



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

www.tdhca.state.tx.us

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Holland Harper, *Member*
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October 31, 2023

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 2023

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 2023 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 2023, 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 2024 will be presented to the Department's governing board for approval at the December 7, 2023 Board meeting. A draft copy of the 2024 audit work plan is included in the attached report. Both the fiscal year 2024 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,



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

NS / MS

cc: Bobby Wilkinson, Executive Director
Sarah Hicks, Governor's Office – Budget and Policy
Division
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 2023**

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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 2024 (Pending Board approval)¹,
- Internal Audit Annual Report for Fiscal Year 2023, and
- Internal Audit Reports.

Findings noted while performing the Fiscal Year 2023 audit plan are included in the respective Fiscal Year 2023 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
Texas Bootstrap Loan Program	23-001	Yes	March 6, 2023
Staff Services at TDHCA	23-002	Yes	May 12, 2023
Texas Statewide Homebuyer Education Program (TSHEP), and Homebuyer U	23-003	Yes	August 7, 2023
HOME Disaster Relief and Tenant-Based Rental Assistance program	23-004	Yes	August 23, 2023
CDBG and CDBG Covid	23-005	Yes	In Reporting phase
Internal Audit Report on the Prior Audit Findings and Recommendations.	23-006	Yes	September 8, 2023

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Internal Audit Division’s Quality Assurance and Improvement Program (Self-assessment FY 2023)	23-007	Yes	October 16, 2023
Homeowner Assistance Fund (HAF)	23-008	No	See note below*
Follow up review of SAO’s Audit of Manufacture Housing Division’s inspection and licensing	23-009	Yes	October 30, 2023

* CliftonLarsonAllen LLP (CLA) is performing audit of Homeowner Assistance Funds program during fiscal Year 2023. OIA paused audit of HAF program to avoid any interference with CLA’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 also completed an audit of the Texas Rent Relief (TRR) Program’s contract procurement processes. In addition, CliftonLarsonAllen LLP (CLA), is performing audits of Low Income Housing Energy Assistance Program (LIHEAP) and Emergency Rental Assistance (ERA) and Homeowner Assistance Fund (HAF) programs.

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

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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 2024 (Pending Board Approval)

Activity/Program/Division	Comments
Program Services	The specific project objective(s) and scope will be determined by the detailed assessment of relative risks identified during the project planning process.
Compliance Monitoring (Multifamily)	
Construction Status Report	
Handling of Amendments and Transfers	
Ownership Transfers	
Grant Accounting	
Follow up Review of Prior Audit findings and recommendations	Required by the Audit Standards
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.
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

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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. OIA includes evaluation of methods for ensuring compliance with contract processes and controls, and for monitoring agency contracts as part of the ongoing risk assessment process.

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 2023, 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 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.

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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 2024 will be posted on Division's internet web page after Board approval on December 7, 2023.



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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 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.

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 response 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:

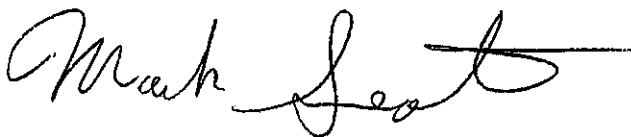
- Review of TDHCA compliance with appropriation riders and other requirements of the Government Code
- Annual Audit Plan and reporting
- Annual tracking of the implementation status of prior audit recommendations
- Coordination and review of complaints related to possible Fraud, Waste, and Abuse

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



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Texas Department of Housing and Community Affairs Office of Internal Audit Audit Plan for Fiscal Year 2024

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New Audit Projects:

1. Program Services

Program Services Section facilitates adherence to the rules regarding processing and completion of federal mandates and departmental requirements affecting a variety of programs administered by the Department. These mandates and requirements include: Environmental Review & Clearances, Employment opportunities for Low-Income People, Loan closings, Quality Assurance and federal funds. Compliance with federal mandates can affect release of funds and future program eligibility. This function rated high on the annual risk assessment due to lack of any prior audits, as well as recommendation for review from management.

2. Compliance Monitoring (Multifamily)

The Compliance Monitoring section of Compliance Division is responsible for long-term compliance with the multifamily housing programs funded by the TDHCA. Compliance monitors conduct reviews to evaluate compliance with income and rent limits as well as other requirements including social services and affirmative marketing. Compliance monitors conduct reviews at least once every three years. In addition, the Compliance Monitoring section reviews each property's Annual Owner's Compliance Reports as required under Chapter 2306 of the Texas Government Code and other federal regulations. The Compliance Monitoring section provides training for owners and managers.

This division rated high on the annual risk assessment due to its importance in ensuring compliance with applicable laws for multiple programs at TDHCA. The Compliance monitoring division was last audited to OIA in 2016.

Asset Management Division:

The Asset Management Division is responsible for monitoring and processing of all post-award activities for developments involving Housing Tax Credits, HOME funds, National and State Housing Trust Funds, and Neighborhood Stabilization Program (NSP) funds. The Post Award Activities manual outlines the procedures and instructions for completing activities including the 10% Test, Construction Status Reports, Cost Certification, LURA Origination, LURA Amendments, Application Amendments, and Ownership Transfers. These units rated high on the annual risk assessment due to lack of any prior audits, as well as their importance in ensuring proper processes and approval and for each state of the construction process.

3. Construction Status Report

Construction Status Reports must be submitted by all multifamily developments (HOME, NHTF, TCAP, 9% HTC, 4% HTC/BOND) that are currently in construction. The submission of construction status reports continues on a quarterly basis until the entire development is complete, and evidence of completion, which are Certificates of Occupancy for each building, AN AIA G704, or the Final AIA G702/3 or equivalent, is received by the Department.

4. Handling of Amendments and Transfers

The Asset Manager evaluates each amendment request and determines if the change constitutes a notification, requires Executive Director's approval, or is a change that must be approved by the TDHCA Board. Additional information may be requested by Department staff in order to properly evaluate and process the request.

5. Ownership Transfers

All multifamily Development Owners must provide written notice and a completed Ownership Transfer packet to the Department at least 45 calendar days prior to any sale, transfer, or exchange of the Development or any portion of or Controlling interest in the Development

6. Grant Accounting

This area is vital in performing proper accounting for the revenue and expenses related to grants. There is a high volume of transactions, some of which can be complex. This area has not undergone a recent internal audit.

Carry Over Project

No carry over project from FY 2023

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 2024, 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