



TEXAS GENERAL LAND OFFICE
GEORGE P. BUSH, COMMISSIONER

**REPORT ON THE AUDIT OF VENDOR MANAGEMENT FOR
THE VETERANS LAND BOARD,
LAND AND HOUSING PROGRAMS**

SEPTEMBER 2021

OVERALL CONCLUSION

The General Land Office (GLO), Veterans' Land Board (VLB), Land and Housing Division has established processes and management controls to ensure the adequate management and monitoring of vendor performance for its loan programs. VLB provided reasonable assurance that management controls were operating to ensure vendors were performing in accordance with contractual obligations and Veterans' Loan Program Guidelines.

Although processes are in place to monitor vendor performance, there were areas identified that should be strengthened to ensure the effectiveness of established controls. In general, VLB as the primary administrator of the VLB Land and Housing programs, should coordinate with supporting GLO program areas to develop and update existing procedures to strengthen the control environment and compliance with agency and state requirements to ensure adequate oversight and monitoring of vendor activities.

The areas identified for improvement pertained to the following:

1. Monitoring and Oversight of Servicing Vendors and VHAP Loan Origination Administrator
2. Processes for Reconciling Veterans' Loan Program Borrower Principal and Interest Remittances
3. Invoice Review and Acceptance of Deliverables Procedures and Controls
4. System Security of Critical Vendor Information Systems
5. Timeliness of Vendor Contract and Amendment Execution

As a result of the audit, there were additional areas of opportunities to strengthen internal controls associated with vendor management but, they did not meet the criteria for inclusion in this report. These areas were presented to management in a separate communication.

MANAGEMENT'S SUMMARY RESPONSE

Management for the VLB, Financial Management Division, and the Office of Information Security concurs with the recommendations. The "Detailed Results" section of this report contains management's response to each observation.

ACKNOWLEDGEMENTS

We appreciate the assistance and cooperation provided to us by the management and staff of the divisions reviewed during this audit. For questions about this report, please contact Tracey Hall at (512)463-6078.



September 28, 2021

Tracey Hall, CPA, CISA
Director of Internal Audit

Date

BACKGROUND INFORMATION

The Veterans' Land Board, Land and Housing Division administers three Veterans' loan programs for eligible Texas Veterans and Military Members:

1. Veterans Land Loan Program
2. Veterans Home Assistance Program (VHAP)
3. Veterans Home Improvement Program (VHIP)

The VLB contracts with vendors to provide various services, including loan origination, lending, and servicing. The VLB is responsible for monitoring and oversight of the contracted vendors to ensure performance in accordance with the terms of their contracts and Program Lender and Servicing Guidelines.

Other divisions within the GLO are responsible for additional monitoring and administration activities in support of the VLB Loan Programs consisting of:

1. Investment Management Division:
 - Initiates and maintains bond issuances to fund the loan programs and reviews and approves invoices from the master servicing vendors and the VHAP loan origination vendor.
2. Financial Management, Cash Management Division:
 - Pays vendor invoices, processes and records deposits received for Veteran Borrowers principal and interest payments.
3. Financial Management, Financial Reporting Division:
 - Completes monthly reconciliations of Veteran Borrower principal and interest collections and primary servicing fees.

See Appendix B for additional background information on the Veterans' Loan Programs.

APPENDICES

APPENDIX A

OBJECTIVE

To determine if the Veterans' Land Board (VLB), Land and Housing Program has effective processes and controls to ensure adequate management and monitoring of vendor performance for its loan programs.

SCOPE & METHODOLOGY

The scope of the audit consisted of reviewing the existence and effectiveness of vendor management and monitoring controls for the VLB Land and Housing Programs (Veterans Land Loan Program, Veterans Home Improvement Program (VHIP), and the Veterans Home Assistance Program (VHAP)) during the period FY 2019 through FY 2021 for the following activities:

1. Loan Origination, Processing, and Servicing
2. Master Servicing
3. Participant Lender Administration
4. Reporting

The methodology included observing processes, interviewing knowledgeable staff, collecting information, performing tests, and analyzing and evaluating the information.

The audit was conducted in accordance with *Government Auditing Standards* and *International Standards for the Professional Practice of Internal Auditing*. 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.

APPENDIX B

ADDITIONAL BACKGROUND INFORMATION

The following information provides an overview of VLB Veterans' Loan Programs, contracted services provided, and GLO/VLB monitoring activities:

1. ***The Veterans Land Loan Program*** provides qualifying Texas Veterans and Military Members with the opportunity to borrow funds to purchase land at competitive interest rates. Veteran eligibility determinations, loan originations, and loss mitigation activities are all performed by the VLB.

The VLB contracts with vendors to conduct the following loan origination activities:

- Design, set up, and maintenance of VLB's Loan Origination System, Mortgage Builder Software Inc.
- Verification of employment and income of loan applicants.
- Owner title search and foreclosure full title search.
- Flood zone certificate determination services.
- No-cost administration agreement to perform collection and remittance to Minnesota Life of premiums for insurance plans, verification of premiums paid and assistance with all premium billing operations.
- Subservicing of loans for both (1) Loan Mortgage and (2) Contract for Deed (CFD) portfolios. DMI's performance is monitored by the VLB through the receipt and review of weekly, monthly, and annual servicing reports that are furnished through, DMI's automated mortgage loan servicing system, the Fidelity System.

The Chief Investment Officer (CIO) of Investment Management is responsible for issuing and maintaining bonds to fund the purchase of these loans. Additionally, the CIO reviews and approves two monthly invoices for CFDs and Land Mortgages.

2. ***The Veterans Home Assistance Program*** provides qualifying Texas Veterans and Military Members with the opportunity to purchase a home with a competitive, low-interest loan with little or no down payment. Veterans, Military Members, and their spouses may receive up to \$548,250 on a fixed-rate loan for conventional loan terms.

The VLB contracts with vendors to conduct the following activities:

- *Gateway Mortgage, LLC*: Administration of the VHAP Loan Originations and Primary Servicing of VHAP and VHIP loans.
- *Nationstar Mortgage, LLC*: Performs all services related to the administration of VHAP and VHIP Master Servicing and to oversee the VLB-owned housing and home improvement portfolio serviced by participant servicers.

The VLB monitors vendor performance through the receipt and review of weekly, monthly, and annual reports submitted through either email or a secure File Transfer Protocol (FTP) site.

3. ***The Veterans Home Improvement Program*** provides qualifying Texas Veterans and Military Members with below-market interest rate loans for home repairs and improvement to their existing homes. Like the Veteran Land loan Program, VHIP loans are originated in-house by the VLB utilizing the same vendors mentioned above.

The VLB contracts with vendors to conduct the following activities:

- Sole Primary Loan Servicing for the VHIP portfolio.
- Master Servicing for the VHIP Portfolio.

The VLB is tasked with monitoring the performance of contracted vendors for the services provided.