



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

www.tdhca.state.tx.us

Greg Abbott
GOVERNOR

BOARD MEMBERS

J.B. Goodwin, *Chair*
Leslie Bingham-Escareño, *Vice Chair*
Paul A. Braden, Member
Asusena Reséndiz, Member
Sharon Thomason, Member
Leo Vasquez, Member

October 31, 2017

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 2017

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 2017 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 2017, 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 2018 was approved by the Department's governing board at the September 7, 2017 board meeting. A copy of the 2018 audit work plan is included in the attached report. Both the fiscal year 2018 audit work plan and this report will be posted to the Division's internet web page as required by House Bill 16. We appreciate the opportunity to provide this information. If you have any questions about this report, please contact me at (512) 475-3813.

Sincerely,

A handwritten signature in black ink that reads "Mark Scott".

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



RE: ANNUAL INTERNAL AUDIT REPORT FOR FISCAL YEAR 2017

October 31, 2017

Page 2

mbs/ns

cc: Timothy K. Irvine, Executive Director
Kara Belew, Governor's Office of Budget, Planning and Policy
Ed Osner, Legislative Budget Board
Ken Levine, Sunset Advisory Commission

Texas Department of Housing and Community Affairs
Internal Audit Annual Report – Fiscal Year 2017

Table of Contents

- 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
- II. Internal Audit Plan for Fiscal Year 2017
- III. Consulting Services and Nonaudit Services Completed
- IV. External Quality Assurance Review (Peer Review)
- V. Internal Audit Plan for Fiscal Year 2018
- VI. External Audit Services Procured in Fiscal Year 2017
- VII. Reporting Suspected Fraud, Waste, and Abuse

**Texas Department of Housing and Community Affairs
Internal Audit Annual Report – Fiscal Year 2017**

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, statues 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 January 2017), and
 - Internal Audit Board Resolutions (amended January 2014),
- Internal Audit Annual Plan for Fiscal Year 2018 (approved September 2017),
- Internal Audit Annual Report for Fiscal Year 2017, and
- Internal Audit Reports.

Findings noted while performing the Fiscal Year 2017 audit plan are included in the respective Fiscal Year 2017 audit reports. The actions taken by the agency to address the noted concerns are included in those reports.

II. Internal Audit Plan for Fiscal Year 2017

Project / Audit Title	Report Number	Completed	Report Date
Low Income Housing Tax Credit Program (Carryover from FY 2016)	17-004	Yes	June 05, 2017
Information Services	17-001	Yes	August 24, 2017
Contract for Deed Conversion (in reporting phase)	17-003	Yes	November, 2017
Internal Audit Self Assessment	17-005	Yes	January 26, 2017
Bond Finance	Carried over to FY 18		

Texas Department of Housing and Community Affairs
Internal Audit Annual Report – Fiscal Year 2017

III. Consulting Engagements and Non-audit Services Completed

Consulting Projects

The internal audit charter was updated in January 2017. Among other items, the updated charter included information on the role of internal audit in consulting activities, and its role in the coordination of external audit activities, which is a type of consulting activity.

Consulting Project Related to Subrecipient Monitoring

This project has included weekly 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 once or twice per week 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 audit was the audit by KPMG of the LIHEAP program done in conjunction with the SAO audit of the TDHCA financial statements.

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. 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.

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."

**Texas Department of Housing and Community Affairs
Internal Audit Annual Report – Fiscal Year 2017**

V. Internal Audit Plan for Fiscal Year 2018

Activity/Program/Division	Comments
HOME (Fund Tracking)	
Neighborhood Stabilization Program (close-out procedures)	
Loan Servicing Section of the Single Family Operations and Services Division	The specific project objective(s) and scope will be determined by the detailed assessment of relative risks identified during the project planning process.
Emergency Solutions Grant Program	
Management Requests or Special Projects	As requested
Duties related to Fraud, Waste, and Abuse allegations	The contract with NetClaims expired; other alternatives are under consideration
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

¹ 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 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. There were no internal audit projects specifically focused on Senate Bill 20 provisions. However, a large contract may be included in the scope of an audit or management request.

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 2017, 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, and Peer Review of Internal Audit function.

Texas Department of Housing and Community Affairs
Internal Audit Annual Report – Fiscal Year 2017

VII. Reporting Suspected Fraud and Abuse

The Department's home page (www.tdhca.state.tx.us) has an active link to the email form of 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 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.