



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 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

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