

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
AUDIT AND FINANCE COMMITTEE MEETING**

**AGENDA
09:30 AM
December 8, 2022**

**Capitol Extension, Hearing Room E2.030
1100 Congress Ave
Austin, Texas 78701**

CALL TO ORDER

ROLL CALL

Ajay Thomas, Chair

CERTIFICATION OF QUORUM

The Audit and Finance Committee of the Governing Board of the Texas Department of Housing and Community Affairs (TDHCA) will meet to consider and may act on any of the following:

ACTION ITEMS:

ITEM 1: Presentation, discussion, and possible action to approve the Audit and Finance Committee Minutes Summary for September 1, 2022

Mark Scott
Director of Internal
Audit

ITEM 2: Presentation, discussion, and possible action to approve Fiscal Year 2023 Internal Audit Annual plan

REPORT ITEMS:

ITEM 1: Presentation and discussion of Internal Audit report on the Self-assessment

Mark Scott
Director of Internal
Audit

ITEM 2: Presentation and discussion of Internal Audit Annual report

ITEM 3: Report on the status of the Internal and External Audit activities

**PUBLIC COMMENT ON MATTERS OTHER THAN ITEMS FOR WHICH THERE WERE POSTED
AGENDA ITEMS**

EXECUTIVE SESSION

The Committee may go into Executive Session (close its meeting to the public) on any agenda item if appropriate and authorized by the Open Meetings Act, Tex. Gov't Code, Chapter 551.

Pursuant to Tex. Gov't Code, §551.074 the Audit Committee may go into Executive Session for the purposes of discussing personnel matters including to deliberate the appointment, employment, evaluation, reassignment, duties, discipline, or dismissal of a public officer or employee.

Pursuant to Tex. Gov't Code, §551.071(1) the Committee may go into executive session to seek the advice of its attorney about pending or contemplated litigation or a settlement offer.

Pursuant to Tex. Gov't Code, §551.071(2) the Committee may go into executive session for the purpose of seeking the advice of its attorney about a matter in which the duty of the attorney to the governmental body under the Texas Disciplinary Rules of Professional Conduct of the State Bar of Texas clearly conflicts with Tex. Gov't Code, Chapter 551.

Pursuant to Tex. Gov't Code, §2306.039(c) the Committee may go into executive session to receive reports from the Department's internal auditor, fraud prevention coordinator, or ethics advisor regarding issues related to fraud, waste, or abuse.

OPEN SESSION

If there is an Executive Session, the Committee will reconvene in Open Session and may take action on any items taken up in Executive Session. Except as specifically authorized by applicable law, the Audit Committee may not take any actions in Executive Session.

ADJOURN

To access this agenda and details on each agenda item in the board book, please visit our website at www.tdhca.state.tx.us or contact Mark Scott, TDHCA Internal Audit Director, 221 East 11th Street Austin, Texas 78701-2410, 512-475-3813 and request the information.

Individuals who require auxiliary aids, services or sign language interpreters for this meeting should contact Nancy Dennis, at 512-475-3959 or Relay Texas at 1-800-735-2989, at least five days before the meeting so that appropriate arrangements can be made. Non-English speaking individuals who require interpreters for this meeting should contact Danielle Leath, 512-475-4616, at least five days before the meeting so that appropriate arrangements can be made.

Personas que hablan español y requieren un intérprete, favor de llamar a Danielle Leath, al siguiente número 512-475-4616 por lo menos cinco días antes de la junta para hacer los preparativos apropiados.

AUDIT AND FINANCE COMMITTEE ACTION REQUEST

INTERNAL AUDIT DIVISION

December 8, 2022

Presentation, discussion and possible action on Audit and Finance Committee Meeting Minutes Summary for September 1, 2022

RECOMMENDED ACTION

RESOLVED, that the Audit and Finance Committee Meeting Minutes Summary for September 1, 2022 are hereby approved as presented.

**MINUTES OF THE AUDIT AND FINANCE COMMITTEE MEETING
OF THE GOVERNING BOARD OF THE
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS**

On Thursday, September 1, 2022, at 9:30 a.m. the meeting of the Audit and Finance Committee (the "Committee") of the Governing Board (the "Board") of the Texas Department of Housing and Community Affairs ("TDHCA" or the "Department") was held in Capital Extension, Hearing room E2.030, 1100 Congress Avenue, Austin Texas. Mr. Ajay Thomas, the Chair of the Audit and Finance Committee, presided over the meeting, and Mr. Mark Scott, Director of Internal Audit Division, served as the secretary. Committee members, Mr. Leo Vasquez and Ms. Anna Maria Farias, were present and represented a quorum for the Committee meeting.

Mr. Thomas started the meeting by welcoming the new Committee member, Ms. Ana Maria Farias to the Committee, before moving on to the items on the agenda. The only action item on the agenda was approval of minutes from the last two meetings of the Audit and Finance Committee on March 10, and June 16, 2022. The minutes were adopted as presented and were approved.

Mr. Thomas then moved to the first report item; Presentation and discussion of the Follow up Internal Audit of the Migrant Labor Housing Facilities Inspection Processes, and it was presented by Mr. Scott, Director of Internal Audit. Mr. Scott said that this audit was a continuation of the two audits that were conducted in 2019 related to licensing, inspection, and outreach initiatives for migrant labor housing. This audit rated high on the FY 2022 annual risk assessment due to the legislative and public interest in this function. In addition, this function has been moved under new management and a new division at TDHCA.

Mr. Scott explained the reviews that were performed and the facilities that were visited, as well as the processes and procedures that were followed for this audit. He also said that the general conditions of these facilities vary greatly from one location to another. For example; we visited a facility in south Texas that didn't seem to meet the safety standards such as smoke detectors and functioning fire extinguishers. Our report included recommendations for improvement to the inspection and licensing processes. Management agreed to some of our recommendations, and they accepted the risk on others, due to lack of financial resource for this program. Mr. Scott then offered to answer any questions that the Committee members may have.

Mr. Vasquez inquired about the potential number of locations that would be visited and inspected next year. Mr. Scott explained that these inspections are conducted by Manufactured Housing Division's (MHD) inspectors under a MOU with TDHCA. Mr. Wilkinson, Executive Director, said that the inspections are not done as a selective process. They are done at 100% either by TDHCA or TWC. The total number of inspections is expected to go up because the number of applications and licensees is expected to go up, and the MHD is asking for more money for performing these inspections.

Ms. Farias asked if the actual owners of the properties are Texans, or if they're owned by individuals from other states. Mr. Wilkinson responded that they would have to be licensed either way, but he thinks that most of them are owned by Texans. Mr. Scott also said that most of the ones that OIA looked at were owned by the local farmers.

Mr. Thomas inquired about the recommendations related to safety issues and also the ones that were not implemented by management, and whether they will be followed up on at a later time. Mr. Scott said that a model similar to the inspection processes currently in place for tax credit properties, where some of the inspections are outsourced to an outside vendor, might be an option. Mr. Wilkinson said that they would like using a vendor for inspections, but the funding for this program comes from a rider that only gives TDHCA about \$30,000 a year. It is expected to go up to \$50,000, but that still would not be enough to procure a vendor.

With no more questions regarding this report, Mr. Thomas moved to the next report item; Presentation and discussion of Internal Audit of Information Technology Application Controls. Mr. Scott presented the report and said this audit focused on similar areas as the audit of the IT General Controls did but at an application level. Application controls apply to systems, components, processes, and data for a given technology application. Application controls were reviewed for selected applications used by TDHCA and Manufactured Housing division, to manage mission critical program and administrative data and activity. Application controls are related specifically to critical information systems, software programs that are necessary for the accurate and proper processing of critical business functions on the software.

OIA reviewed the IT applications controls in place at TDHCA and found that in general application controls are functioning as designed. OIA made some recommendations for improvement and highlighted the Legislative Appropriations Request made by TDHCA for the 2024, 2025 cycle. Mr. Scott then offered to answer questions for the Committee members. With no questions; Mr. Thomas moved to the final report item on the agenda; Report on the status of the Internal and External Audit activities, and this was presented by Mr. Scott as well.

Mr. Scott said that OIA has started their audit work of the Texas Rent Relief program – Procurement of administrative contracts, and soon will be starting the follow up audit of the Manufacture Housing inspection processes that was performed by SAO. With the completion of these two audits the annual audit plan for FY 2022 will be complete. OIA has also started the Risk Assessment process and drafting of the annual audit plan for FY 2023. They will be shared with the Committee in the next few weeks for your review, input, and comments. OIA plans to present the FY 23 annual audit plan at the December meeting of the Audit and Finance Committee for approval.

On the external audit side; the SAO is conducting their annual audit of the TDHCA financial statements as part of the statewide audit and also their audit of the revenue bond program,

which they do in accordance with the Public Investment Act. CliftonLarsonAllen (CLA) is conducting the federal compliance portion of the statewide audit.

That concluded Mr. Scott's presentation and he offered to answer any questions that the committee members may have. Mr. Vasquez inquired about the reviews of the Rent Relief program that is closing soon, as well as the Homeowner Assistance program. Mr. Scott said that the CLA is performing their statewide audit which follows specific federal compliance requirements and testing. The SAO is also performing some audit work on these programs. OIA relies, as much as possible, on these reviews to make sure that the risks that were identified in the annual risk assessments are covered. The reported instances of fraud are mainly being looked at by the SAO Special Investigations Unit and the Federal Office of Inspector General. The program has also contracted with Deloitte to perform quality assurance work. Mr. Wilkinson added that the quality assurance reviews are done in conjunction with Internal Audit.

With no other questions or comments Mr. Thomas thanked everyone for their participation and adjourned the meeting at 9:54am.

AUDIT and FINANCE COMMITTEE ACTION REQUEST

INTERNAL AUDIT DIVISION

December 8, 2022

Presentation, discussion, and possible action to approve Fiscal Year 2023 Internal Audit Annual Plan

RECOMMENDED ACTION

WHEREAS, the Tex. Gov't Code §2306.073(b), the Internal Auditing Act and audit standards require the Department's Governing Board to approve an annual audit work plan that outlines the internal audit projects planned for the fiscal year;

WHEREAS, Staff has presented a Fiscal Year 2023 Internal Audit Work Plan that is acceptable to the Audit and Finance Committee; and

NOW, therefore, it is hereby

RESOLVED, the Audit and Finance Committee of the Board recommends approval of the Internal Audit Work Plan for Fiscal Year 2023 by the Governing Board as presented.

BACKGROUND

The annual internal audit work plan is required by the Tex. Gov't Code §2306.073(b), the Texas Internal Auditing Act (Tex. Gov't Code Chapter 2102) and by the International Standards for the Professional Practice of Internal Auditing (Standards). The plan is prepared by the internal auditor based on an agency-wide risk assessment as well as input from the Department's Governing Board and executive management. The plan identifies the individual audits to be conducted during Fiscal Year 2023. The plan also outlines other planned activities that will be performed by the Internal Audit Division.



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

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Anna Maria Fariás, *Member*
Ajay Thomas, *Member*

Texas Department of Housing and Community Affairs Office of Internal Audit Audit Plan for Fiscal Year 2023

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 2023 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 2023 Annual Audit Plan

We have identified the following projects for inclusion in the 2023 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:

The first four audit areas on the plan received new or additional funding from pandemic related funding sources. They rated high on the list because of large dollar amounts and / or the newness of the programs and processes, in addition to their fraud risk. They also include several new management and staff, or transfer of existing TDHCA staff to new positions.

1. Homeowner Assistance Fund (HAF)

Texas Homeowner Assistance provides financial assistance to qualified Texas homeowners who have fallen behind on their mortgage, utility payments, and related expenses due to the COVID-19 pandemic. This program gives eligible homeowners grants to cover past due mortgage payments, up to three (3) months of future mortgage payments, property taxes, insurance, homeowner/condo association fees, past due utility payments, and up to three (3) months of prospective utility payments, and is funded through American Rescue Plan Act of 2021.

2. HOME Tenant Based Rental Assistance (COVID 19) Funds

The Tenant Based Rental Assistance (TBRA) program funds local organizations that provide rental subsidies, utility assistance, and security deposit assistance to individuals in their local communities. TDHCA is making up to \$11.3 million in TBRA COVID-19 funds available to TBRA administrators, who will then distribute the aid to qualifying Texans. TDHCA funds units of general local governments, public housing authorities, local mental health authorities, and nonprofits that in turn assist individuals in their communities. TBRA COVID-19 funds will become available soon.

3. HOME Disaster Relief Funds

The Texas HOME Disaster Relief Program is a long-term housing program designed to help eligible organizations serve income eligible households impacted by disasters. HOME Disaster Relief funds are available to assist with federal or state declared disasters, or other natural or man-made disasters that may occur. These funds can be accessed to support impacted households not located in communities that receive HOME funds directly from the U.S. Department of Housing and Urban Development (HUD)

4. Community Development Block Grant (CDBG) / CDBG CARE

The Community Development Block Grant CARES Act (CDBG-CV) program is designed to help Texans respond to and recover from the impacts of COVID-19. The Governor of the State of Texas has designated the TDHCA as the administrator of this program. The U.S. Department of Housing and Urban Development (HUD) has awarded TDHCA a total of \$141,846,258 in CDBG-CV funds.

5. Texas Bootstrap Loan Program

Texas Bootstrap Loan Program is an Owner-Builder Program that is administered by TDHCA. It is a self-help housing construction program that assists very low-income households to purchase or refinance real property on which to build or repair housing by contributing the labor themselves. This program rated high on the risk assessment and was selected to audit due to lack of any prior audits, and its importance in helping very low income individuals during the current economic environment.

6. Staff Services

Staff Services section of Administration provides management of requirements related to TDHCA and MH employees and facilities, such as; Asset inventory for both technology and facility components, Facility management, and Records management and retention as well as mail operations. This function rated high on the annual risk assessment due to lack of any prior audits and the changes that occurred during Covid-19 pandemic, and its possible effects on the areas.

7. Texas Statewide Homebuyer Education Program (TSHEP) and Texas Homebuyer U

Texas Statewide Homebuyer Education Program is a product of the Texas Homebuyer program, which was created to help Texans achieve homeownership. The program offers trained Housing counselors to coach homebuyers through the home buying process, and offer group classes as well as one-on-one assessments.

Texas Homebuyer U is another product of the Texas Homebuyer program. It offers free online educational resources about the home buying process and Mortgage Credit Certificate (MCC) to homebuyers. TDHCA requires Completion of a homebuyer education course to obtain one of its loans or an MCC. These programs rated high on the risk assessment due to their importance to TDHCA clients, and also recent management changes.

Carry Over Project

Follow up on SAO audit of Manufactured Housing Division

The OIA will perform a follow up of the SAO's findings and recommendation related to Manufactured Housing Division's inspections and licensing.

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 2023, OIA is providing consulting services related to the new Grant Guidance in 2 CFR 200, as well as sub-recipient monitoring.

OIA also coordinates and advises on external audit activities.

Sincerely,

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

MS/NS

AUDIT AND FINANCE COMMITTEE REPORT REQUEST

INTERNAL AUDIT DIVISION

December 8, 2022

Presentation and discussion of Internal Audit report on the Self-Assessment, Report# 22-009



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

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Brandon Batch, *Member*
Anna Maria Farías, *Member*
Ajay Thomas, *Member*

November 30, 2022

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

Board Members of the Texas Department of Housing and Community Affairs ("TDHCA")

RE: Internal Audit Division's Quality Assurance and Improvement Program (Self-assessment)

Dear Board Members:

This is the Office of Internal Audit (OIA) report (report # 22-009) on the self-assessment of the TDHCA internal audit function. This project was identified in the FY 2022 internal audit plan. It is part of the quality assurance program required by the Texas Internal Auditing Act, and a required deliverable for an external assessment of the internal auditing program.

The Institute of Internal auditor's *International Standards for the Professional Practice of Internal Auditing* requires that the director of Internal Audit develop and maintain a quality assurance and improvement program. The objective of the internal 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. These standards require:

- 1300 – Quality Assurance / Improvement Program
 - 1311 – Internal Assessments
 - Periodic review performed through self-assessment or by other persons within the organization with sufficient knowledge of internal audit practices.

In conducting the self-assessment of internal auditing at TDHCA, OIA utilized the peer review manual developed by the State Agency Internal Audit Forum (SAIAF), a work group comprised of internal auditors in Texas State government. This manual includes a checklist which covers the Institute of Internal Auditors International Professional Practices Framework (IPPF), or “Red Book”, including Code of Ethics, Attribute Standards, and Performance Standards.

Our self-assessment of internal audit work quality included an evaluation of the audit project; *Internal Audit of the Texas Homeownership Program*, Report # 22-003, issued in June 2022. Our self-assessment of OIA’s work indicated general compliance with the standards. For each of the standards, we have noted documents that demonstrate compliance with the standard. These include audit charters, audit reports, and various types of audit working papers, as well as internal Standard Operating Procedures (SOPs).

We noted opportunities for improvement in the following areas:

Findings from Work-paper Review

As part of the peer review preparation, the SAIAF work paper review tool was utilized to review one complete set of audit working papers; Internal Audit of Texas Homeownership Program. This audit included a review of applicable portions of the Texas Government Code Chapter 2306 Texas Department of Housing and Community Affairs and Texas Administrative Code 1 Part 10, Chapters 27 Texas First Time Homebuyer Program Rule and 28 Taxable Mortgage Program; TDHCA reports to the Board including those providing authority for single family revenue bonds; review of loan transactions for compliance to applicable rules; review of MCCs creation and mailing; vendor procurement and monitoring documentation; approval of participating lenders; and the Standard Operating Procedures of Divisions tasked with managing aspects of the Texas Homeownership Program.

The auditor also reviewed the Texas Homeownership Program to determine the Program’s goals as well as the underlying processes, roles and responsibilities; reviewed the controls related to the Texas Homeownership Program and tested certain transactions and controls. The following issues were noted in the work paper review:

1. The auditor did not properly document notes from all of the meetings that were held with management and key staff.
2. Not all of the reviews and testing seemed to have an individual work paper related to their specific area, or function, which would document the Source, Procedure, and Results of that review. OIA could improve documentation of reviews of each specific task, and its related backup information, to support its findings and recommendations in a more transparent and clear way.
3. It appears that the secondary auditees were not informed properly about their part in this audit. OIA could improve its communication with everyone involved in the program, or the division, or the function under audit.

The issues identified during this self-assessment will be included as part of audit close-out and quality assurance review, for future audits.

Sincerely,

Mark Scott

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

MS/NS

AUDIT AND FINANCE COMMITTEE REPORT REQUEST

INTERNAL AUDIT DIVISION

December 8, 2022

Presentation and discussion of the Internal Audit Annual report



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

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Kenny Marchant, *Vice Chair*
Brandon Batch, *Member*
Anna Maria Farias, *Member*
Ajay Thomas, *Member*

October 31, 2022

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 2022

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 2022 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 2022, 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 2023 will be presented to the Department's governing board for approval at the December 8, 2022 Board meeting. A draft copy of the 2023 audit work plan is included in the attached report. Both the fiscal year 2023 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". The signature is written in a cursive, flowing style.

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

NS / MS

cc: Bobby Wilkinson, Executive Director
Sarah Hicks, 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 2022

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- III. Consulting Services and Nonaudit Services Completed
- IV. External Quality Assurance Review (Peer Review)
- V. Internal Audit Plan for Fiscal Year 2023
- VI. External Audit Services Procured in Fiscal Year 2022
- VII. Reporting Suspected Fraud, Waste, and Abuse

**Texas Department of Housing and Community Affairs
Internal Audit Annual Report – Fiscal Year 2022**

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 2023 (Pending Board approval)ⁱ,
- Internal Audit Annual Report for Fiscal Year 2022, and
- Internal Audit Reports.

Findings noted while performing the Fiscal Year 2022 audit plan are included in the respective Fiscal Year 2022 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 2022

Project / Audit Title	Report Number	Completed	Report Date
Internal Audit Division’s Quality Assurance and Improvement Program (Self-assessment FY 2021)	21-007	Yes	November 18, 2021
Information Technology General Controls	22-001	Yes	March 2, 2022
Previous Participation Review	22-002	Yes	March 3, 2022
Texas Homeownership Program	22-003	Yes	June 6, 2022
Follow up Audit of Physical Inspection Section of TDHCA Compliance Division	22-004	Yes	June 7, 2022
Information Technology Application Controls	22-005	Yes	August 24, 2022

**Texas Department of Housing and Community Affairs
Internal Audit Annual Report – Fiscal Year 2022**

Follow up Audit of Migrant Labor Housing facilities Inspection and licensing	22-006	Yes	August 22, 2022
Follow up review of SAO's Audit of Manufacture Housing Division's inspection and licensing	N/A	No	Carry over to FY2023
Texas Rent Relief (TRR) Program – Procurement of Administrative Contracts	22-007	No	See comment below*
Internal Audit Report on the Prior Audit Findings and Recommendations.	22-008	Yes	October, 31 2022
Internal Audit Division's Quality Assurance and Improvement Program (Self-assessment FY 2022)	22-009	No	In process

** The State Auditor's Office selected two contracts related to TRR program for audit. The engagement letter was received on September 27th, 2022, and the anticipated date for release of the report is April 2023. OIA paused audit of TRR –Procurement of Administrative Contracts to avoid any interference with SAO's reviews and audit.*

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 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 Statements, Annual audit of bond activity and compliance with Public Investment act, and SAO audits of HUD data, including an "in relation to" financial data audit and an internal control audit. The SAO has also started an audit of the Texas Rent Relief (TRR) Program's contract procurement processes. In addition, CliftonLarsonAllen LLP (CLA), performed audits of Low Income Housing Energy Assistance Program (LIHEAP) and Texas rental relief program.

**Texas Department of Housing and Community Affairs
Internal Audit Annual Report – Fiscal Year 2022**

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” 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.”

The Office of Internal Audit has submitted budget request for LAR to procure a Peer Review in this fiscal year.

V. Internal Audit Plan for Fiscal Year 2023 (Pending Board Approval)

Activity/Program/Division	Comments
Homeowner Assistance Fund	The specific project objective(s) and scope will be determined by the detailed assessment of relative risks identified during the project planning process.
HOME Tenant Based Rental Assistance (COVID-19) Funds	
HOME Disaster Relief Funds	
Community Development Block Grant (CDBG) / CDBG CARE	
Texas Bootstrap Loan Program	
Staff Services	
Texas Statewide Homebuyer Education Program (TSHEP) and Texas Homebuyer U	
Follow up Review of SAO’s Audit of the Manufactured Housing Division’s inspection and licensing	Carry over from FY 2022
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.

**Texas Department of Housing and Community Affairs
Internal Audit Annual Report – Fiscal Year 2022**

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 and Finance 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 Homeowner Assistance Fund (HAF) 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 2021, 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. Texas Rent Relief Program procured Deloitte-Touche to perform Quality Assurance work for the program.

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

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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 2023 will be posted on Division's internet web page after Board approval on December 8, 2022.



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

www.tdhca.state.tx.us

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Texas Department of Housing and Community Affairs Office of Internal Audit Audit Plan for Fiscal Year 2022

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 2022 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 2022 Annual Audit Plan

We have identified the following projects for inclusion in the 2022 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. Texas Rent Relief Program (TRR) – Procurement of Administrative Contracts

The Texas Rent Relief Program provides rental and utility assistance to qualifying applicants to prevent housing instability, potential eviction, utility disconnections, and financial hardships for tenants and landlords as a result of the COVID-19 pandemic. The funding for this program is part of the Coronavirus stimulus bill passed by Congress. As part of this program, the State of Texas received initially approximately \$1.3 billion to assist landlords and tenants through the Texas Rent Relief Program. Local communities in Texas with populations greater than 200,000 had an opportunity to receive roughly \$700 million in additional direct allocations of these funds.

This program was launched in Feb 2021. The SAO and Clifton-Larson-Anderson (CLA) will include this program in the statewide audit of the Texas financial statements. They will audit requirements in the federal compliance supplement, such as payments and eligibility. The internal audit department will audit operational aspects, primarily procurement of the administrative contracts.

2. Previous Participation Review (PPR)

The Previous Participation Review function evaluates contractors and sub recipients when TDHCA is considering whether to award them a new contract for the following fiscal year. The function is involved with new and renewed contracts for several different programs and has not been audited before.



3. I.T General Controls

The Internal Auditing Act requires periodic audits of an agency's information systems. TDHCA's technology is delivered by internal TDHCA Information Systems staff with support from the Department of Information Resources. The audit will primarily focus on the functions of internal TDHCA IS staff and will consider areas such as governance, systems development life cycle controls, physical and logical access to critical hardware and software, backup and recovery, programming change management procedures, and computer operation controls.

4. I.T Application Controls

Application controls are related specifically to critical information systems software programs and are necessary for the accurate and proper processing of critical business functions on the software. The audit would include areas such as input and access controls, file and data processing controls, output controls and master files and data controls. Application controls will be reviewed for selected applications used by TDHCA to manage Program and administrative data and activity.

5. MH Installation Inspection / Physical Inspection

Manufactured Housing Division (MHD) of the Texas Department of Housing and Community Affairs administers the Texas Manufactured Housing Standards Act. Because of its regulatory nature, MHD has its own board and executive director, but is administratively attached to TDHCA and receives audit related services from OIA at TDHCA.

The Physical Inspection section of Compliance Monitoring Division was selected for Audit during FY20, and a report was issued on August 14, 2020. However, due to a scope limitation imposed by COVID19 pandemic, this unit will be reviewed more comprehensively during FY22. And since the inspections are performed by MHD similar to those performed by Physical inspection at TDHCA, OIA will conduct these audits together to achieve some economy of scale.

During the course of this audit, OIA also plans to conduct follow up work on the Migrant Labor housing audit that was conducted in 2019, as well as follow up work on the audit of MHD that was performed by SAO in 2020.

6. Texas Homeownership Program

The Texas Home Ownership program helps eligible Texas homebuyers by providing financial assistance, such as down payment assistance, low interest rate mortgage, and Mortgage Credit Certificate (MCC). The program also offers technical assistance and educational resources for first-time homebuyers throughout the process. This program rated high on our risk assessment due to lack of any prior audits by OIA.



Carry Over Project

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, and 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.

The Physical Inspection section of Compliance Monitoring Division was selected for Audit during FY20, and a report was issued on August 14, 2020. However, due to scope limitations imposed by COVID19 pandemic, OIA had planned to review this unit more comprehensively during FY2021. As noted earlier, this unit will be reviewed along with the audit of Manufactured Housing Division's inspections and follow up work of the Migrant Labor Housing audit during FY2022.

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 2022, 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



AUDIT AND FINANCE COMMITTEE REPORT REQUEST

INTERNAL AUDIT DIVISION

December 8, 2022

Report on the status of the Internal Audit and External Audit activities

Verbal Report