



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 2026

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 2026 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 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

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