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Writer's direct phone # 512-475-3813
Email: sandy.donoho@tdhca.state.tx.us

RE: REPORT ON THE INTERNAL AUDIT DIVISION'S QUALITY ASSURANCE AND IMPROVEMENT PROGRAM

To: The Governing Board and Audit Committee Members of the Texas Department of Housing and Community Affairs

The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* (Standards) requires that the director of internal audit develop and maintain a quality assurance and improvement program that includes both internal and external assessments of the internal audit activity. The objective of the internal and external assessments is to evaluate the internal audit activity's conformance with the Institute of Internal Auditors' definition of internal auditing, the Standards and the code of ethics.

Internal assessments must include ongoing monitoring of the performance of the internal audit activity as well as periodic reviews performed through self-assessment. The Standards require that the results of these periodic assessments be communicated to the governing board at least annually.

The Internal Audit Division (Division) of the Texas Department of Housing and Community Affairs maintains an ongoing quality assurance program and performs ongoing monitoring as required. In addition, the Division recently completed a self-assessment. The scope of this self-assessment included the audit projects with reports released in fiscal year 2013. The methodology consisted of performing a comprehensive review of the audit working papers for these audit reports, as well as discussions with internal audit staff. The internal self-assessment was conducted by two internal audit employees. Each audit was reviewed by an employee that did not manage the audits they reviewed.

To further support the goals of quality audits and ongoing commitment to improving the internal audit activity, the Division actively solicits feedback from its auditees by conducting an annual customer satisfaction survey. Survey participants are able to respond anonymously because the survey is conducted using an online survey tool.



For fiscal year 2013, the Division received 10 of 20 potential responses, an overall response rate of 50 percent. The customer satisfaction survey solicits information regarding the auditees' opinion of the usefulness of the audit and the audit recommendations, clarity of the audit objectives and the audit report, the objectivity, professionalism and communication of the auditors, duration of the audit and timeliness of the draft report. Overall, the responses received were favorable, with one respondent indicating a "Fair" rating for the question regarding clarity of the audit report, and all other respondents indicating a "Good" or "Excellent" rating for each question. However, the low survey response rate limited the usefulness of the survey results. We will continue to encourage participation in the annual auditee survey and to look for ways to increase the survey response rate.

To satisfy the Standards, the quality assurance and improvement program must also include external assessments. The Texas Internal Auditing Act requires that an external peer review be performed once every three years. The last external peer review of the Division was completed in December 2012. The overall opinion of the external peer reviewers was that the Division is in compliance with Standards and granted the Division a rating of "pass" which is the highest of the three possible ratings – pass, pass with deficiencies and fail.

The self-assessment conducted by the Division also determined that the Division receives a "pass" for compliance with the definition of internal auditing, the Standards and the code of ethics. This opinion means that policies, procedures, and practices are in place to implement the Standards and the requirements necessary for ensuring the independence, objectivity, and proficiency of the internal audit function were met.

If you have any questions regarding our quality assurance process or the recently completed self-assessment, please let me know.

Sincerely,

Sandra Q. Donoho, MPA, CISA, CIA, CFE, CICA
Director of Internal Audit

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cc: Tim Irvine, Executive Director