



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

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October 30, 2018

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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 2018

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 2018 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 2018, 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 2019 was approved by the Department's governing board at the September 6, 2018 board meeting. A copy of the 2019 audit work plan is included in the attached report. Both the fiscal year 2019 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.

Sincerely,

A handwritten signature in black ink that reads "Mark Scott".

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



RE: ANNUAL INTERNAL AUDIT REPORT FOR FISCAL YEAR 2018

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cc: Timothy K. Irvine, Executive Director
John Colyandro, Governor's Office of Budget, Planning and Policy
Julie Ivie, Legislative Budget Board
Jennifer Jones, Sunset Advisory Commission
Internal Audit Coordinator, State Auditor's office

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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 (October 2017),
- Standards, statutes 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 June 2018), and
 - Internal Audit Board Resolutions (amended January 2014),
- Internal Audit Annual Plan for Fiscal Year 2019 (approved September 2018),
- Internal Audit Annual Report for Fiscal Year 2018, and
- Internal Audit Reports.

Findings noted while performing the Fiscal Year 2018 audit plan are included in the respective Fiscal Year 2018 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 2018

Project / Audit Title	Report Number	Completed	Report Date
Contract for Deed Conversion	17-003	Yes	November 29, 2017
Bond Finance Program Processes and controls	17-002	Yes	March 13, 2018
Emergency Solutions Grant (ESG) Program	18-004	Yes	May 16, 2018
Implementation Status of Prior Audit Recommendations	18-002	Yes	June 28, 2018
Neighborhood Stabilization Program Close-out Procedures	18-001	Yes	August 23, 2018
HOME Fund Tracking	18-003	Yes	October 25, 2018
Loan Servicing (In Fieldwork phase)	19-001	No	N/A

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III. Consulting Engagements and Non-audit Services Completed

Consulting Projects

The internal audit charter was updated in June 2018. The updated charter included information on the role of the Internal Audit and Finance Committee in regard to reviews and recommendations to the Board with respect to finance items such as the Department's operating budget and the development of its Legislative Appropriation Request and review of financial statements. In addition, 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 (formerly referred to as 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.

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 audits were the SAO audit of the TDHCA's Annual Financial Statement, HUD monitoring review of the ESG (Emergency Solution Grants) Program, and follow up work by KPMG of the LIHEAP (Low Income Home Emergency Assistant Program) prior year findings. US HHS (Health and Human Services) also performed review of the LIHEAP and CSBG (Community Service Block Grant) program. Another external audit was performed by HUD of SEMAP (Section 8 Management Assessment Program).

IV. External Quality Assurance Review (Peer Review)

The Department's Internal Audit Division received its most recent peer review in Fiscal Year 2018. The peer review was started in September 2017 and completed in October 2017. The following excerpt is from the executive summary of that report.

"It is our overall opinion that the Internal Audit Department at TDHCA generally conforms to the IIA's Standards and the Code of Ethics for the period of January 1, 2016 through September 30, 2017. There were no opportunities for improvement identified that would be considered reportable items.

The IIA's quality Assessment Manual for the Internal Audit Activity suggests a scale of three rankings when opining on the internal audit activity: "Generally Conforms,"

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“Partially Conforms,” and “Does Not Conform.” The ranking of “Generally Conforms” means that an internal audit activity has a charter, policies, and processes that are judged to be in conformance with the Standards and the Code of Ethics.

The Internal Audit Department is independent, objective and has unrestricted access to systems and records. The Internal Audit management and staff are professional and possess the appropriate skills to effectively perform their audits. Internal Audit projects are effectively executed and results are communicated timely.”

V. Internal Audit Plan for Fiscal Year 2019

Activity/Program/Division	Comments
TDHCA Resolution of Complaints	The specific project objective(s) and scope will be determined by the detailed assessment of relative risks identified during the project planning process.
Multifamily Revenue Bond	
TDHCA Performance Measures	
Migrant Labor Housing	
Enforcement Committee	
Construction Report and Cost Certification	
Public Information Requests	
Management Requests or Special Projects	As requested
Duties related to Fraud, Waste, and Abuse allegations	Internal Audit is responsible for reviewing allegations of fraud, waste and abuse.
Prior Audit Issues Tracking, Follow Up and Disposition	Required by the Audit Standards
Annual Risk Assessment and Audit Plan Development	Required by the Audit Standards and the Texas Internal Auditing Act
Continuing Professional Education and Staff Development	Required by the Audit Standards
Quality Assurance Self-Assessment Review	Required by the Audit Standards
Coordination with External Auditors and Oversight Agencies	Ongoing requirement
Preparation and Submission of the Annual Internal Audit Report	Required by the Texas Internal Auditing Act
Annual Review and Revision of Internal Audit Charter	Required by the Audit Standards

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 were no internal audit projects specifically focused on Senate Bill 20 provisions. However, a large contract may be included in the scope of an audit or management request.

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The budgeted hours for all projects are based on two staff auditors and the Director of Internal Audit.

VI. External Audit Services

In Fiscal Year 2018, 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.

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 and Finance 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.



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Texas Department of Housing and Community Affairs Office of Internal Audit Audit Plan for Fiscal Year 2019

Statutory and Professional Standards Requirement

The Texas Internal Auditing Act (Texas Government Code, §2102.005) requires state agencies to conduct a program of internal auditing. The *International Standards for the Professional Practice of Internal Auditing (IA Standards)* define Internal Auditing as an “independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.”

The Texas Government Code and the *IA Standards* require internal auditors to develop an annual audit plan, using risk assessment techniques, that identifies individual audits to be conducted during the year. The Code requires that the plan be approved by the state agency's governing board or by its administrator, if the agency has no governing board.

The program of internal auditing is carried out by the Office of Internal Audit (OIA) which serves at the direction of the Governing Board. The OIA has prepared this audit plan for consideration and approval by the Governing Board.

Development of the Annual Audit Plan

The Fiscal Year 2019 plan is designed to cover areas of highest risk to the State and the agency; however, it does not cover all risks. TDHCA management should utilize internal controls and other appropriate methodologies to mitigate residual risks not covered by the audit plan.

The annual audit plan was developed using a risk based methodology which included:

- Obtaining management's and the Governing Board's perspectives through surveys and discussions.
- Consulting with the State Auditor's Office and other oversight bodies.
- Reviewing prior TDHCA meeting minutes, audit report findings and recommendations, and budgetary information.
- Evaluating information about key agency business areas, processes, and systems.
- Considering input from internal audit staff.



- Utilizing a matrix whereby identified auditable units were ranked according to standard risk factors.

Projects for Fiscal Year 2019 Annual Audit Plan

We have revised our audit universe based on the recent reorganization at TDHCA, and accordingly identified the following units and projects for inclusion in the 2019 Annual Audit Plan. The project numbers are for identification purposes and may not correspond to the order in which the projects are performed. Also included below is a brief description of functions to be reviewed.

New Audit Projects:

1. TDHCA Resolution of Complaints

The proper handling of complaints is essential to the agency's serving the public and maintaining good will with its stakeholders. TDHCA receives complaints from a variety of sources. The audit will focus on systems for receiving and processing complaints.

The TDHCA Resolution of Complaints rated high on the risk assessment due to public interest and the Department's goal and desire for transparency.

2. Multifamily Revenue Bond

TDHCA is a conduit issuer for the State of Texas with authority to issue tax-exempt and taxable Multifamily Mortgage Revenue Bonds statewide. The bonds are used to fund loans to for-profit and nonprofit developers for the acquisition and rehabilitation or new construction of affordable rental developments. The Multifamily Bond Program is coupled with the Non-competitive (4%) Housing Tax Credit program when the bonds finance at least 50% of the cost of the land and buildings in the Development.

The Multifamily Revenue Bond program rated high on the risk assessment due to its level of complexity of transactions and processes, in addition to interest expressed by Committee members

3. TDHCA Performance Measures

This will cover the accuracy of the measures, as well as potential improvements as to what is measured. Performance measurement serves a number of external and internal agency purposes. Performance measures are integrated into the State's external accountability and fiscal decision making systems. They're revised and / or developed as part of the strategic planning process of the agency. Performance measures should flow from the agency's mission, goals, objectives, and strategies and elements related to strategic plan. They can also be used by the agency to improve operations and communications.

The Governor and the Legislature expect agencies to focus on performance, and hold agencies accountable for their performance variances.

4. Migrant Labor Housing

Migrant labor housing facilities are subject to being licensed under Tex. Gov't Code Chapter 2306, Subchapter LL (§§2306.921-2306.933). Alignment of state requirements with the federal standards for migrant farm worker housing that must be inspected in order to participate in other state and federal programs such as with the U.S. Department of Labor's H2-A visa program is intended to reduce inspection conflicts and allow for cooperative efforts between the Department and other state and federal entities to share information and reduce redundancies.

All Migrant Labor Housing Facilities in the state of Texas, which may include hotels and other public accommodations if owned by or contracted for by employers in the agricultural or agriculturally related industry to house migrant agricultural workers, must be inspected and comply with the requirements in this chapter (§90.3) and 29 CFR §§500.130, 500.132 – 500.135.

Migrant Labor Housing rated high on the risk assessment due to the legislative and public interest expressed in the matter, and also recent management changes.

5. Enforcement Committee

Enforcement Committee consists of employees of the TDHCA appointed by the Executive Director. The executive Director may designate certain members as ex officio and non-voting members. The voting members of this Committee shall be no fewer than five and no more than nine. The enforcement mechanisms include enforcement of contractual provision, Assessment of Administrative penalties, and Debarment as necessary and applicable.

6. Construction Report and Cost Certification

All awardees of a Housing Tax Credit allocation are required to submit a cost certification to TDHCA. The Asset Management Division is responsible for monitoring and processing all post-award activities for developments involving Housing Tax credit, HOME funds, Housing Trust Funds, and Neighborhood Stabilization Program funds. These activities include monitoring and processing Cost Certification and Construction status reports that are required to be submitted by multifamily developments.

7. Public Information Requests

The Texas Public Information Act was adopted in 1973, and gives the public the right to request access to government information. The Act is triggered when a person submits a written request to a governmental body. The Act applies to every "governmental body" in Texas. The definition of the term "governmental body" encompasses all public entities in the executive and legislative branches of government at the state and local levels.

Government Code, Title 5. Open Government, Subtitle A., Chapter 552, Subchapter A, Section 552.001: "Under the fundamental philosophy of the American constitutional form of representative government that adheres to the principle that government is the servant and not the master of the people, it is the policy of this state that each person is entitled, unless otherwise expressly provided by law, at all times to complete information about the affairs of government and the official acts of public officials and employees..."



Carry Over Project:

Loan Servicing Section of the Single Family Operations and Services Division

Loan Servicing is responsible for the set up and maintenance of loan records received in connection with a new loan; the day-to-day servicing functions such as customer service to borrowers and/or authorized representatives of the borrower, providing payoff statements upon request, processing subordination agreement requests, processing payment of various property insurance renewals; performing collection and workout activities for the in-house serviced single family loan portfolio; and annually, process payments for property taxes, completing the escrow analysis process, and the year-end process. The section also works in cooperation with other divisions in processing releases of lien for loan payoff funds received by Financial Administration and posting of loan disbursements approved by program and Financial Administration.

The Loan Servicing Section rated high on the risk assessment and was selected for audit due to the complexity of transactions for various loan programs and various grant requirements.

Administrative and Statutory Projects:

- Review of TDHCA compliance with appropriation riders and other requirements of the Government Code
- Annual Audit Plan and reporting
- Annual tracking of the implementation status of prior audit recommendations

Consulting Projects and External Audit Coordination

Pursuant to the TDHCA internal audit charter, the OIA performs consulting activities for the agency. For fiscal year 2019, OIA is providing consulting services related to the new Grant Guidance in 2 CFR 200, as well as subrecipient monitoring.

OIA also coordinates and advises on external audit activities.

Sincerely,



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

MS/NS

