



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

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Texas Department of Housing and Community Affairs Office of Internal Audit Audit Plan for Fiscal Year 2018

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 2018 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.

Projects for Fiscal Year 2018 Annual Audit Plan

We have identified the following projects for inclusion in the 2018 Annual Audit Plan. 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. HOME (Fund Tracking)

The HOME Investment Partnerships Program (HOME Program or HOME) is funded by the U.S. Department of Housing and Urban Development (HUD). HOME formula grants are used to fund a wide range of activities including building, buying, and/or rehabilitation of affordable housing for rent or homeownership. HOME also provides direct rental assistance to low-income-people. It is the largest Federal block grant to state and local governments designed exclusively to create affordable housing for low-income households.

The fund tracking component of the HOME program rated high on the risk assessment because of staff turnover and a change in the way HUD is requiring tracking/handling of program income, expenditures, etc.

2. Neighborhood Stabilization Program (Close-out procedures)

The Neighborhood Stabilization Program (NSP) is funded by the U.S. Department of Housing and Urban Development (HUD) for the purpose of stabilizing communities that have suffered from foreclosures and abandonment. The program provides funds to purchase foreclosed, vacant or abandoned homes and residential properties, in order to rehabilitate, resell, or redevelop them.

The NSP rated high on the risk assessment due to its level of complexity of transactions and processes. Also, close-outs on many NSP contract files are beginning.

3. Loan Servicing Section of the Single Family Operations and Services Division

Loan Servicing is responsible for the set up and maintenance of loan records received in connection with a new loan; the day to day servicing functions such as customer service to borrowers and/or authorized representatives of the borrower, providing payoff statements upon request, processing subordination agreement requests, processing payment of various property insurance renewals; perform collection and workout activities for the in-house serviced single family loan portfolio; and annually, process payments for property taxes, completing the escrow analysis process, and the year end process. The section also works in cooperation with other divisions in processing releases of lien for loan payoff funds received by Financial Administration and posting of loan disbursements approved by program and Financial Administration.

The Loan Servicing Section rated high on the risk assessment and was selected for audit due to the complexity of transactions for various loan programs and various grant requirements.



4. Emergency Solutions Grant Program

The Emergency Solutions Grant (ESG) Program is funded by the U.S. Department of Housing and Urban Development (HUD). The program activities include: prevention of homelessness; assistance to homeless through street outreach; emergency homeless shelter improvements, operation help, and provision of essential services; and rapid re-housing.

The ESG program rated high on the risk assessment due to the turnover of half the staff, and new management.

Carry Over Project:

Bond Finance

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 unit rated high on the risk assessment due to its level of complexity of transactions and processes. Additionally, the Bond Finance unit has not been audited within the last three years.

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
- Completion of Peer Review

Consulting Projects and External Audit Coordination

Pursuant to the TDHCA internal audit charter, the OIA performs consulting activities for the agency. For fiscal year 2018, OIA is providing consulting services related to the new Grant Guidance in 2 CFR 200, as well as subrecipient monitoring.

OIA also coordinates and advises on external audit activities.

Sincerely,



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

MS/BE

