



## TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

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October 31, 2024

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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 2024

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 2024, 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 2025 will be presented to the Department's governing board for approval at the December 12, 2024 Board meeting. A draft copy of the 2025 audit work plan is included in the attached report. Both the fiscal year 2025 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*

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

NS / MS

cc: Bobby Wilkinson, Executive Director  
Brady Franks, 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 2024**

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**Texas Department of Housing and Community Affairs  
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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 (<https://www.tdhca.texas.gov/internal-audit-division>) 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.capitol.texas.gov](http://www.statutes.capitol.texas.gov)),
  - Texas Government Code 2306.073: Internal Audit ([www.statutes.capitol.texas.gov](http://www.statutes.capitol.texas.gov)),
  - Internal Audit Charter (updated June 2024), and
  - Internal Audit Board Resolutions (amended January 2014),
- Internal Audit Annual Plan for Fiscal Year 2025 (Pending Board approval)<sup>1</sup>,
- Internal Audit Annual Report for Fiscal Year 2024, and
- Internal Audit Reports.

Findings noted while performing the Fiscal Year 2024 audit plan are included in the respective Fiscal Year 2024 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 2024**

<b>Project / Audit Title</b>	<b>Report Number</b>	<b>Completed</b>	<b>Report Date</b>
Ownership Transfers	24-001	Yes	03/12/2024
Program Services	24-002	Yes	02/26/2024
Handling of Amendments	24-003	Yes	5/29/24
Construction Status Reports +			
Compliance Monitoring (Multi-Family)	24-004	Yes	In reporting phase
Internal Audit report on Prior audit Findings and Recommendation	24-005	Yes	In reporting phase
Grant Accounting			See notes below*

*\*This audit was placed on hold to avoid interference with audits performed by SAO and Clifton Larson Allen (CLA)*

## **Texas Department of Housing and Community Affairs Internal Audit Annual Report – Fiscal Year 2024**

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+ *The Internal Audit Division combined the two audits of Handling of Amendments and Construction Status Reports in order to increase efficiency and to avoid audit exhaustion for the auditee.*

### **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. In addition, CliftonLarsonAllen LLP (CLA), is performing audits of the Emergency Rental Assistance and HOME programs.

### **IV. External Quality Assurance Review (Peer Review)**

The Department's Internal Audit Division procured EisnerAmper in FY 2024 to perform peer review of the division. The review was in progress and the report was not issued as of the issuance of this annual report. The previous peer review was performed 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.*

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*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.”*

**V. Internal Audit Plan for Fiscal Year 2025 (Pending Board Approval)**

Activity/Program/Division	Comments
Real Estate Analysis	The specific project objective(s) and scope will be determined by the detailed assessment of relative risks identified during the project planning process.
Single-Family Mortgage Revenue Bond	
HOME/NSP/NHTF Rent Approval	
Travel	
Davis Bacon	
Amy Young Barrier Removal program	
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

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.

## **Texas Department of Housing and Community Affairs Internal Audit Annual Report – Fiscal Year 2024**

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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 2024, 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. TDHCA contracted for an external peer review of internal audit with EisnerAmper. The review is now in progress.

### **VII. Reporting Suspected Fraud, Waste, and Abuse**

The Department's home page ([www.tdhca.texas.gov](http://www.tdhca.texas.gov)) 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.

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.

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<sup>1</sup> The Internal Audit Annual Plan for Fiscal Year 2025 will be posted on Division's internet web page after Board approval on December 12, 2024.



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Anna Maria Farias, *Member*  
Holland Harper, *Member*  
Ajay Thomas, *Member*

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

**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 2024 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 2024 Annual Audit Plan**

We have identified the following projects for inclusion in the 2024 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. 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**

Homeowner Assistance Fund (HAF); CliftonLarsonAllen LLP (CLA) selected to perform audit of Homeowner Assistance Funds program during fiscal Year 2023. OIA paused this audit to avoid any interference with CLA's reviews and audit. After conclusion of CLA's audit of HAF program OIA will evaluate and determine if a further review of the program is necessary.

### **Administrative and Statutory Projects:**

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- 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



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ANNA MARIA FARIAS, MEMBER  
HOLLAND HARPER, MEMBER  
AJAY THOMAS, MEMBER

### Texas Department of Housing and Community Affairs Office of Internal Audit Audit Plan for Fiscal Year 2025

#### Statutory and Professional Standards Requirement

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#### **New Audit Projects:**

##### **1. Real Estate Analysis**

The Real Estate Analysis division provides the TDHCA Governing Board and staff with comprehensive analytical reports necessary to make well informed decisions for funding of affordable housing developments. The Real Estate Analysis division rated high on the risk assessment because of the complexity of its operations, and the division has not undergone any recent audits.

##### **2. Single-Family Mortgage Revenue Bond**

The Bond Finance Division is primarily responsible for administering the Department's Mortgage Revenue Bond (MRB) program. MRB programs provide below-market interest rate funds for single family homebuyers and multifamily mortgage loans made to qualifying recipients. The Bond Finance Division is chiefly responsible for structuring, restructuring, administering and monitoring the Department's Single Family Mortgage Revenue Bonds ("SFMRB") issues. The Single Family Mortgage Revenue Bond rated high on the annual risk assessment because of the complexity of its operations, and lack of any recent internal audit of the division.

### **3. HOME/NSP/NHTF Rent Approval**

Asset Management is responsible for oversight of development performance for all multifamily properties. HOME, HOME-ARP, NHTF, NSP, and TCAP-RF Developments committed funds on or after August 23, 2013 on which construction has been completed are required by 24 CFR §92.252(f), §93.302(c)(2), and 24 CFR §92.219 to submit annual rent approval requests to their Asset Manager by no later than August 1st of each year. Rents will be evaluated and approved based on submission of the Annual Rent Approval Request packet. Rents will be reviewed and approved within 30 days as long as the form and all exhibits have been received. This function has not been audited in recent years, and therefore rated high on the annual risk assessment for FY2025.

### **4. Travel**

State Employees are entitled to reimbursement of certain travel expenses required by the Department to conduct official state business. The amount of reimbursement is subject to certain limitations as prescribed by Chapter 660 of the Texas Government Code, the General Appropriations Act, and rules adopted by the Comptroller. The Department's travel policy is designed to comply with the adopted rules of the Texas Procurement and Support Services Division (TPASS) relating to the State Travel Management Program (STMP).

### **5. Davis Bacon**

Davis-Bacon wage rates apply to HUD-funded projects based on the labor provisions contained in Federal Labor Standards Requirements in Housing and Community Development Programs such as the U.S. Housing Act of 1937, the National Housing Act, the Housing and Community Development Act of 1974, the National Affordable Housing Act of 1990, and the Native American Housing Assistance and Self-Determination Act of 1996. These regulations ensure that mechanics and laborers employed by construction work under federally-assisted contracts are paid wages and benefits equal to those that prevail in the locality where the work is performed.

Davis Bacon covers HUD Community Planning & Development (CPD) programs such as HOME, HOME-ARP, NSP, and Section 811 Project Rental Assistance (PRA).

### **6. Amy Young Barrier Removal**

The Amy Young Barrier Removal (AYBR) Program provides one-time grants of up to \$22,500 for qualified households with Persons with Disabilities who need modifications to increase accessibility and eliminate hazardous conditions in their home. The AYBR Program is funded through the State Housing Trust Fund, a biennial State authorized allocation. TDHCA provides funds to administrators through a reservation system and funds are replenished via NOFAs (Notice Of Funds Availability) on a regular basis. TDHCA contracts with nonprofit organizations and local governments to administer the AYBR Program.

### **Carry Over Project**

**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.

This audit was placed on hold during FY2024 to avoid interference with the audit that was performed by State Auditor's Office (SAO) and Clifton Larson Allen (CLA).

### **Administrative and Statutory Projects:**

- Review of TDHCA compliance with appropriation riders and other requirements of the Government Code
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OIA also coordinates and advises on external audit activities.

Sincerely,

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

MS/NS