



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

www.tdhca.state.tx.us

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October 31, 2016

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State Auditor's Office
Robert E. Johnson Building
1501 North Congress Avenue, Suite 4.224
Austin, TX 78701

RE: ANNUAL INTERNAL AUDIT REPORT FOR FISCAL YEAR 2016

Internal Audit Coordinator:

The attached report on the activities of the Texas Department of Housing and Community Affairs' (the Department) Internal Audit Division (Division) for Fiscal Year 2016 fulfills the requirements of the Texas Internal Auditing Act (Texas Government Code, Chapter 2102). The purpose of this report is to provide information on the benefits and effectiveness of the Department's internal audit function as well as on our compliance with House Bill 16. In addition, the annual report assists oversight agencies in planning their work and coordinating their efforts.

During Fiscal Year 2016, the work of the Division contributed to an increase in the effectiveness of the Department's operations. In addition, the Department underwent other audits and reviews by its external auditors, oversight agencies and funding source agencies.

Our internal audit work plan for Fiscal Year 2017 was approved by the Department's governing board at the October 13, 2016 board meeting. A copy of the 2017 audit work plan is included in the attached report. Both the fiscal year 2017 audit work plan and this report will be posted to the Division's internet web page as required by House Bill 16. We appreciate the opportunity to provide this information. If you have any questions about this report, please contact me at (512) 475-3813.



RE: ANNUAL INTERNAL AUDIT REPORT FOR FISCAL YEAR 2016

October 20, 2016

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Sincerely,

A handwritten signature in cursive script that reads "Mark Scott".

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

mbs/bke

cc: Timothy K. Irvine, Executive Director
Kara Belew, Governor's Office of Budget, Planning and Policy
Ed Osner, Legislative Budget Board
Ken Levine, Sunset Advisory Commission

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I. Compliance with Texas Government Code, Section 2102.015: Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit Information on Internet Web Site

The Internal Audit Division’s internet web page (<http://www.tdhca.state.tx.us/internal-audit.htm>) includes:

- An overview of the Internal Audit Division and its mission statement,
- The Internal Audit Division’s most recent peer review (January 2013),
- Standards, statues and rules governing the operation of the Internal Audit Division:
 - Texas Government Code Chapter 2102: Texas Internal Auditing Act (www.statutes.legis.state.tx.us),
 - Texas Government Code 2306.073: Internal Audit (www.statutes.legis.state.tx.us),
 - Internal Audit Charter (updated January 2015), and
 - Internal Audit Board Resolutions (amended January 2014),
- Internal Audit Annual Plan for Fiscal Year 2017 (approved October 2016),
- Internal Audit Annual Report for Fiscal Year 2016, and
- Internal Audit Reports.

Findings noted while performing the Fiscal Year 2016 audit plan are included in the respective Fiscal Year 2016 audit reports. The actions taken by the agency to address the noted concerns are included in those reports.

II. Internal Audit Plan for Fiscal Year 2016

Project / Audit Title	Report Number	Completed	Report Date
Program Income (Carryover from FY 2015)	15-007	Yes	January 14, 2016
Sources and Uses of Funds	16-001	Yes	May 24, 2016
Real Estate Analysis Division	16-002	Yes	April 14, 2016
Fair Housing	16-004	Yes	October 13, 2016
Compliance Monitoring	16-003	Yes	November 2016
Multifamily Finance division	Carried over to FY 17 as a combined audit		
Federal Housing Tax Credit Program			

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III. Consulting Engagements and Non-audit Services Completed

Consulting Projects

The internal audit charter was updated in January 2015. Among other items, the updated charter included information on the role of internal audit in consulting activities, and its role in the coordination of external audit activities, which is a type of consulting activity.

Consulting Project Related to Subrecipient Monitoring

This project has included weekly meetings for the Internal Audit Director to provide management with advice on Single Audits (A-133 audits) of TDHCA subrecipients. The group meets once or twice per week to go over single audits that have findings and/or other issues, and to prepare the management responses to the audits that are required by the Single Audit Act.

Internal audit also provided consultation services related to the new Grant Guidance; and also assisted in training on new indirect cost regulations.

Coordination of External Audit Activities

There have been several external audits and monitoring reviews of TDHCA during the past year, and the Office of Internal Audit provides coordination services during the course of these audits. The most recent audit was the audit by KPMG of the LIHEAP program done in conjunction with the SAO audit of the TDHCA financial statements.

IV. External Quality Assurance Review (Peer Review)

The Department's Internal Audit Division received its most recent peer review in Fiscal Year 2013. The peer review was started in December 2012. The following excerpt is from the executive summary of that report.

“Based on the information received and evaluated during this external quality assurance review, it is our opinion that the Texas Department of Housing and Community Affairs (TDHCA) Internal Audit Division receives a rating of “pass” and is in compliance with the Institute of Internal Auditors (IIA) International Standards for the Professional Practice of Internal Auditing and Code of Ethics, the United States Government Accountability Office (GAO) Government Auditing Standards, and the Texas Internal Auditing Act (Texas Government Code, Chapter 2102). This opinion, which is the highest of the three possible ratings, means that policies, procedures, and practices are in place to implement the standards and requirements necessary for ensuring the independence, objectivity, and proficiency of the internal audit function.

We found that the Internal Audit Division is independent, objective, and able to render impartial and unbiased judgments on the audit work performed. The staff members are

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qualified, proficient, and knowledgeable in the areas they audit. Individual audit projects are planned using risk assessment techniques; audit conclusions are supported in the working papers; and finding and recommendations are communicated clearly and concisely.

The Internal Audit Division is well managed. In addition, the Division has effective relationships with the Board and is well respected and supported by management. Surveys and interviews conducted during the quality assurance review indicate that management considers Internal Audit a useful part of the overall agency operations and finds that the audit process and report recommendations add value and help improve the agency's operations."

V. Internal Audit Plan for Fiscal Year 2017

Activity/Program/Division	Comments
Bond Finance	The specific project objective(s) and scope will be determined by the detailed assessment of relative risks identified during the project planning process.
HOME Contract for Deed Conversion (CFDC)	
Multifamily Finance Division & Housing Tax Credit	
Information Services	As requested
Management Requests or Special Projects	Internal Audit is responsible for the Fraud Hotline and reviewing allegations of fraud, waste and abuse
Administration of the Fraud Hotline, Tracking, Follow Up and Disposition of Fraud Complaints	Required by the Audit Standards
Prior Audit Issues Tracking, Follow Up and Disposition	Required by the Audit Standards and the Texas Internal Auditing Act
Annual Risk Assessment and Audit Plan Development	Required by the Audit Standards
Continuing Professional Education and Staff Development	Required by the Audit Standards
Quality Assurance Self-Assessment Review	Ongoing requirement
Coordination with External Auditors and Oversight Agencies	Required by the Texas Internal Auditing Act
Preparation and Submission of the Annual Internal Audit Report	Required by the Audit Standards
Annual Review and Revision of Internal Audit Charter	

¹ The audit plan is a dynamic document that may change during the fiscal year as circumstances change. Requests from management, changes in audit resources and changes in the agency's organization or operations could result in changes to the plan. Significant changes will be presented to management, the Audit Committee and the Governing Board for review and approval.

The audit plan was developed utilizing a risk-assessment matrix, and input from stake-holders. The auditable units such as programs, divisions of the organization, and administrative functions, were risk-ranked according to attributes such as dollar size of unit, fraud risk, and complexity of operations. The highest ranked auditable units were selected for audit. There are no internal audit projects specifically focused on Senate Bill 20 provisions. However, the Audit of Information Services may include review of large contracts in its scope.

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The budgeted hours for all projects are based on two staff auditors and the Director of Internal Audit. The total available hours for Fiscal Year 2017 are 4190, which is based on available hours less any administrative and holiday hours.

Items that ranked high on the risk assessment, which were not scheduled for internal audit, included Subrecipient Monitoring and the HOME program. Internal audit provides consulting services to management related to Subrecipient Monitoring. Subrecipient Monitoring is also audited every year by KPMG. The HOME program was audited in 2015 by KPMG.

VI. External Audit Services

In Fiscal Year 2016, external audit services were procured from and provided by the State Auditor's Office. These services included an audit of the Department's Annual Financial Report and Computation of Unencumbered Fund Balances.

VII. Reporting Suspected Fraud and Abuse

The Department's home page (www.tdhca.state.tx.us) has an active link to the email form of the State Auditor's Office's fraud, waste and abuse hotline, as well as the hotline phone number for the State Auditor's Office. In addition, there is also a link to the Department's Fraud, Waste and Abuse Hotline, which is managed through a contract with The Network, a third-party vendor for anonymous hotline services.

The Department has policies and procedures in place to report suspected fraud, waste and abuse to the State Auditor's Office as required by the Texas Government Code, Section 321.022. The executive director is responsible for deciding, based on input from others, whether an incident warrants investigation, and is also responsible for the decision as to whether or not an incident should be reported to the State Auditor's Office. The internal auditor is responsible for investigating such incidents as requested by the executive director and as approved by the chair of the audit committee. The internal auditor is also responsible for consulting with the general counsel or ethics advisor about whether an incident meets the "reasonable cause to believe" criterion for reporting an incident to the State Auditor's Office and for advising the executive director as appropriate. All Department employees are also responsible for reporting to their division directors any incidents or matters of which they become aware that may require a report to the State Auditor's Office.

The Department regularly reports cases of suspected fraud, waste and abuse to the State Auditor's Office in addition to the Department's other oversight agencies such as the Department of Housing and Urban Affairs' Office of the Inspector General, the Department of Energy's Office of the Inspector General, and the Department of Health and Human Services' Office of the Inspector General.