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Postlethwaite & Netterville, A Professional Accounting Corporation

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

INTERNAL AUDIT QUALITY ASSESSMENT REVIEW

OCTOBER 27, 2017



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A Professional Accounting Corporation

October 27, 2017

Mr. Mark Scott
Texas Department of Housing and Community Affairs
221 E. 11th Street
Austin, TX 78701

Dear Mr. Scott,

As presented in the enclosed report, Postlethwaite & Netterville, APAC (P&N) has completed our internal audit quality assessment review for Texas Department of Housing and Community Affairs (TDHCA) for the period of January 1, 2016 through September 30, 2017. On the pages that follow, this report provides a summary of the observations noted during our engagement.

P&N appreciates the cooperation and assistance provided by your personnel during this engagement. We sincerely appreciate this opportunity to be of service to you. Please do not hesitate to contact us if you have any questions related to this report or any other matters.

Sincerely,

Postlethwaite & Netterville, APAC

POSTLETHWAITE & NETTERVILLE, APAC

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Executive Summary

The International Standards for the Professional Practice of Internal Auditing (*Standards*) requires that an external quality assessment (QA) of an internal audit activity must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization. The qualified assessor or assessment team must demonstrate competence in both the professional practice of internal auditing and the QA process. The QA can be accomplished through a full external assessment or a self-assessment with independent validation.

Postlethwaite & Netterville, APAC (P&N) is pleased to have provided the Texas Department of Housing and Community Affairs (TDHCA) with a full external QA of its Internal Audit Department for the period of January 1, 2016 through September 30, 2017.

The Internal Audit department at TDHCA reports functionally to the Audit and Finance Committee and administratively to the Executive Director. The Internal Audit Department is comprised of three members, Mark Scott - Director of Internal Audit and two staff members. The department provides an independent, objective appraisal of the agency's various programs, functions, activities and systems of control.

OPINION AS TO CONFORMANCE WITH THE STANDARDS AND CODE OF ETHICS

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. A detailed list of conformance with individual standards and the Code of Ethics is shown in attachment A.

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" 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. A detailed description of conformance criteria can be found in attachment A.

Objectives, Scope and Methodology

OBJECTIVES

The objective of the full external QA was to evaluate the Internal Audit Department's conformance with the IIA's *Standards* and Code of Ethics, and to provide an opinion on the level of conformance. The QA reviewed the alignment of the Internal Audit Department's activities to the definition of Internal Auditing and the Core Principles for the Professional Practice of Internal Auditing. Additionally, the QA considered the following:

- Expectations of the internal audit activity expressed by executive leadership and operating management;
- Enterprise risk assessment and management, including organizational controls;
- Integration of internal auditing into the organization's overall governance process, including the relationships and communications between and among the key stakeholders;
- Alignment of audit objectives and plans with the strategic objectives of the agency;
- Risk assessment and audit planning to ensure audit activities meet the needs of the agency;
- Audit plan execution to ensure audit activities are efficiently and effectively performed;
- Skills, knowledge, and experience of staff to ensure successful completion of audit plan; and
- Identify opportunities for improvement throughout the Internal Audit Department.

SCOPE

The scope of the full external QA included a review of Internal Audit Department's policies, procedures, practices and documentation from 2016 through present. This included a review of the Internal Audit and Audit and Finance Committee charters in place and effective for 2017. A review of audit projects completed during this time period was also conducted.

METHODOLOGY

The full external QA included the following key phases to assess the Internal Audit Department's conformance with the IIA's *Standards*:

- Review documentation requested in advance of on-site fieldwork;
- Identify and survey key stakeholders to solicit feedback on Internal Audit's governance, processes, management and staff;
- Identify and interview executive leadership and operating management to expand on feedback obtained during the surveys and obtain additional feedback about the Internal Audit department; and
- Summarize activities performed to report results.

Observations

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.

There were no gaps in conformance, or areas of improvement that would be considered reportable findings.

P&N would like to note the following areas where the Internal Audit Department is operating in an effective or efficient manner when compared to the practice of internal auditing. The identification of these items is intended to provide key stakeholders a view on areas where the Internal Audit Department is most efficient and effective. Successful internal audit practices identified during this QA are summarized below:

- Standard 1110 – Organizational Independence and Direct Interaction with the Board
 - The Audit and Finance Committee of TDHCA is actively engaged with the Director of Internal Audit. Additionally, the Chairman of this committee was recently appointed and has previous experience within the audit profession, including risk assessment and management processes.

The Audit and Finance Committee review the activities of the Internal Audit Department and approve any changes to the audit plan, which allow the Internal Audit Department to focus on risks important to the agency.

- Standard 2000 – Managing the Internal Audit Activity
 - The Internal Audit Department developed and began utilizing a Planning Control Program to manage all aspects of the audit, including risk assessment activities, scope planning and review, testing, etc. This Planning Control Program is updated throughout the lifecycle of the audit to ensure critical steps within the audit process are not omitted.
- Standard 2400 – Communicating Results
 - The audit reports contain a one-page executive summary meant to provide a “snapshot” of the procedures performed and any relevant findings. The format of the one-page executive summary is designed to highlight relevant aspects of the audit without losing the reader’s attention.

A more detailed, in-depth report is also made available for operating management to fully understand the audit scope, procedures performed, key findings and management’s response.

This Planning Control Program is used for each internal audit activity and is reviewed at the conclusion of the audit to ensure completeness of audit procedures performed.

Acknowledgements

P&N would like to express sincere appreciation for the courtesy extended throughout the QA process. Our team appreciates the cooperation of executive leadership, operating management and the internal audit management and staff. We would like to extend our courtesies to the individuals that completed the online surveys and participated in the on-site interviews. The surveys and interviews provided feedback that complemented the documentation reviewed.

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Appendix A: Key Conformance Criteria



Legend	
GC	Generally Conforms
PC	Partially Conforms
DNC	Does Not Conform

		GC	PC	DNC
Overall Evaluation		✓		
Code of Ethics		✓		
Attribute Standards (1000 through 1300)		GC	PC	DNC
1000	Purpose, Authority, and Responsibility	✓		
1010	Recognizing Mandatory Guidance in the Internal Audit Charter	✓		
1100	Independence and Objectivity	✓		
1110	Organizational Independence	✓		
1111	Direct Interaction with the Board	✓		
1112	Chief Audit Executive Roles Beyond Internal Auditing	✓		
1120	Individual Objectivity	✓		
1130	Impairment to Independence or Objectivity	✓		
1200	Proficiency and Due Professional Care	✓		
1210	Proficiency	✓		
1220	Due Professional Care	✓		
1230	Continuing Professional Development	✓		
1300	Quality Assurance and Improvement Program	✓		
1310	Requirements of the Quality Assurance and Improvement Program	✓		
1311	Internal Assessments	✓		
1312	External Assessments	✓		
1320	Reporting on the Quality Assurance and Improvement Program	✓		
1321	Use of “Conforms with the International Standards for the Professional Practice of Internal Auditing”	✓		
1322	Disclosure of Nonconformance	✓		



Performance Standards (2000 through 2600)		GC	PC	DNC
2000	Managing the Internal Audit Activity	✓		
2010	Planning	✓		
2020	Communication and Approval	✓		
2030	Resource Management	✓		
2040	Policies and Procedures	✓		
2050	Coordination and Reliance	✓		
2060	Reporting to Senior Management and the Board	✓		
2070	External Service Provider and Organizational Responsibility for Internal Auditing	✓		
2100	Nature of Work	✓		
2110	Governance	✓		
2120	Risk Management	✓		
2130	Control	✓		
2200	Engagement Planning	✓		
2201	Planning Considerations	✓		
2210	Engagement Objectives	✓		
2220	Engagement Scope	✓		
2230	Engagement Resource Allocation	✓		
2240	Engagement Work Program	✓		
2300	Performing the Engagement	✓		
2310	Identifying Information	✓		
2320	Analysis and Evaluation	✓		
2330	Documenting Information	✓		
2340	Engagement Supervision	✓		
2400	Communicating Results	✓		
2410	Criteria for Communicating	✓		
2420	Quality of Communications	✓		
2421	Errors and Omissions	✓		
2430	Use of “Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing”	✓		
2431	Engagement Disclosure of Nonconformance	✓		
2440	Disseminating Results	✓		
2450	Overall Opinions	✓		
2500	Monitoring Progress	✓		
2600	Communicating the Acceptance of Risks	✓		



Appendix B: Management Response





TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

www.tdhca.state.tx.us

Greg Abbott
GOVERNOR

BOARD MEMBERS

J.B. Goodwin, *Chair*
Leslie Bingham-Escareño, *Vice Chair*
Paul A. Braden, Member
Asusca Reséndiz, Member
Sharon Thomason, Member
Leo Vasquez, Member

October 27, 2017

Temika B. Jones
Associate Director
Postlethwaite & Netterville
11757 Katy Freeway,
Houston, TX 77007

RE: EXTERNAL QUALITY ASSURANCE REVIEW OF INTERNAL AUDIT DIVISION AT TDHCA

Dear Mrs. Jones:

Internal Audit appreciates the thoroughness, timeliness, and professionalism demonstrated by the P&N peer review team. We agree with the report and will present it at the next meeting of the TDHCA Audit and Finance Committee.

Sincerely,



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

MS/NS

