the release of confidential information.
- Appropriate audit trails shall be maintained to provide accountability for updates to mission critical information, hardware and software, and for all changes to automated security or access rules.
- Based on the security risk assessment, a sufficiently complete history of transactions shall be maintained to permit an audit of the information resources system by logging and tracing the activities of individuals through the system.

Chapter 3-A

The Department Has Not Configured Its Internal Accounting System to Maintain Audit Trails

Although the Department controls access to the MITAS System through the use of user logins and passwords, it has not enabled the audit trail feature in the MITAS System. The MITAS System is the Department's internal accounting system for the Program; it contains general Program loan information, but it does not contain specific confidential information of Program borrowers. The MITAS System is an accounting software package the Department purchased from the MITAS Group.

Audit trails maintain a transaction and logging history for a system. Without audit trails, the Department cannot consistently identify who created a transaction or changed data or when the activity occurred. This weakness may hinder any Department efforts to identify and resolve the source of errors or unauthorized changes to its data.

If unauthorized changes are made, it may limit the Department's ability to identify the source of the change and accurately reconcile Program funds.

The Texas Administrative Code requires agencies to maintain appropriate audit trails based on a documented security risk assessment (see text box).

Recommendation

The Department should perform a risk assessment to determine whether it should enable the audit trail function in the MITAS System and implement the resulting decision.

Management's Response

The Department agrees with the recommendation and will perform a risk assessment to decide whether it should enable the MITAS audit trail function. Because of resource limitations on the server hardware that currently houses MITAS, the Department will also upgrade the hardware to add the disk space required for increased system logging.

***Target Date for Completion**: November 30, 2008*
***Person Responsible**: Director of Information Systems*

Chapter 3-B

The Department Lacks Detailed, Written Password Policies and Procedures

The Department uses adequate password parameters to ensure the use of "strong" passwords. However, the Department could improve its overall password controls by updating its documented information technology policies to reflect its current password criteria and other detailed password procedures. In addition, the Department uses shared passwords to access certain restricted information in the MITAS System and does not consistently enforce its policy requiring shared MITAS System passwords to be changed at least every six months.

The Department's information technology policies could be improved by including detailed password criteria and procedures. Although the Department's current use of information technology password parameters ensures the use of "strong" passwords (see text box), it has not documented these parameters and other password procedures in its written policies and procedures. Written, detailed policies and procedures are an important tool in ensuring consistency in the event of staff turnover and other operational changes.

Strong Password Policy

Elements of a strong password policy include:

- Defining the number of times a unique password must be used before an old password can be reused.
- Defining the maximum period of time (in days) that a password can be used before it should be changed by the user, usually 30 to 90 days.
- Defining the minimum period of time (in days) that a password must be used before the user can change it, usually greater than zero.
- Defining the minimum password length (in characters), usually six characters in length.
- Defining the complexity requirements of user passwords. Usually contain three of the four following categories:
  - English uppercase characters (A-Z).
  - English lowercase characters (a-z).
  - Non-alphabetic characters (for example, !,@,#,%).
  - Numeric characters (0-9).

Source: Microsoft Windows password policy recommendations.

A detailed written policy should include:

- A prohibition against the use of recently used passwords.
- The Department's criteria for the minimum age of passwords before they can be changed, as well as the minimum password length and complexity.
- A maximum password age, requiring all passwords to be changed on a regular basis.

The Department uses shared passwords to access certain protected screens in the MITAS System. Access to these screens permits the user to create, edit, or delete certain loan information contained in the MITAS System. Several Department supervisory employees have access to these passwords and grant access to other personnel on an as-needed basis. Because of the use of shared passwords, the Department cannot identify the users who access the screens and alter the data. Furthermore, the Department's policies do not address who should be granted access to these password protected screens or the assignment of passwords. Implementing a role-based access system would more effectively protect the MITAS System. A role-based access system restricts access to users based on their job functions, with permissions assigned to specific roles.

The Department does not consistently enforce its policies that require passwords to be changed periodically. The shared passwords discussed above have not been changed in nearly one year, at a minimum. Three of the passwords have not been changed in more than 15 months. Department policy requires shared MITAS System passwords to be changed every six months.

Older passwords are more likely to be ascertained by unauthorized individuals. An agency should require users to change their passwords as often as necessary for its environment.

Recommendations

The Department should:

- Update its written policies to document current password parameters and procedures.
- Establish role-based access to the MITAS System and eliminate the use of shared passwords.

- Ensure that users comply with its policy requiring shared MITAS System passwords to be changed at least every six months if the Department continues the use of shared passwords.

Management's Response

The Department agrees to implement the recommendations by:

- *Updating TDHCA Standard Operating Procedure (SOP) 1264.01, "User Accounts and Network Access," with additional policies to state the password parameters that are already systematically enforced for network accounts through Windows domain settings.*

  ***Target Date for Completion**: September 30, 2008*
  ***Person Responsible**: Director of Information Systems*

- *Eliminating the use of shared passwords in MITAS and establishing role-based access to the system screens that currently require a shared password, which will also eliminate the need for the policy requiring shared MITAS passwords to be changed every six months.*

  ***Target Date for Completion**: November 30, 2008*
  ***Person Responsible**: Director of Information Systems*

Chapter 3-C

The Department Has Not Conducted a Security Risk Assessment Since 2005

Title 1, Texas Administrative Code, Section 202.25 (1 TAC 202.25), recommends that state agencies adopt 24 security policies and other information technology security controls based on a documented security risk assessment. The Department performed an agency-wide risk assessment in 2005, including an assessment of the security over information systems and its controls over high-impact information system processes. The Department reviewed the controls over these high impact information system processes again in 2006. The Department did not document its reasons for not implementing an information security control and eight of the policies recommended in 1 TAC 202.25. Auditors communicated details of these system security weaknesses to Department management. The Department could improve its information technology security by conducting a security risk assessment and addressing any weaknesses it identifies.

Recommendation

The Department should perform, document, and implement (as appropriate) a security risk assessment.

Management's Response

The Department agrees with the recommendation and has created a security policy upgrade plan which includes the step of performing an updated security risk assessment.

***Target Date for Completion**: November 30, 2008*
***Person Responsible**: Director of Information Systems*

Chapter 3-D

The Department Does Not Conduct Tests of Its Disaster Recovery Plan in a Timely Manner

The Department conducted a test of its disaster recovery plan in June 2008. Prior to that time, the Department had not conducted a complete test since January 2006. Title 1, Texas Administrative Code, Section 202.24, and Department policy requires an annual test of the disaster recovery plan.

A disaster recovery plan outlines steps staff should take to secure or recover information when a natural disaster or other business disruption prevents normal operations. Conducting timely tests of its disaster recovery plan can help the Department decrease its risk of losing data in the event of a disaster and ensure that the Department's mission-critical functions can be resumed as quickly as possible.

Recommendation

The Department should conduct a test of its disaster recovery plan at least annually and when major changes are made to the plan.

Management's Response

The Department agrees with the recommendation and will conduct complete tests of its disaster recovery plan on an annual basis and when major changes are made to the plan.

The Department notes that although a complete test of its disaster recovery plan was not completed in fiscal year 2007, it carried out disaster recovery testing activities such as restoring databases and files from backup tapes and *evaluating backup scripts and schedules. Additionally, the Department's Disaster Recovery Team engaged in planning activities for the June 2008 test at intervals throughout fiscal year 2008.*

***Target Date for Completion**: Immediate*
***Person Responsible**: Director of Information Systems*

The Department Does Not Include Statutorily Required Language in All Program Contracts

The Program's contracts do not contain the statutorily required language granting the State Auditor's Office audit authority and access to records. These contracts include those with bond counsel, The Bank of New York Mellon Corporation, and Countrywide Home Loans, Inc.

Contracts that do not contain this statutorily required language may limit the State's ability to provide effective oversight of contract terms, contractors, and the use of state funds. Access to records is an essential element of auditing.

Texas Government Code, Section 2262.003, requires that all state agency contracts contain contract terms specifying that:

- The State Auditor may conduct an audit of any entity receiving funds from the State directly or indirectly under the contract.
- An entity subject to audit by the State Auditor must provide the State Auditor with access to any information that the State Auditor considers relevant to the audit.

These contract language requirements were effective as of September 1, 2003.

Recommendations

The Department should comply with statutory requirements by:

- Amending all current contracts to include terms granting the State Auditor audit authority and access to records.
- Including in all future contracts terms granting the State Auditor audit authority and access to records.

Management's Response

The Department agrees to comply with statutory requirements relating to program contracts. The Department will review and amend all contracts to include terms granting the State Auditor audit authority and access to records as contracts are renewed. The Department has already incorporated Section 2262.003 of the Texas Government Code in the Request for Proposal for Underwriting Services and Request for Proposal for Master Servicer to be presented to the Board at the September 4, 2008 meeting, which included terms granting the State Auditor audit authority and access to records.

***Target Date for Completion**: Fiscal Year 2009*
***Person Responsible**: Director of Bond Finance and General Counsel*

Appendices

Appendix 1

Objectives, Scope, and Methodology

Objectives

The objectives of this audit were to:

- Determine whether the Department of Housing and Community Affairs (Department) effectively manages the Single Family Mortgage Revenue Bond Program (Program) to ensure that cash flows from mortgage investments are sufficient to meet the debt service requirements over the life of the bonds.
- Determine whether Program expenditures are necessary and reasonable and made in accordance with the terms of the bond indentures and service provider contracts, as applicable.

Scope

The scope of this audit covered the Department's processes of managing Program bond payments, interest rate swaps, mortgage payment receipts, and expenditures from September 1, 2005, to January 31, 2008.

Methodology

The audit methodology consisted of conducting interviews; collecting and reviewing information; observing Board meetings; and performing tests, procedures, and analyses against predetermined criteria.

<u>Information collected and reviewed</u> included the following:

- Internal policies and procedures.
- Process maps.
- U.S. Internal Revenue Service regulations on tax-exempt bonds.
- The General Appropriations Act (79th and 80th Legislature) and Texas Government Code.
- Interviews with staff and management.
- Interviews with Program trustee.
- Interviews with Countrywide Home Loans, Inc.

- Interviews with Program swap advisor.
- Consultation with Program financial statement auditor.
- Answers to questions submitted to Program bond counsel.
- Interviews with Sunset Advisory Commission staff.
- Interviews with Legislative Budget Board staff.
- Bond transaction reports of the Bond Review Board.
- Master bond indenture and supplements.
- Bond issue official statements.
- Program administration and servicing agreement.
- Program guidelines.
- Contracts and agreements with trustee, master servicer, lenders, swap counterparties, and standby purchasing liquidity providers.
- Program *Lender's Manual*.
- Bond tracker spreadsheets.
- Indenture cash flow projections.
- Bond disclosures.
- Bond arbitrage advisor reports.
- Hedged swap analysis.
- Department financial statements for fiscal years 2006 and 2007.
- MITAS System reports and reconciliations.
- Invoices, letters of instructions, and support for Program expenditures.
- Trustee bank statements.
- Texas Treasury Safekeeping Trust Company statements.
- Uniform Statewide Accounting System (USAS) reports.
- Information technology access logs.
- Department investment reports.

- Countrywide Home Loans, Inc. loan level payment detail reports.
- Individual mortgage loan applications, closing settlement statements, underwriting summaries, loan registrations, affidavits of borrower, W-2 forms, and employment verification documentation.
- Surplus/excess call calculations.
- Trustee prepayment spreadsheets.
- Trustee repayment support documentation.
- Internal Program management reports.
- Department and swap counterparty credit rating reports.

Procedures and tests conducted included the following:

- Attended Department board meetings and bond and swap training.
- Evaluated swap effectiveness.
- Reviewed bond principal and interest payments.
- Reviewed swap payments.
- Reviewed swap counterparty ratings.
- Tested matching of swap notional value with bond principal.
- Reviewed swap fair values.
- Tested mortgage loan compliance with the General Appropriations Act (79th and 80th Legislatures) and U.S. Internal Revenue Code requirements.
- Reviewed the need for large cash balances in bond programs.
- Evaluated mortgage-backed security purchase prices.
- Tested disclosures regarding the purchase of mortgage-backed securities by bond issue.
- Compared the reasonableness of mortgage-backed security income and bond issue Program interest expense.
- Reviewed Department compliance tracking spreadsheets.
- Reviewed mortgage interest received by the Program.

- Reviewed MITAS System accounting records and posting process.
- Reviewed Program internal management reports.
- Tested Program expenditures for reasonableness and allowability.
- Reviewed Program cost allocation, accumulation, budgeting, and cash flows.
- Evaluated information technology security controls over the MITAS System.
- Evaluated the MITAS System information technology policies and procedures for compliance with Texas Administrative Code.
- Evaluated the MITAS System backup procedures and disaster recovery plan.
- Evaluated the MITAS System audit trails.

Criteria used included the following:

- U.S. Internal Revenue Service regulations on tax-exempt bonds.
- Texas Government Code.
- Texas Administrative Code.
- The General Appropriations Act (79th and 80th Legislatures).
- Master bond indenture and supplement.
- Texas Government Code, Chapter 2256 (Public Funds Investment).

Project Information

Audit fieldwork was conducted from January 2008 through June 2008. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The following members of the State Auditor's staff performed the audit:

- Robert G. Kiker, CGAP (Project Manager)
- Ronald Zinsitz, CPA, CIDA (Assistant Project Manager)

- John Boyd
- Scott Ela, CPA
- Ashlee C. Jones, MAcy, CGAP
- Kenneth Manke
- Stephen Randall, MBA
- J. Scott Killingsworth, CIA, CGAP, CGFM (Quality Control Reviewer)
- John Young, MPAff (Audit Manager)

Additional Information on the Single Family Mortgage Revenue Bond Program

Bond Issue Authority

The Department of Housing and Community Affairs (Department) is authorized by the Texas Government Code to issue bonds and to make home mortgage loans available to moderate to extremely low income, first time homebuyers for single-family housing under the Single Family Mortgage Revenue Bond Program (Program). The Texas Government Code authorizes the Department to issue tax-exempt revenue bonds for the Program, and the U.S. Internal Revenue Code places volume cap limitations on the extent and conditions under which these bonds will be considered exempt from federal income taxes. These revenue bond debts are repaid using revenues generated by the mortgages issued under the Program, and they are not general obligations or liabilities of the State.

The Program's tax-exempt bonds are part of the State's private activity bond allocation program, which is limited by federal law and monitored by the Bond Review Board (Board). The Department is required to submit its bond issuance proposals to the Board for review and approval. The Department is also required by the Texas Government Code to keep all Program funds outside the State Treasury; however, most Program funds flow through the Department's Program trustee bank and ultimately are deposited with the Texas Treasury Safekeeping Trust Company, which is outside the State Treasury. All funds dedicated to repaying the bond debt are restricted for Program use and cannot be used for other purposes.

Statutory Requirements

The General Appropriations Act (80th Legislature) and U.S. Internal Revenue Code, Section 143, require the Department to use a portion of the proceeds from each of the Program's new bond issues to provide mortgages to very low income borrowers and borrowers in certain targeted geographic areas of the state. Specifically, the Department is required to:

- Set aside for a period of one year at least 30 percent of the Program's bond proceeds for mortgages to borrowers earning 60 percent or less of the area median family income (AMFI), as calculated by the U.S. Department of Housing and Urban Development (HUD).

- Set aside for a period of one year at least 20 percent of the bond proceeds for mortgages to borrowers purchasing homes in certain targeted geographical areas. The targeted areas include the 22 counties affected by

Hurricane Rita and designated by the Gulf Opportunity Zone Act of 2005 and other targeted areas designated by HUD.[4]

The U.S. Internal Revenue Code also limits the use of the tax-exempt bond proceeds to finance mortgages. Specifically:

- Mortgages must be issued within 42 months of the bond's issuance.
- Mortgages must be for owner-occupied principal residences.

Program Borrower Qualification

Borrowers purchasing homes in non-targeted geographic areas cannot have owned a home for at least three years (the U.S. Internal Revenue Code defines these borrowers as "first time homebuyers") to qualify for a mortgage issued using Program funds. Borrowers in targeted geographic areas are not required to be first time homebuyers. In addition, a borrower must meet maximum income and purchase price limits, which vary according to (1) the borrower's geographic area and (2) whether the mortgage issued is using targeted or non-targeted Program funds. There are some exceptions to these requirements for qualified veterans. Table 1 lists the Program's income and purchase price limits as of March 1, 2008. Because the purchase price limits are updated annually, these limits may differ depending on when a borrower applies for a Program loan.

Table 1

Single Family Mortgage Revenue Bond Program
Income and Purchase Price Limits as of March 1, 2008

		Loans Using Non-Targeted Funds			Loans Using Targeted Geographical Area Funds [b]		
Area [a]	Maximum Income for Very Low Income Targeted Funds (any size household)	Maximum Income for 1 or 2 Person Household	Maximum Income for 3 or More Person Household	Maximum Purchase Price	Maximum Income for 1 or 2 Person Household	Maximum Income for 3 or More Person Household	Maximum Purchase Price
Austin-Round Rock MSA	$42,660	$71,100	$81,765	$237,031	$85,320	$99,540	$289,704
College Station-Bryan MSA	$33,480	$55,800	$64,170	$237,031	$66,960	$78,120	$289,704
Dallas HMFA	$39,900	$66,500	$76,475	$237,031	$79,800	$93,100	$289,704
Fort Worth-Arlington HMFA	$38,760	$64,600	$74,290	$237,031	$77,520	$90,440	$289,704
Wise County HMFA	$34,980	$58,300	$67,045	$237,031	N/A	N/A	N/A
Houston-Baytown-Sugar Land HMFA	$36,660	$61,100	$70,265	$237,031	$73,320	$85,540	$289,704
Austin County HMFA	$33,720	$56,200	$64,630	$237,031	N/A	N/A	N/A
Brazoria County HMFA	$40,980	$68,300	$78,545	$237,031	$81,960	$95,620	$289,704

[4] Targeted areas are census tracts in which 70 percent or more of the families have incomes that are 80 percent or less of the statewide median income or an area of severe economic distress as identified by HUD.

Single Family Mortgage Revenue Bond Program Income and Purchase Price Limits as of March 1, 2008							
Area [a]	Maximum Income for Very Low Income Targeted Funds (any size household)	Loans Using Non-Targeted Funds			Loans Using Targeted Geographical Area Funds [b]		
		Maximum Income for 1 or 2 Person Household	Maximum Income for 3 or More Person Household	Maximum Purchase Price	Maximum Income for 1 or 2 Person Household	Maximum Income for 3 or More Person Household	Maximum Purchase Price
Midland MSA	$38,840	$56,400	$64,860	$237,031	$67,680	$78,960	$289,704
Sherman-Denison MSA	$33,540	$55,900	$64,285	$237,031	N/A	N/A	N/A
Blanco County	$33,060	$55,100	$63,365	$237,031	N/A	N/A	N/A
Hartley County	$37,860	$63,100	$72,565	$237,031	N/A	N/A	N/a
Hood County	$37,620	$62,700	$72,105	$237,031	N/A	N/A	N/A
Kendall County	$42,720	$71,200	$81,880	$237,031	N/A	N/A	N/A
Loving County	$39,000	$65,000	$74,750	$237,031	N/A	N/A	N/A
Ochiltree County	$33,720	$56,200	$64,630	$237,031	N/A	N/A	N/A
Roberts County	$37,080	$61,800	$71,070	$237,031	N/A	N/A	N/A
Somervell County	$33,540	$55,900	$64,285	$237,031	N/A	N/A	N/A
All Other Texas Counties, MSAs, and HMFAs	$33,000	$55,000	$63,250	$237,031	$66,000	$77,000	$289,704

[a] MSA is the metropolitan statistical area; HMFA is the HUD metro fair market area.

[b] Currently, not all counties, MSAs, or HFMAs contain targeted tracts.

Source: Department of Housing and Community Affairs' Texas First Time Homebuyer Program Web site.

Program Funding

The Program uses revenues from mortgage payments to repay its revenue bond debt. Loans issued using Program funds are traditional, fixed-rate, 30-year mortgages. The Department uses a network of participating lenders to issue mortgage loans with Program funds. After an approved borrower closes on the mortgage with the originating lender, Countrywide Home Loans, Inc. (Countrywide), the Department's master servicer, purchases the mortgage loan for the Department through the use of mortgage-backed securities. All of the Program's mortgage-backed securities consist solely of Program mortgages. These loans are guaranteed by one of three entities:

- Ginnie Mae, which is a U.S. government-owned corporation within HUD. Its guaranty of mortgage-backed securities is fully backed by the U.S. government, and, therefore, these securities have the same credit rating as the government of the United States and for capital purposes have a risk-weighting of zero. About 83 percent of the Program's mortgage-backed securities are guaranteed by Ginnie Mae.

- Fannie Mae, which is a shareholder-owned corporation that was chartered by the U.S. Congress. Fannie Mae was formerly a U.S. government agency before it became a corporation. It is not currently backed or funded by the U.S. government and the securities it issues do not benefit from any explicit government guarantee or protection. About 17 percent of the Department's mortgage-backed securities are guaranteed by Fannie Mae.

- Freddie Mac, which is a stockholder-owned corporation similar to Fannie Mae. It was chartered in 1970 as a corporation and has never been a federal agency. The Department started using Freddie Mac to guarantee mortgage-backed securities in fiscal year 2008.

The Department has an agreement with Countrywide that requires Countrywide to (1) make any homeowner-missed payments to the Department and (2) separately settle with the homeowner or the guarantor. By obtaining these guarantees and issuing only traditional, fixed-rate mortgages, the Department greatly reduces its risk exposure to mortgage defaults.

During calendar years 2006 and 2007, the Department reported that borrowers defaulted on 330 mortgage loans issued using Program funds. Table 2 notes the Program's mortgage loan default rate, as well as the state and national default rates for the last three quarters of calendar year 2007. It should be noted that the state and national averages include all income levels and adjustable rate mortgages. It should also be noted that the Department did not lose any Program funds as a result of these defaults because of the guarantees explained above.

Table 2

Mortgage Loan Default Rates

Program or Geographic Area	Quarter Ending June 2007	Quarter Ending September 2007	Quarter Ending December 2007
Single Family Mortgage Revenue Bond Program [a]	0.36%	0.21%	0.28%
Texas [b]	0.52%	0.58%	0.68%
United States [b]	0.59%	0.78%	0.88%

[a] According to Department of Housing and Community Affairs data.

[b] According to Mortgage Bankers Association data.

Source: Department of Housing and Community Affairs.

The Department continues to manage 736 mortgage loans that were issued using Program funds prior to the Department's use of mortgage-backed securities. These loans had a total outstanding principal of $16.2 million as of April 30, 2008, and the Department is exposed to risk if any of these loans goes into default. However, the individual loan balances are low, homeowner equity is high, and the last of these loans should be fully repaid by 2020; therefore, the default loss risk is relatively low. The Department carries insurance to cover this risk.

Interest Rate Swaps

To obtain the best possible interest rates, the Department occasionally issues Program bonds at variable interest rates. The Department is authorized by the Texas Government Code to enter into interest rate swap agreements for Program bonds. These interest rate swaps allow the Department to synthetically convert variable interest rates to fixed interest rates on the bonds it issues.

The interest rate swaps are negotiated with financial institutions and are based on a "notional value." Generally, this notional value matches the outstanding bond principal amount that was issued at a variable interest rate. The Department uses the notional value to calculate the interest associated with the interest rate swaps and does not exchange the notional value with the financial institution. These interest rate swaps require the Department to make interest payments to the financial institution based on a fixed rate, and the financial institution makes payments to the Department based on a variable interest rate based on the London Interbank Offered Rate (LIBOR). This LIBOR-based variable interest rate has closely matched the variable interest rates at which the corresponding Program bonds were issued. It is important to note that an interest rate swap does not eliminate the Department's obligation to pay the bond's variable interest rate payments.

Appendix 3

Recent State Auditor's Office Work

Recent SAO Work		
Number	**Product Name**	**Release Date**
08-005	An Audit Report on Hurricane Recovery Funds Administered by the Department of Housing and Community Affairs and the Office of Rural Community Affairs	October 2007
07-710	A Classification Compliance Review Report on the Department of Housing and Community Affairs	June 2007
07-016	A Special Investigations Unit Report Regarding a Department of Housing and Community Affairs HOME Program Contract Awarded to the Harbor Lights Residence Council	February 2007
06-026	A Review of State Entity and Community College District Compliance with the Public Funds Investment Act and Investment Reporting Requirements	March 2006

Copies of this report have been distributed to the following:

Legislative Audit Committee

The Honorable David Dewhurst, Lieutenant Governor, Joint Chair
The Honorable Tom Craddick, Speaker of the House, Joint Chair
The Honorable Steve Ogden, Senate Finance Committee
The Honorable Thomas "Tommy" Williams, Member, Texas Senate
The Honorable Warren Chisum, House Appropriations Committee
The Honorable Jim Keffer, House Ways and Means Committee

Office of the Governor

The Honorable Rick Perry, Governor

Department of Housing and Community Affairs

Members of the Department of Housing and Community Affairs Governing Board

- Mr. C. Kent Conine, Chair
- Ms. Gloria L. Ray, Vice Chair
- Ms. Leslie Bingham-Escareño
- Mr. Tomas Cardenas, P.E.
- Mr. Dionicio Vidal (Sonny) Flores
- Dr. Juan Sanchez Muñoz

Mr. Michael Gerber, Executive Director