



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

www.tdhca.state.tx.us

Greg Abbott
GOVERNOR

BOARD MEMBERS
Leo Vasquez, Chair
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Paul A. Braden, Member
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October 30, 2020

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 2020

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 2020 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 2020, 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 2021 will be presented to the Department's governing board for approval at the December 10, 2020 Board meeting. A draft copy of the 2021 audit work plan is included in the attached report. Both the fiscal year 2021 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



RE: ANNUAL INTERNAL AUDIT REPORT FOR FISCAL YEAR 2020

October 30, 2020

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



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**Texas Department of Housing and Community Affairs
Internal Audit Annual Report – Fiscal Year 2020**

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**Texas Department of Housing and Community Affairs
Internal Audit Annual Report – Fiscal Year 2020**

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 2021 (Pending Board approval)¹,
- Internal Audit Annual Report for Fiscal Year 2020, and
- Internal Audit Reports.

Findings noted while performing the Fiscal Year 2020 audit plan are included in the respective Fiscal Year 2020 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 2020

Project / Audit Title	Report Number	Completed	Report Date
Multifamily Revenue Bond (Carry over from FY 2019)	20-001	Yes	March 13, 2020
TDHCA Continuity of Operations Plan (COOP)	20-002	No	In Reporting Phase
Purchasing function at TDHCA	20-003	Yes	May 29, 2020
Section 811 Project Rental Assistance Program	20-004	Yes	June 01, 2020
Physical Inspection Section of TDHCA Compliance Division	20-005	Yes	August 14, 2020
Section 8 Program	20-006	Yes	August 20, 2020

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Follow up Audit of prior audit findings and recommendations	20-007	Yes	October 30, 2020
Annual Self-Assessment	20-008	No	In Fieldwork phase

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 and monitoring reviews 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), performed audits of Low Income Housing Energy Assistance Program (LIHEAP) and Community Services Block Grant (CSBG).

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 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.

**Texas Department of Housing and Community Affairs
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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 2021 (Pending Board Approval)

Activity/Program/Division	Comments
Housing Resource Center (HRC)	The specific project objective(s) and scope will be determined by the detailed assessment of relative risks identified during the project planning process.
Tenant Selection / Affirmative Marketing Plan	
Multifamily Direct Loan / Loan Document Preparation and Routing	
Management of Non-performing loans	
Ending Homelessness and Homeless Housing and Services Program (HHSP)	
Physical Inspection	Physical Inspection section of Compliance Monitoring Division was selected for Audit during FY20, and the report was issued on August 14, 2020. However, due to limitation imposed by COVID19 pandemic, this unit will be reviewed more comprehensively during FY21.
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.
Prior Audit Issues Tracking, Follow Up and Disposition	Required by the Audit Standards
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.

Texas Department of Housing and Community Affairs Internal Audit Annual Report – Fiscal Year 2020

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. There are no internal audit projects specifically focused on Senate Bill 20 Provisions. However, the Audit of *Physical Inspection* may include review of large contracts in its scope.

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 2020, 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.

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.

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.

**Texas Department of Housing and Community Affairs
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ⁱ The Internal Audit Annual Plan for Fiscal Year 2021 will be posted on Division's internet web page after Board approval on December 10, 2020.



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Texas Department of Housing and Community Affairs Office of Internal Audit Audit Plan for Fiscal Year 2021

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 2021 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 2021 Annual Audit Plan

We have identified the following projects for inclusion in the 2021 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. Housing Resource Center (HRC)

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 has recently become 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 lack of recent audits. The Complaint Resolution section of HRC was audited by OIA in FY2019 and will not be reviewed during this audit.

2. Tenant Selection / Affirmative Marketing Plan (FHDMR)

The Affirmative Marketing Plan refers to requiring a Development Owner with five or more total Units to affirmatively market the Units to promote equal housing choice for prospective tenants, regardless of race, color, religion, sex, national origin, familial status, or disability. They must develop and carry out an Affirmative Fair Housing Marketing Plan (or Affirmative Marketing Plan) to provide for marketing strategies and documentation of outreach efforts to prospective applicants identified as



"least likely to apply." Tenant selection is a process that is relevant to several TDHCA areas; and is subject to public scrutiny for prevention of bias, "adverse selection", etc.

These functions rated high on the annual risk assessment due to management interest and recent changes in both functions. There is also legislative interest in the topic, which makes it high risk according to the methodology used in selecting auditable units for audit.

3. Multi Family Direct Loan / Loan Document Preparation and Routing

The Department's housing programs assist homeowners, buyers, and developers with deferred, forgivable, or repayable loans. The Program Services division processes Single-Family loans. Program Services personnel ensure compliance with all applicable regulations when collecting, receiving, verifying, and filing documents on behalf of those requesting housing assistance; and expeditiously prepare loan packages evaluated by the Department's lawyers. Program Services specialists also coordinate loan closing procedures with title companies.

The Multifamily Direct Loan Program provides funding to nonprofit and for-profit entities for the new construction or rehabilitation of affordable multifamily rental developments. Funding is typically provided in the form of low interest rate, repayable construction-to-permanent loans.

These two functions rated high on the annual risk assessment due to lack of recent audits and complexity of transactions, in addition to interest expressed by both the program area and the legal division for internal audit to review the flow of documentation process.

4. Management of Non-performing Loans

Non-performing loans include those loans that are in default and those for which payments are delinquent. The management of those loans includes workouts of delinquent loans, and the operational and accounting procedures related to defaults.

The audit will include evaluation of Single and Multifamily loans. Based on the project risk assessment for this audit, internal audit will determine what specific areas/risks to test.

5. Ending Homelessness and Homeless Housing and Services Program (HHSP)

The HOME and Homelessness Programs Division awards funds to assist units of general local governments, public housing authorities, nonprofits, and local agencies in the provision of assistance to low-income Texans with a focus on housing and housing-related assistance and services. The Ending Homelessness program is a statewide program to benefit person experiencing or those at risk of homelessness, and has its own designated fund. The audit will include evaluation of any available best practices and compliance guideline related to administration of the program.

Ending Homelessness rated high on the annual risk assessment due to legislative interest, as well as the economic effects of current pandemic on low income individuals.

6. Physical Inspection

The Physical Inspection section of Compliance division performs and administers inspections for developments monitored by the Department throughout the compliance period. The section ensures developments are habitable, well maintained, and ready for occupancy, follow appropriate accessibility standards, and comply with applicable program rules and regulations. The section also administers inspections performed by the Department's contracted inspection firms. As of SB20 the contract will be reviewed as part of this audit.

The Physical Inspection section of Compliance Monitoring Division was selected for Audit during FY20, and a report was issued on August 14, 2020. However, due to a scope limitation imposed by COVID19 pandemic, this unit will be reviewed more comprehensively during FY21.

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 2021, 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

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Internal Audit Director

MS/NS