



Texas Department of Housing and Community Affairs

Internal Audit Quality Assurance Review ("QAR")
Independent Assessment and Independent Validation

November 15, 2024

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Mr. Mark Scott
Director of Internal Audit
Texas Department of Housing and Community Affairs

Dear Mr. Scott,

As presented in the enclosed report, EAG Gulf Coast, LLC has completed our internal audit quality assessment review ("QAR") for Texas Department of Housing and Community Affairs ("TDHCA"). The QAR assessed TDHCA Internal Audit's compliance with *The International Standards for the Professional Practice of Internal Auditing* ("Standards"). The QAR also included an evaluation of TDHCA Internal Audit's quality control system and whether it provides reasonable assurance that the work performed by Internal Audit meets professional standards.

On the pages that follow, this report provides a summary of the results of our 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,



EAG Gulf Coast, LLC

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Executive Summary

EAG Gulf Coast, LLC (“EisnerAmper”) is pleased to have provided Texas Department of Housing and Community Affairs (“TDHCA”) Internal Audit with a full external Quality Assurance Review (“QAR”) of its Internal Audit Division (“Internal Audit”) for the period 2023/2024.

The QAR assessed Internal Audit’s compliance with the International Standards for the Professional Practice of Internal Auditing (“*Standards*”). The QAR also included an evaluation of Internal Audit’s quality control system and whether it provides reasonable assurance that the work performed by Internal Audit meets professional standards.

An external QAR of an internal audit activity must be conducted at least once every five years as outlined by the *Standards*. The external QAR must be performed by a qualified, independent assessor or assessment team from outside the organization who demonstrates competence in both the professional practice of internal auditing and the QAR process.

Opinion as to Conformance with the *Standards* and Code of Ethics

It is our overall opinion that the Internal Audit Division of TDHCA Generally Conforms with the *Standards* and the Code of Ethics promulgated by the Institute of Internal Auditors (IIA) for the period 2023/2024.

This level of conformance is the top rating and demonstrates a clear intent and commitment to achieving the Core Principles for the Professional Practice of Internal Auditing and the Definition of Internal Auditing.

The IIA’s Quality Assessment Manual for an Internal Audit Activity suggests a scale of three ratings when opining on the internal audit activity: “Generally Conforms,” “Partially Conforms,” and “Does Not Conform.” The rating 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 Appendix A.



Objectives, Scope, and Methodology

Objectives

The objective of the full external QAR was to evaluate Internal Audit's conformance with the IIA's *Standards* and Code of Ethics, as well as provide an opinion on the level of conformance with each. The QAR reviewed the alignment of Internal Audit's activities to the definition of Internal Auditing and the Core Principles for the Professional Practice of Internal Auditing. Additionally, the QAR 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 TDHCA'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 TDHCA;
- Risk assessment and audit planning to determine if audit activities meet the needs of TDHCA;
- Audit plan execution to determine if audit activities are efficiently and effectively performed;
- Internal monitoring procedures for adequacy and to evaluate cooperation in the remediation of audit findings;
- Quality control policies and procedures in alignment with applicable standards;
- Skills, knowledge, and experience of staff to evaluate successful completion of audit plan; and
- Identify opportunities for improvement throughout Internal Audit.

Period of Coverage

The scope of the full external QAR included a review of Internal Audit's policies, procedures, practices and documentation for the period 2023/2024. This included an evaluation of the Internal Audit charter in place and effective during period. A review of two audit projects completed during this period was also performed.



Methodology

The full external QAR included the following key phases to assess Internal Audit's conformance with applicable standards:

- Review documentation requested in advance of procedures;
- Identify and interview executive leadership and operating management to obtain additional feedback about TDHCA Internal Audit; and
- Summarize activities performed to report results.

Successful Internal Audit Practices, Gaps in Conformance, and Opportunities for Continuous Improvement

TDHCA Internal Audit was independent, objective, and had unrestricted access to systems and records. The Internal Audit team was professional and possessed the appropriate skills to effectively perform their audits. Consequently, comments and recommendations are intended to build on this foundation already in place at TDHCA Internal Audit. Observations are divided into three categories as further described below:

Gaps to Conformance

Gaps to conformance are areas identified in which the Internal Audit Activity is operating in a manner that falls short of achieving one or more major objectives and attains an opinion of "partially conforms" or "does not conform" with the *Standards* or the Code of Ethics. The gaps below reflect individual standards or elements of individual standards in which full requirements of the standard have not been met.

1. **Standard 2200 (Engagement Planning)** - *Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations. The plan must consider the organization's strategies, objectives, and risks relevant to the engagement.*

Standard 2330 (Documenting Information) - *Internal auditors must document sufficient, reliable, relevant, and useful information to support the engagement results and conclusions.*



Engagement work paper supporting files, including engagement risk assessment and planning documentation could be more comprehensively documented and maintained, to more fully address the elements included in the Internal Audit Standard Operating Procedures.

For the two sampled audits, documentation of certain planning steps, such as completed internal control questionnaires and email communications, was maintained. However, comprehensive documentation of the engagement risk assessment and planning conclusions and the resulting audit scope and procedures was lacking. The testing/fieldwork files could be more comprehensively documented to include defined testing attributes, procedures performed, and final results or conclusions.

2. **Standard 2240 (Engagement Work Program)** - *Internal auditors must develop and document work programs that achieve the engagement objectives.*

2240.A1 - *Work programs must include the procedures for identifying, analyzing, evaluating, and documenting information during the engagement. The work program must be approved prior to its implementation, and any adjustments approved promptly.*

2240.C1 - *Work programs for consulting engagements may vary in form and content depending upon the nature of the engagement.*

Documentation of the Internal Audit work programs and their approval was not available for the sampled audit engagements.



Successful Practices

Successful internal audit practices are areas in which Internal Audit is operating in a particularly effective or efficient manner when compared to the practice of internal auditing demonstrated as compared to other internal audit functions. The identification of these practices is intended to provide key stakeholders of Internal Audit with activities Internal Audit is performing in a leading practice manner when compared to other internal audit functions. The following provides the successful internal audit practices identified through the QAR:

- Each member of the Internal Audit team completes and signs a Statement of Auditor Independence, on an annual basis, confirming whether they are free of any impairment to objectivity or independence and affirming their knowledge of the IIA Code of Ethics.
- Internal Audit distributes post-audit questionnaires to auditees to collect feedback on their processes and methods, supporting their continuous monitoring and improvement efforts.

Opportunities for Continuous Improvement

Opportunities for continuous improvement are observations of opportunities to enhance the efficiency or effectiveness of Internal Audit's infrastructure or processes. These items do not indicate a lack of conformance with the *Standards* or Code of Ethics, but rather offer suggestions on how to best position Internal Audit for continuous success. These operational ideas are based on the experiences of the external assessment team from working with other internal audit functions. The following provides opportunities for continuous improvement identified through the QAR:

- **Standard 1100 (Independence and Objectivity)**
 - Consider including confirmation of Internal Audit independence in annual board presentations.
- **Standard 1110 (Organizational Independence)**
 - Consider revising the audit committee charter to specify that one of its responsibilities is to approve decisions related to the appointment and removal of the Director of Internal Audit.
- **Standard 2000 (Managing the Internal Audit Activity)**
 - Consider determining and developing a strategic plan for Internal Audit that enables alignment of Internal Audit strategies with overall organization strategies. Consider obtaining input from the Audit Committee in the development of the plan.



- **Standard 2010 (Planning)**
 - Consider enhancing documentation of the annual risk assessment process by detailing how risk ratings for each area were determined and how survey results were integrated into the final outcomes.
- **Standard 2340 (Engagement Supervision)**
 - Consider maintaining documentation evidencing supervisory review and approval in engagement workpapers.
- **Standard 2420 (Quality of Communications)**
 - Consider updating the Internal Audit Standard Operating Procedures (SOPs) and audit reporting to include individual risk ratings to provide more context on the significance of individual findings.

Global Internal Audit Standards Readiness

In preparation for implementing The IIA's Global Internal Audit Standards, TDHCA Internal Audit should also consider the following:

- Remediate all gaps to conformance included in this report.
- For any individual standard that may not be applicable to TDHCA Internal Audit, develop documentation as to why the standard is not applicable and share such analysis and documentation with the Audit Committee.



Acknowledgements

EAG Gulf Coast, LLC would like to express sincere appreciation for the courtesy extended throughout the QAR process. Our team appreciates the cooperation of key leadership, operating management and the Internal Audit team. We would like to extend our courtesies to the individuals that participated in the interviews. The interviews provided feedback that complemented the documentation reviewed.



Appendix A: Key Conformance Criteria from the IIA *Standards* and Code of Ethics



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	N/A		
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"	N/A		
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	N/A		
2060	Reporting to Senior Management and the Board	✓		
2070	External Service Provider and Organizational Responsibility for Internal Auditing	N/A		
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	N/A		
2430	Use of "Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing"	N/A		
2431	Engagement Disclosure of Nonconformance	N/A		
2440	Disseminating Results	✓		
2450	Overall Opinions	N/A		
2500	Monitoring Progress	✓		
2600	Communicating the Acceptance of Risks	✓		



Appendix B: Conformance Rating Definitions



Rating Definitions

GC – “Generally Conforms” means that the assessor or the assessment team has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual standard or elements of the Code of Ethics in all material respects. For the sections and major categories, this means that there is general conformity to a majority of the individual standard or element of the Code of Ethics and at least partial conformity to the others within the section/category. There may be significant opportunities for improvement, but these should not represent situations where the activity has not implemented the *Standards* or the Code of Ethics and has not applied them effectively or has not achieved their stated objectives. As indicated above, general conformance does not require complete or perfect conformance, the ideal situation, or successful practice, etc.

PC – “Partially Conforms” means that the assessor or assessment team has concluded that the activity is making good-faith efforts to comply with the requirements of the individual standard or elements of the Code of Ethics, or a section or major category, but falls short of achieving some major objectives. These will usually represent significant opportunities for improvement in effectively applying the *Standards* or the Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the internal audit activity and may result in recommendations to senior management or the board of the organization.

DNC – “Does Not Conform” means that the assessor or assessment team has concluded that the internal audit activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many or all of the objectives of the individual standard or element of the Code of Ethics, or a section or major category. These deficiencies will usually have a significantly negative impact on the internal audit activity’s effectiveness and its potential to add value to the organization. These may also represent significant opportunities for improvement, including actions by senior management or the board.



Appendix C: Management Response



Management Response Provided via Email

Internal Audit appreciates the thoroughness and professionalism demonstrated by the EisnerAmper staff and management. We agree with the report and will work towards implementing the recommendations provided by the review team. This report will be presented at the next meeting of the TDHCA Audit and Finance Committee on December 12, 2024.

Thank you,

Mark Scott, CPA, CIA, CISA, CFE, MBA

