



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

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TDHCA Internal Audit and Finance Committee Charter Effective October 17, 2001, Amended June 28, 2018 as approved by the Department's Governing Board

Mission:

The Office of Internal Audit (OIA) has been established at the Texas Department of Housing and Community Affairs (TDHCA) to provide independent, objective assurances and consulting services to TDHCA Board and management. The OIA helps TDHCA accomplish its objectives by bringing a systematic, disciplined approach for evaluating and improving the effectiveness of risk management, controls, and governance. The OIA helps the TDHCA to identify and manage financial and other risks, identify economies and efficiencies, safeguard assets, ensure compliance with legislative and regulatory requirements, and report accurate and reliable information to TDHCA's customers. It also provides a proactive and systematic approach for the identification of business improvements. The OIA conducts TDHCA's program of internal auditing under the authority of and in accordance with the Texas Internal Auditing Act, located in the Texas Government Code, Title 10, Chapter 2102.

The OIA is managed by the Chief Audit Executive (CAE). The CAE reports functionally to the TDHCA Governing Board and administratively to the Chief Executive Officer at TDHCA. The CAE must be certified as a Certified Public Accountant (CPA) or Certified Internal Auditor (CIA), to achieve compliance with the Internal Auditing Act. The operational title of the CAE is the Director of Internal Audit. The Governing Board has established an Audit and Finance Committee, which meets approximately four times per year. In accordance with the most recent peer review of the internal audit function, the Audit and Finance Committee will review and recommend approval of the following to the Board, and the Board will:

- Approve the internal audit department's charter
- Approve the risk-based internal audit plan
- Approve the internal audit department's budget and resource plan
- Approve the remuneration of the Chief Audit Executive

Standards of Audit Practice

The program of internal auditing follows the Texas Internal Auditing Act, Standards for the Professional Practice of Internal Auditing, Code of Ethics, and applicable auditing standards.

The CAE has the duty and authority to ensure that TDHCA is in compliance with the Internal Auditing Act, and the requirements of external audits including the statutes relating to the State Auditor's Office.

Annual Audit Plan

The OIA is responsible for developing an annual audit plan using risk assessment techniques which identify individual audits to be conducted during each year. The plan must be presented to the



Governing Board for their review and approval during open meetings. Deviations from the audit plan should be documented; and major deviations should be approved by the Governing Board.

The risk assessment process includes the following steps:

- **Identification of Auditable Units and Risks**
This includes identification of activities for all divisions / programs risks associated with each activity, and requesting input from executive management team as well as Board members. Requests or suggestions for special audits are also included in the potential audit population.
- **Risk Measurement and Prioritization**
This process includes evaluating the likelihood that an adverse event or outcome could occur, and the potential ramifications if it did in fact occur.

Code of Ethics

Internal Auditors at TDHCA are expected to uphold and adhere to the following principles;

- Integrity
- Objectivity
- Confidentiality
- Competency

Integrity and Professional Conduct

Audits and reviews are to be conducted in a professional manner, with the goal of providing value to TDHCA's Governing Board, management, and staff. Internal auditors are expected to perform their work with honesty, diligence, and responsibility. Arrangements for conducting audits should cause the least possible disruption to the operations or activities under audit. Efforts will be made to minimize inconvenience to operating staff in the examination of records.

Independence and Objectivity

In accordance with the Internal Audit Act, the CAE shall report directly to the Governing Board and shall be independent of operational duties that could impair the independence of the auditing program. The CAE will work with members of TDHCA management, as designated by the Board and the Executive Director, to ensure the performance of the internal audit plan and compliance with the requirements of external audit functions related to the agency's operations. The CAE will keep the full Governing Board apprised of the progress of both internal and external audits.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited, and must exhibit the highest level of professional objectivity in accessing and evaluating the activity under review.

Internal auditors are to remain free from interference by any element in the organization, and to report to the CAE any situation in which an actual or potential impairment to independence or objectivity may reasonably be inferred.

Confidentiality

OIA treats its working papers as confidential. Internal auditing working papers may sometimes be requested by members of the public pursuant to the Public Information Act, by means of an open-record request. The Office of Attorney General has in the past ruled that internal audit work papers can be exempted from open-records request. In the event of court proceedings, client privilege cannot be invoked with respect to working papers. Working papers and files are to be protected at all times against access by unauthorized persons.

Completed audit reports are public documents, and are provided in accordance with the statute to the Governing Board, TDHCA management, the State Auditor's Office, the Legislative Budget Board, the Office of the governor, and the Sunset Commission.

Competency

The CAE is responsible for ensuring that audits are conducted by staff with the necessary skills, knowledge and abilities to successfully complete the audit in accordance with professional standards. Internal audit promotes and encourages the advancement of audit staff through dissemination of related information and the active participation in professional groups and organizations.

Scope of Work and Responsibility of Internal Audit

Internal auditing encompasses the examination and evaluation of the adequacy and effectiveness of the Department's system of internal control and the quality of performance in carrying out its assigned responsibilities. The scope of audit activities includes, but not limited to:

- Identifying risk associated with TDHCA operations, including administrative systems, accounting systems, and information-technology systems.
- Evaluating and assessing significant change-management functions and need or change services, processes, and operations coincident with their development, implementation, and / expansion.
- Proactive consulting with management to improve control systems and operational effectiveness (See section on Advisory Services).
- Reviewing the reliability and integrity of financial and operating information and the means used to identify measure, classify, and report such information.
- Reviewing systems established to ensure compliance with policies, plans, procedures, laws and regulations that could have a significant impact on operations.
- Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of assets.
- Reviewing and appraising the economy and efficiency with which resources are employed.
- Reviewing operations or programs to ascertain whether results are consistent with established objectives and goals, and determining whether the operations or programs are being carried out as planned.
- Tracking, assessing, and reporting on management's actions taken in response to audit recommendations.
- Assisting in the investigation of significant issues within the TDHCA and notifying the TDHCA Governing Board and management as appropriate.
- Evaluation of the scope of work of external auditors, as appropriate, for the purpose of providing optimal audit coverage to TDHCA at a reasonable overall cost.

Access to Information Needed for the Program of Internal Auditing

Authorization is granted for the full and free access to any of the TDHCA's records (either manual or electronic), physical properties, activities, and personnel relevant to a review. In addition, audit personnel may make direct contact with any level of management or staff concerned with an audit. Documents and information given to internal auditors will be handled in the same prudent manner as by those employees normally accountable for them. All confidential information obtained as part of a review will remain confidential. TDHCA staff members are required to cooperate in ongoing efforts to ensure compliance with audit requirements.

Scope and Resource Impairments

All scope limitation or potential limitations should be brought to the attention of the Chief Audit Executive, and significant issues in this regard will be reported to the Governing Board.

Internal Audit shall be free from control or undue influence in the selection and application of audit techniques, procedures and programs. Internal Audit shall be free from control or undue influence in the determination of facts revealed by the examination or in the development of recommendations or opinions as a result of the examination. Internal Audit shall be free from undue influence in the selection of areas, activities, personal relationships and managerial policies to be examined.

Advisory/Consulting Services

The OIA may provide advisory services, the nature and scope of which are agreed upon with the Governing Board and management. They are intended to add value and improve TDHCA's operations. The types of advisory services the OIA provides include the following:

Assessment Services are those in which the auditor examines/evaluates a past, present or future aspect of an operation and gathers, compiles, and/or analyzes information to assist management in making decisions. Assessments are provided as timely as possible and generally do not include specific recommendations for management.

Facilitation services are those in which the auditor assists management in examining organizational performance for the purpose of promoting change. In a facilitation role, such as a Control Self Assessment, the auditor does not judge organizational performance. Instead, the auditor guides Management in identifying organizational strengths and opportunities for improvements.

Liaison services are those in which the auditor attends meetings and/or reviews the work products of an internal or external work group. The purpose of the liaison service is to advise the group on how their activities may affect the agency's risk profile.

Quality Assurance

The CAE shall establish and maintain a program of quality assurance designed to evaluate the OIA's activities. The purpose of this program is to provide reasonable assurance that all work performed by the OIA conforms to established guidelines. The program includes training, supervision, and internal and external reviews. The CAE is responsible for ensuring that audits are conducted by staff with the necessary skills, knowledge and abilities to successfully complete the audit in accordance with professional standards. The State Auditor's Office and other external audit organizations review OIA reports and periodically review OIA working papers.

Training

Each fiscal year, the OIA will be allocated a budget for training and educational materials. Internal auditors will maintain their professional proficiency through continuing education and training. Professional development will be provided through a variety of methods including progressively challenging audit assignments, professional certifications, external training courses, performance appraisals, and participation in professional organizations.

Auditors will acquire continuing professional education (CPE) hours sufficient to comply with professional standards and/or meet applicable licensing requirements. Internal Auditors at TDHCA are expected to obtain at least 40 hours of CPE each fiscal year.

Supervision

The quality assurance program will include audit supervision by CAE to ensure conformance with internal auditing standards and the internal OIA policies and procedures. This includes periodic meetings with CAE to discuss and review statuses of each audit engagement.

Internal and External Reviews

Internal reviews will be performed periodically to appraise the quality of the audit work performed. These reviews will include reviews of working papers, periodic discussions of the status of projects, annual self assessment, and accountability for time budgets. External peer reviews will be arranged and conducted in accordance with the Institute of Internal Auditing guidelines, *The Professional Practices Framework* and the Government Accountability Office guidelines.

Internal Audit Reports

Written reports, which include management's responses, are prepared and issued following the conclusion of each audit. These reports include background information related to the areas audited as well as scope of the audit, the overall conclusion of the auditors, findings, recommendations, and management comments and action plans. Draft audit reports will be provided to appropriate members of management team to review and provide corrective action plans when appropriate. Audit reports will be discussed and presented to the Board at periodic open meetings of the Texas Department of Housing and Community Affairs.

Internal Audit is responsible for communicating completed audit reports to the State Auditor's Office, the Legislative Budget Board, the Office of the Governor, and the Sunset Commission within 30 days after the report is submitted to the TDHCA's Governing Board.

Audit Follow-up Responsibilities

Internal auditors are required to follow-up to ascertain that appropriate action is taken on audit findings. A report to the Governing Board on recommendation-implementation status will be provided periodically and no less than annually.

Communication of Internal Audit Activities to the Governing Board.

Results of internal audit work are communicated to management and the Governing Board in periodic written reports. Internal Audit reports and other audit activities are discussed in periodic open meetings of the Texas Department of Housing and Community Affairs. In limited and appropriate circumstances, matters may be addressed in Executive Session with the concurrence of the Legal Division that one or more specific provisions of law permit such treatment.

In addition to overseeing audit matters in accordance with this charter, this committee will review and make recommendations to the Board with respect to finance items such as the Department's operating budget and the development of its Legislative Appropriations Request and review financial statements.

PASSED and APPROVED this 28th day of June 2018

Chair of the Governing Board

Executive Director

Board Secretary

Chief Audit Executive