



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

www.tdhca.state.tx.us

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October 31, 2019

Writer's direct phone # 512.475.3813
Email: mark.scott@tdhca.state.tx.us

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 2019

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 2019 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 2019, 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 2020 will be presented to the Department's governing board for approval at the December 12, 2019 board meeting. A draft copy of the 2020 audit work plan is included in the attached report. Both the fiscal year 2020 audit work plan and this report will be posted to the Division's internet web page as required by House Bill 16 (after board approval of annual audit plan). 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 2019

October 30, 2019

Page 2

cc: Bobby Wilkinson, Executive Director
John Colyandro, Governor's Office of Budget, Planning and Policy
Christopher Mattsson, Legislative Budget Board
Jennifer Jones, Sunset Advisory Commission
Internal Audit Coordinator, State Auditor's office

Texas Department of Housing and Community Affairs
Internal Audit Annual Report – Fiscal Year 2019

Table of Contents

- 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
- II. Internal Audit Plan for Fiscal Year 2019
- III. Consulting Services and Nonaudit Services Completed
- IV. External Quality Assurance Review (Peer Review)
- V. Internal Audit Plan for Fiscal Year 2020
- VI. External Audit Services Procured in Fiscal Year 2019
- VII. Reporting Suspected Fraud, Waste, and Abuse

**Texas Department of Housing and Community Affairs
Internal Audit Annual Report – Fiscal Year 2019**

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 2020 (Pending Board approval)¹,
- Internal Audit Annual Report for Fiscal Year 2019, and
- Internal Audit Reports.

Findings noted while performing the Fiscal Year 2019 audit plan are included in the respective Fiscal Year 2019 audit reports. The actions taken by the agency to address the noted concerns are also included in those reports.

II. Internal Audit Plan for Fiscal Year 2019

Project / Audit Title	Report Number	Completed	Report Date
Loan Servicing (Carry over from FY18)	19-001	Yes	November 28, 2018
TDHCA's Licensing, Inspection, and Outreach for Migrant Labor Housing	19-002	Yes	March 12, 2019
Public Information Request (PIR)	19-003	Yes	January 9, 2019
Construction Cost Certification function	19-004	Yes	June 19, 2019
Complaint Resolution Process	19-006	Yes	August 15, 2019
Implementation Status of Prior Audit Recommendations	19-007	Yes	August 19, 2019

**Texas Department of Housing and Community Affairs
Internal Audit Annual Report – Fiscal Year 2019**

Internal Audit follow up review of Migrant Labor Housing Facilities	19-008	Yes	August 23, 2019
Performance Measures	19-005	Yes	September 13, 2019
Enforcement Committee	19-009	Yes	October 30, 2019
Multifamily Revenue Bond	20-001	No	In fieldwork phase

III. Consulting Engagements and Non-audit Services Completed

Consulting Project Related to Subrecipient Monitoring

This project has included regular 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, as needed, 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 audits of the TDHCA’s Annual Financial Statement, Annual audit of bond activity and compliance with Public Investment act, audit of Classification of I.T positions, and SAO audits of HUD data, including an “in relation to” financial data audit and an internal control audit. In addition, CliftonLarsonAllen LLP (CLA), performed audits of Low Income Housing Energy Assistance Program (LIHEAP) and Community Services Block Grant (CSBG).

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,” “Partially Conforms,” and “Does Not Conform.” The ranking of “Generally Conforms”

**Texas Department of Housing and Community Affairs
Internal Audit Annual Report – Fiscal Year 2019**

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 2020 (Pending Board Approval)

Activity/Program/Division	Comments
Section 8 Program	The specific project objective(s) and scope will be determined by the detailed assessment of relative risks identified during the project planning process.
Physical Inspections	
Section 811 PRA Program	
Purchasing	
Continuity of Operations Plan (COOP)	
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

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

Texas Department of Housing and Community Affairs Internal Audit Annual Report – Fiscal Year 2019

no internal audit projects specifically focused on Senate Bill 20 Provisions. However, the Audit of Purchasing division may include review of large contracts in its scope.

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 2019, 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, Waste, and Abuse

The Department's home page (www.tdhca.state.tx.us) has an active link to 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.

¹ The Internal Audit Annual Plan for Fiscal Year 2020 will be posted on Division's internet web page after Board approval on December 12, 2019.



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Texas Department of Housing and Community Affairs Office of Internal Audit Audit Plan for Fiscal Year 2020

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 2020 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.

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

Projects for Fiscal Year 2020 Annual Audit Plan

We have identified the following projects for inclusion in the 2020 Annual Audit Plan based on our annual risk assessment of the auditable units. 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. Purchasing

Purchasing division is tasked with ensuring attainment of the best value for the Department in the acquisition of goods and services according to state rules and regulations. The division administers the requirements of Historically Underutilized Businesses (HUB) opportunities related to TDHCA procurements, and encourages and assists potential HUB vendors to be certified through the State Comptroller of Public Accounts, State Procurement Division (SPD).

The purchasing division undergoes biennial "post payment" audits by the Comptroller's Office. No internal audits or SAO audits have been conducted recently. The Director of Purchasing has recently retired. The Purchasing division rated high on the risk assessment due to lack of recent audits and change of management.

2. Section 8

The Housing Choice Voucher, Section 8, Program provides rental assistance payments on behalf of low income individuals and families, including the elderly and person with disabilities. The program provides financial assistance for decent, safe and sanitary housing to eligible households whose annual gross income does not exceed 50% of the Department Housing and Urban Development's (HUD) median income guidelines. TDHCA is one of several public housing authorities that run Housing Choice Voucher Section 8 programs across Texas.

This program has a large number of transactions. Various programmatic reviews have been conducted by HUD; however no audits of the program have been conducted in recent years. The



Section 8 program rated high on the risk assessment due to its susceptibility to fraud and lack of recent audits.

3. Physical Inspection

The Physical Inspection section of Compliance division performs and administers inspections for developments monitored by the Department throughout the compliance period. The section ensures developments are habitable, well maintained, ready for occupancy, follow appropriate accessibility standards, and comply with applicable program rules and regulations. The section also administers inspections performed by the Department's contracted inspection firms.

This function has not been audited at TDHCA; although a similar function at Manufactured Housing Division recently underwent an extensive SAO audit.

4. Section 811 PRA

The Section 811 Project Rental Assistance (PRA) program provides project-based rental assistance for extremely low-income persons with disabilities linked with long term services. The program is made possible through a partnership between TDHCA, The Texas Health and Human Services Commission (HHSC) and eligible multifamily properties. This program creates the opportunity for persons with disabilities, to live as independently as possible through the coordination of voluntary services and providing a choice of subsidized, integrated rental housing options. The program started in 2015, and no audits have been conducted of the program.

The Section 811 PRA program rated high on the risk assessment due to its suitability to fraud and lack of recent audits and change of management

5. Continuity of Operations Plan (COOP)

State agencies are required to have a COOP, by the Texas Administrative Code:

Rule §558.256, An agency must have a written emergency preparedness and response plan that comprehensively describes its approach to a disaster that could affect the need for its services or its ability to provide those services. The written plan must be based on a risk assessment that identifies the disaster from natural and man-made causes that are likely to occur in the agency's service area.

COOP was rated high on the risk assessment due its complexity and legislative interests.

Carry Over Project:

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 is 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.

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
- Coordination and review of complaints related to possible Fraud, Waste, and Abuse

Consulting Projects and External Audit Coordination

Pursuant to the TDHCA internal audit charter, the OIA performs consulting activities for the agency. For fiscal year 2020, 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

