



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

www.tdhca.texas.gov

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October 30, 2025

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Email: mark.scott@tdhca.Texas.Gov*

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 2025

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 2025 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 2025, 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 2026 will be presented to the Department's governing board for approval at December 11, 2025, Board meeting. A draft copy of the 2026 audit work plan is included in the attached report. Both the fiscal year 2026 audit work plan and this report will be posted to the Division's internet web page as required by House Bill 16 (after Board's approval of annual audit plan). We appreciate the opportunity to provide this information. If you have any questions about this report, please contact me on (512) 475-3813.

Sincerely,

A handwritten signature in black ink, appearing to read "Mark Scott". The signature is fluid and cursive, with the first name "Mark" and last name "Scott" clearly distinguishable.

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

NS / MS

cc: Bobby Wilkinson, Executive Director
Governor's Office – Budget and Policy
Division
Christopher Mattsson, Legislative Budget Board
Jennifer Jones, Sunset Advisory Commission
State Auditor's office, Internal Audit Coordinator

Texas Department of Housing and Community Affairs
Internal Audit Annual Report – Fiscal Year 2025

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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 (November 2024),
- 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),
 - Texas Government Code 2306.073: Internal Audit (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 2026 (Pending Board approval)ⁱ,
- Internal Audit Annual Report for Fiscal Year 2025, and
- Internal Audit Reports.

Findings noted while performing the Fiscal Year 2025 audit plan are included in the respective Fiscal Year 2025 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 2025

Project / Audit Title	Report Number	Completed	Report Date
Amy Young Barrier Removal Program	25-001	Yes	2/24/25
Davis Bacon Labor Standards	25-002	Yes	8/15/25
HOME-NSP-NHTF Rent Approval function	25-003	Yes	5/16/25
Travel activities at TDHCA	25-004	Yes	5/23/25
Single Family Mortgage Revenue Bond	25-005	Yes	8/28/25
Real Estate Analysis	25-006	No	In Reporting phase
Internal Audit report on Prior audit Findings and Recommendation	25-007	Yes	9/30/25
Grant Accounting*		No	

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**This audit was carried over from FY2024, and was determined that the risks were covered by the audit performed by Clifton Larson Allen (CLA)*

III. Consulting Services and Other Activities

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 Low-Income Home Energy Assistance Program (LIHEAP).

IV. External Audit Services

In Fiscal Year 2025, 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.

V. External Quality Assurance Review (Peer Review)

The Department's Internal Audit Division received its most recent peer review in Fiscal Year 2025. The peer review was started in August 2024 and completed in November 2024. 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 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.

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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".

VI. Internal Audit Plan for Fiscal Year 2026 (Pending Board Approval)

Activity/Program/Division	Comments
State Housing Tax Credit	The specific project objective(s) and scope will be determined by the detailed assessment of relative risks identified during the project planning process.
Tax Liens Management, Manufactured Housing division	
Housing Resource Center	
My First Texas Home	
Record Retention	
10% Test – Asset Management division (HTC)	
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 stakeholders. 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

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The budgeted hours for all projects are based on two staff auditors and the Director of Internal Audit.

VII. Reporting Suspected Fraud, Waste, and Abuse

The Department's home page (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 they 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.

ⁱ The Internal Audit Annual Plan for Fiscal Year 2026 will be posted on Division's internet web page after Board approval on December 11, 2025.



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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

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 2025 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 2025 Annual Audit Plan

We have identified the following projects for inclusion in the 2025 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. 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 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 any interference with the audit that was performed by State Auditor's Office (SAO)

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 2025, 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,

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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 2026

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- Consulting with the State Auditor's Office and other oversight bodies.
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Projects for Fiscal Year 2026 Annual Audit Plan

We have identified the following projects for inclusion in the 2026 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. State Housing Tax Credit

In 2023 the state of Texas joined the ranks of nearly 30 other states in establishing its own state low-income housing tax credit program (Texas LIHTC Program). Texas H.B. 1058 was enacted on June 13, 2023, and allowed the TDHCA to issue state low-income housing development tax credits (Texas LIHTCs) beginning January 1, 2024. These Texas LIHTCs can be used to offset franchise taxes and insurance premium taxes on and after January 1, 2026, for companies with an ownership stake in certain affordable housing developments in Texas. This unit rated high on our annual risk assessment due to lack of any prior internal audit of the program.

2. Tax Liens Management

A tax lien is attached to a property to secure the payment of all taxes, penalties, and interest ultimately imposed for the year on the property, whether the taxes are imposed in the year the lien attaches. The lien exists in favor of each taxing unit having power to tax the property. Tax Code section 32.03 requires that all tax liens against manufactured homes be recorded with the Texas Department of Housing and Community Affairs. A person may not transfer ownership of a manufactured home until all tax liens

perfected on the home that have been timely filed with the Texas Department of Housing and Community Affairs have been extinguished or satisfied and released.

Tax Liens Management is under Manufactured Housing division and is administratively attached to TDHCA. This unit rated high on our annual risk assessment and was selected for audit due to lack of any prior internal audit of this function.

3. Housing Resource Center

The Housing Resource Center provides educational materials and technical assistance to the public, community-based housing development organizations, nonprofit housing developers, and other state and federal agencies. This assistance helps providers determine local housing needs, access appropriate housing programs, and identify available funding sources needed to increase the stock of affordable housing. Other responsibilities of the Housing Resource Center include offering assistance to the general public in locating the appropriate service providers in their community, in addition to being responsible for plans and reports that TDHCA is required to submit to receive funding from both the state and federal government.

The HRC is also responsible for preparation and posting of the Board and Committee's book materials prior to each Board meeting. These are high-profile activities and rated high on annual risk assessment due to changes in HRC management.

4. My First Texas Home

My First Texas Home is part of the Texas Homebuyer Program at TDHCA, and offers 30-year, fixed interest rate mortgage loan program for qualifying first time homebuyers, residing in Texas, and earning income limits up to 115% of area median family income (AMFI). The My First Texas Home is available statewide and the AMFI is based on the county the home is purchased in. The program is designed for first time homebuyers or homebuyers who have not owned a home as their primary residence within the past three years.

Texas Homebuyer Program was audited in 2022, but due the importance of My First Texas Home program in assisting qualified Texan families in becoming homeowners this unit was selected for more in-debt audit during FY2026.

5. Record Retention

Tex. Gov't Code mandates that the head of the agency establish and maintain a records management program on a continuing and active basis. It also mandates that all agencies create and maintain records containing adequate and proper documentation of the organization, functions, policies, decisions, procedures, and essential transactions of the agency. Agency records serve to furnish information to protect the financial and legal rights of the state, as well as those of any person affected by the activities of the agency. This unit rated high on the annual risk assessment and was selected for audit in FY 2026 due to lack of recent audits.

6. 10% Test – Asset Management (HTC)

The Asset Management Division is responsible for monitoring and processing all post-award activities for developments involving Housing Tax Credits, HOME funds, National and State Housing Trust Funds, and Neighborhood Stabilization Program (NSP) funds. As published in the QAP for the applicable award year, but generally no later than July 1 of the year following the submission of the Carryover Allocation Document, or by the applicable extended deadline, more than 10% of the Development Owner's reasonably expected basis must have been incurred pursuant to Section 42(h)(1)(E)(i) and (ii) of the Code¹, and Treasury Regulations, 1.42-6. This unit rated high on our annual risk assessment and was selected for audit due to its importance in ensuring compliance with applicable rules, as well as lack of recent audit of this activity.

Carry Over Project

No Carry over audits from FY 2025

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 ongoing consultation on Single Audits and Subrecipient Monitoring for the agency. For fiscal year 2026, OIA is providing consulting services related to the 2 CFR 200. OIA also coordinates and advises on external audit activities.

Sincerely,

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

MS/NS

¹ As amended by The Housing and Economic Recovery Act of 2008