

Texas Department of Housing and Community Affairs



Board Book

Thursday, December 11, 2025

9:30 AM

**Dewitt C. Greer State Highway Building
125 E. 11th Street
Williamson Board Room
Austin, TX 78701**

Audit & Finance Committee

*Ajay Thomas, Chair
Leo Vasquez III, Member
Anna Maria Farias, Member
Cindy Conroy, Member*

CALL TO ORDER**ROLL CALL****CERTIFICATION OF QUORUM**

The Audit and Finance Committee of the Governing Board of the Texas Department of Housing and Community Affairs (TDHCA) will meet to consider and may act on any of the following:

ACTION ITEMS:

- | | | |
|----|--|-----------------------------|
| 1. | Presentation, discussion, and possible action to approve Audit and Finance Committee Meeting Minutes Summary for September 4, 2025 | Ajay Thomas
Board Member |
| 2. | Presentation, discussion, and possible action to approve Fiscal Year 2026 Internal Audit Annual Plan | Mark Scott |

REPORT ITEMS:

- | | | |
|----|---|------------|
| 3. | Presentation and discussion of Internal Audit Report of the Real Estate Analysis division, Report # 25-006 | Mark Scott |
| 4. | Presentation and discussion of Internal Audit Report on the Implementation Status of Prior Audit Findings and Recommendations, Report# 25-007 | Mark Scott |
| 5. | Presentation and discussion of the Internal Audit Annual Report - FY 2025 | Mark Scott |
| 6. | Report on the status of the Internal Audit and External Audit activities | Mark Scott |

PUBLIC COMMENT ON MATTERS OTHER THAN ITEMS FOR WHICH THERE WERE POSTED

EXECUTIVE SESSION

The Committee may go into Executive Session (close its meeting to the public) on any agenda item if appropriate and authorized by the Open Meetings Act, Tex. Gov't Code, Chapter 551. Pursuant to Tex. Gov't Code, §551.074 the Audit Committee may go into Executive Session for the purposes of discussing personnel matters including to deliberate the appointment, employment, evaluation, reassignment, duties, discipline, or dismissal of a public officer or employee.

Pursuant to Tex. Gov't Code, §551.071(1) the Committee may go into executive session to seek the advice of its attorney about pending or contemplated litigation or a settlement offer.

Pursuant to Tex. Gov't Code, §551.071(2) the Committee may go into executive session for the purpose of seeking the advice of its attorney about a matter in which the duty of the attorney to the governmental body under the Texas Disciplinary Rules of Professional Conduct of the State Bar of Texas clearly conflicts with Tex. Gov't Code, Chapter 551.

Pursuant to Tex. Gov't Code, §2306.039(c) the Committee may go into executive session to receive reports from the Department's internal auditor, fraud prevention coordinator, or ethics advisor regarding issues related to fraud, waste, or abuse.

OPEN SESSION

If there is an Executive Session, the Committee will reconvene in Open Session and may take action on any items taken up in Executive Session. Except as specifically authorized by applicable law, the Audit Committee may not take any actions in Executive Session.

ADJOURN

To access this agenda and details on each agenda item in the board book, please visit our website at www.tdhca.texas.gov or contact Michael Lyttle, 512-475-4542, TDHCA, 221 East 11th Street, Austin, Texas 78701, and request the information. If you would like to follow actions taken by the Governing Board during this meeting, please follow TDHCA account (@tdhca) on X (Twitter).

Individuals who require auxiliary aids, services or sign language interpreters for this meeting should contact Nancy Dennis, at 512-475-3959 or Relay Texas at 1-800-735-2989, at least five days before the meeting so that appropriate arrangements can be made. Non-English speaking individuals who require interpreters for this meeting should contact Danielle Leath, 512-475-4606, at least five days before the meeting so that appropriate arrangements can be made.

Personas que hablan español y requieren un intérprete, favor de llamar a Danielle Leath, al siguiente número 512-475-4606 por lo menos cinco días antes de la junta para hacer los preparativos apropiados.



Texas Department of Housing and Community Affairs

Audit & Finance Committee

Board Action Request

File #: 1232

Agenda Date: 12/11/2025

Agenda #: 1.

Presentation, discussion, and possible action to approve Audit and Finance Committee Meeting Minutes Summary for September 4, 2025

RECOMMENDED ACTION

RESOLVED, the Audit and Finance Committee Meeting Minutes Summary for September 4, 2025, are hereby approved as presented.

**MINUTES OF THE AUDIT AND FINANCE COMMITTEE MEETING
OF THE GOVERNING BOARD OF THE
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS**

On Thursday, September 4, 2025, at 9:30 a.m. the meeting of the Audit and Finance Committee (the "Committee") of the Governing Board (the "Board") of the Texas Department of Housing and Community Affairs ("TDHCA" or the "Department") was held in the University of Texas at Austin's Thompson Conference Center, Room 1.110, 2405 Robert Dedman Drive, Austin Texas. Mr. Ajay Thomas, the Chair of the Audit and Finance Committee, presided over the meeting, and Mr. Mark Scott, Director of Internal Audit Division, served as the secretary. Committee members, Mr. Leo Vasquez Ms. Anna Maria Farias, and Ms. Cindy Conroy were present and represented a quorum for the Committee meeting.

Mr. Thomas started the meeting by taking roll and welcoming everyone to the meeting. He said on today's agenda we have an action item and three report items. The only action item on the agenda was the approval of the minutes from the June 12th, 2025 meeting of the Audit and Finance Committee. The minutes were adopted as presented and were approved. Mr. Thomas then moved to the first report item on the agenda; Presentation and discussion of the internal audit report of the Davis Bacon Labor Standards Act, which was presented by Mr. Scott.

Mr. Scott said that the Davis-Bacon Labor Standards Act was identified and included in the annual internal audit plan for 2025 and rated high on the risk assessment matrix due to its importance in ensuring wage equity on federally funded projects, as well as lack of any recent internal audits. This audit scope included reviews of the applicable sections of 29 CFR (Code of Federal Regulations), previous audit performed by HUD, the Single Audit performed by CLA, and review of documents and information provided by staff and information available on the TDHCA website. Based on the information we gathered, we performed analysis of the internal controls related to this function and identified areas of potential gaps. We also followed up on the previous recommendations from HUD to ensure that action plans were implemented and effective. We determined that further actions are required by the program to address the findings and recommendations, such as maintaining records of the contractors' eligibility for future reviews. Overall, the monitoring of the Davis-Bacon Standards Act appears to be operating effectively at TDHCA in ensuring compliance with related rules and regulations. We identified some areas for potential improvement to efficiency and monitoring, as well as providing higher assurance on compliance with the Davis-Bacon Standards. The details of our recommendations are included in the report. I'll be happy to answer any questions on that.

Mr. Vasquez asked a clarifying question regarding the process of the periodic reports and reviews. Neda Sanjar, Internal audit project manager, said that the review is an ongoing process for the program starting from the application process and throughout the project. With no further questions Mr. Thomas moved to the next report item on the agenda; Presentation and

discussion of the internal audit report on TDHCA's Single Family Mortgage Revenue Bond program, and it was presented by Mr. Scott.

Mr. Scott said that the Single-Family Mortgage Revenue Bond Program was included in the internal audit plan for fiscal year 2025 due to its complexity of operation, number of external parties involved in the operation, and lack of any recent internal audit. The program uses bond fund proceeds to fund below-market rate mortgage loans. The Department uses a network of participating lenders to issue mortgage loans using program funds to qualified buyers. After an approved borrower closes a mortgage with the originating lender, the Department's master servicer purchases the mortgage loan. The master servicer pulls the program loans and converts them to mortgage-backed securities that are guaranteed by Ginnie Mae, the Government National Mortgage Association. The Bond Finance Program assists families and individuals with low-to-moderate incomes to obtain homeownership. The Single-Family Revenue Bond Program provides below-market interest rate mortgage loans for qualified single-family home buyers.

The scope for this audit included a review of applicable Texas Administrative Code Title 10, Section 2.401, the Department's annual interest rate risk management policy, TDHCA investment policy for fiscal year 2025, applicable SOPs, and evaluating internal controls within the Single-Family Mortgage Revenue Bond Program. We also reviewed the roles and responsibilities of each vendor as it relates to the operation of the Single-Family Mortgage Revenue Bond Program for potential gaps in coverage and controls, and evaluated the internal controls currently in place within the program to ensure segregation of duties and proper internal controls.

Based on our review and analysis, the Single-Family Mortgage Bond Revenue Program is operating effectively at TDHCA and providing below-market interest rate loans to eligible Texans. We identified some areas for improvement to management of the contracts and agreements between TDHCA and its vendors. The details of the recommendations are included in the report.

Mr. Thomas asked if the audit included detailed review of different accounts in the Bond Finance Division to make sure that the integrity of those bond proceeds was in the right accounts. Mr. Scott said that detailed testing and reviews are performed by State Auditor's Office (SAO) within the annual Financial Statements audit. With no other questions Mr. Thomas moved to the last report item on the agenda; Report on the status of the internal and external audit activities. Mr. Scott presented this report as well.

Mr. Scott said that OIA has completed audits of the Single-Family Mortgage Revenue Bond and the Davis-Bacon Labor Standard Act, and started audit of the Real Estate Analysis division. With completion of this audit the Fiscal Year 2025 Audit Plan will be concluded. OIA is also conducting the annual risk assessment and requesting input from management and oversight bodies for preparation of the fiscal year 2026 internal audit plan.

On the external audits, the SAO has started their audit of the TDHCA Financial Statements, and this will be the last year that SAO is going to do the financial statement audit. In subsequent

years, this audit will have to be procured with a new external auditor. In late fiscal year 2026, the SAO is going to conduct an “efficiency audit” of TDHCA. This is pursuant to House Bill 12 and will be done in preparation for the TDHCA Sunset Review, which is scheduled for the 2026/2027 cycle. During the sunset process, the agency will prepare self-evaluation reports, SERs, and those are a critical part of the review process.

The Federal Treasury Department, OIG, is still working on their audit of the Texas Rental Relief (TRR) program. The program is going to hire a statistician to review the OIG's work. The statistician may review technical aspects such as whether the samples were accurately representative and whether they were drawn from a universe that had a normal distribution. The current timeline includes a discussion draft expected in December of 2025, though this may shift based on prior delays in the auditor estimates. That concluded Mr. Scott's presentation, and he offered to answer any questions there may be. Mr. Thomas confirmed that going forward TDHCA will have to procure an external auditor to perform audit of the financial statements.

With no further questions or comments Mr. Thomas thanked Mr. Scott for his presentation, and the meeting was formally adjourned at 9:44am.



Texas Department of Housing and Community Affairs

Audit & Finance Committee

Board Action Request

File #: 1233

Agenda Date: 12/11/2025

Agenda #: 2.

Presentation, discussion, and possible action to approve Fiscal Year 2026 Internal Audit Annual Plan

RECOMMENDED ACTION

WHEREAS, the Tex. Gov't Code §2306.073(b), the Internal Auditing Act and audit standards require the Department's Governing Board to approve an annual audit work plan that outlines the internal audit projects planned for the fiscal year; and

WHEREAS, Staff has presented a Fiscal Year 2026 Internal Audit Work Plan that is acceptable to the Audit and Finance Committee; and

NOW, therefore, it is hereby

RESOLVED, the Audit and Finance Committee of the Board recommends approval of the Internal Audit Work Plan for Fiscal Year 2026 by the Governing Board as presented.

BACKGROUND

The annual internal audit work plan is required by the Tex. Gov't Code §2306.073(b), the Texas Internal Auditing Act (Tex. Gov't Code Chapter 2102) and by the International Standards for the Professional Practice of Internal Auditing (Standards). The plan is prepared by the internal auditor based on an agency-wide risk assessment as well as input from the Department's Governing Board and executive management. The plan identifies the individual audits to be conducted during Fiscal Year 2026. The plan also outlines other planned activities that will be performed by the Internal Audit Division.



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

www.TDHCA.Texas.Gov

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GOVERNOR

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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

MS/NS

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



Texas Department of Housing and Community Affairs

Audit & Finance Committee

Board Action Request

File #: 1234

Agenda Date: 12/11/2025

Agenda #: 3.

Presentation and discussion of Internal Audit Report of the Real Estate Analysis division, Report # 25-006

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
Internal Audit of the Real Estate Analysis division

Audit Report # 25-006

Executive Summary

The Office of Internal Audit (OIA) performed an audit of the Real Estate Analysis division to examine and assess the Department's underwriting process, and to determine if the underwriting is performed according to applicable rules and completed in timely manner.

Based on our review and analysis, the Real Estate Analysis division is operating effectively at TDHCA in providing necessary analytical reports to management and the TDHCA Governing Board to make well informed decisions for funding affordable housing developments in Texas. OIA concludes that the underwriting process is generally performed accurately and according to applicable rules. We identified some areas for improvement. Management agreed to our recommendations and the details are included in the report.

Observations and Recommendations

- OIA recommends that management establish a uniform and consistent review and documentation process for Team managers to avoid risk of overlooking errors in underwriting reports.
- OIA recommends that management consider either amending QAP to remove the requirements, or to update their process to include them in the decision process.

Objective, Scope, and Methodology

Our scope for this audit included a review of the applicable Texas Administrative Code (Title 10, Chapter 11, Subchapter D), Texas Government Codes (§2306.148 and §2306.185(b), applicable Qualified Allocation Plan (QAP), as well as review of underwriting reports and underlying analysis performed by REA staff.



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

12/2/25
Date Signed



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

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Ajay Thomas, Member

December 2, 2025

Writer's direct phone # 512.475.3813
Email: mark.scott@tdhca.texas.gov

Board Members of the Texas Department of Housing and Community Affairs ("TDHCA")

RE: Internal Audit of the Real Estate Analysis (REA) division

Dear Board Members:

This report presents the results of the Office of Internal Audit ("OIA") review of the "*Real Estate Analysis division*", its processes and procedures, and internal controls at TDHCA. This audit was conducted in accordance with applicable audit standards and included objectives to review, assess, and evaluate activities and internal controls related to the operation and administration of Real Estate Analysis division, and its compliance with applicable rules and regulations.

The Real Estate Analysis division was included in the internal audit plan for FY 2025 due to its complexity of operations, and lack of any recent internal audit of the division. For this audit we reviewed applicable Texas Administrative Codes, Texas Government Codes, Qualified Action Plan (QAP), and any other applicable rules and regulations. Additionally, we conducted interviews with some of the division staff.

This report is divided into the following sections:

- A. Overall Result
- B. Background
- C. Scope and Methodology
- D. The Underwriting process
- E. Reviews and Recommendations

A. Overall Results

Based on our review and analysis, the Real Estate Analysis division is operating effectively at TDHCA in providing necessary analytical reports to management and the TDHCA Governing Board to make well informed decisions for funding affordable housing developments in Texas. OIA concludes that the underwriting process is generally performed accurately and according to applicable rules. We identified some areas for improvement. The details of our recommendations are included in the later section of the report.

B. Background

The Real Estate Analysis division provides the TDHCA Governing Board and staff with comprehensive analytical reports necessary to make well informed decisions for funding of affordable housing developments. The Division is responsible for analyzing feasibility of proposed multifamily housing activities and preparing a credit underwriting analysis report that will be used by the TDHCA Governing Board in decision making with the goal of assisting as many Texans as possible by providing no more financing than necessary based on an independent analysis of the development's feasibility.

The Real Estate Analysis rules are codified in Texas Administrative Code Title 10, Chapter 11, Subchapter D, §§11.301 – 11.306, Underwriting and Loan Policy as part of the global Qualified Action Plan (QAP).

"Pursuant to Tex. Gov't Code §2306.148 and §2306.185(b), the Board is authorized to adopt underwriting standards as set forth in this section. Furthermore, for Housing Credit Allocation, Code §42(m)(2), requires the tax credits allocated to a Development not to exceed the amount necessary to assure feasibility. Additionally, 24 CFR Parts 92 and 93, as further described in CPD Notices 15-11 and 21-10 require the Department to adopt rules and standards to determine the appropriate Multifamily Direct Loan feasibility".

C. Scope and Methodology

Our scope for this audit included a review of the applicable Texas Administrative Code (Title 10, Chapter 11, Subchapter D), Texas Government Codes (§2306.148 and §2306.185(b), applicable

Qualified Allocation Plan (QAP), as well as review of underwriting reports and underlying analysis performed by REA staff. The objectives for this audit were to examine and assess the Department's underwriting process, and to determine if the underwriting is performed according to applicable rules and completed in timely manner.

D. The Underwriting Process

Application for allocations of Low-Income Housing Tax Credits (LIHTC), or multifamily funding awards, are submitted to the department for consideration. The applications submitted for review and evaluation may include request for Competitive 9% LIHTC, 4% LIHTC, Multifamily HOME only funding, or Combination of competitive Tax Credit Allocation and HOME funding. The applications are reviewed by their respective multifamily program area, and only the highest scoring LIHTC applications are forwarded to REA for their review.

REA division is notified by the respective program area when an application is ready for their review and evaluation. Division management assigns the application to a real estate analyst for review. The analyst performs a comprehensive review that includes evaluation of the affordable housing activity using the established guidelines published in the Department's rules, qualified allocation plan (QAP), or the applicable HOME rules and regulations. Some of the factors evaluated by the real estate analyst include:

- Operating feasibility
- Net Operating Income
- Debt Coverage Ratio
- Income (ex; rent)
- Expenses (ex; general administrative expense, management fees,...etc.)
- Environmental site assessment

After the real estate analyst conducts their review and evaluation of the application, it is submitted to the REA management for their review. Once the management review is complete, the underwriting report is posted to the department's website. The report¹ provides an outline and reconciliation of the application information submitted by the applicant. The report content will be based upon information that is provided in accordance with 10 TAC chapters 11, 12, or 13, or in a Notice of Funds Availability (NOFA), as applicable. The posted report includes the recommended award of funds or housing credit allocation amount.

¹ 10 TAC, § Rule 11.1: Underwriting Report-Sometimes referred to as the Report. A decision-making tool prepared by the Department's Real Estate Analysis Division that contains a synopsis of the proposed Development and that reconciles the Application information, including its Page 29 of 217 financials and market analysis, with the underwriter's analysis. The Report allows the Department and Board to determine whether the Development will be financially feasible as required by Code §42(m), or other federal or state regulations.

For all applications the Department will consider the amount in the funding request of the pre-application and application to be the amount of Housing Tax Credits requested and will reduce the applicant's request to the maximum allowable amount under applicable rules through the underwriting process. A recommendation for a reduced allocation could occur due to Internal Revenue code which requires that tax credits allocated to a development should not exceed the amount necessary to assure feasibility. While the Housing Tax Credit request amount for an application may be reduced through the underwriting process or at the written request of staff, the Department will otherwise consider the requested amount final. The Tax Credit request amount cannot be changed through the Administrative Deficiency process.

E. Reviews and Recommendations

As part of this audit OIA selected nine applications to review for accuracy, completion, and compliance with applicable rules. The review included testing to verify the accuracy of calculations and recommendations in REA underwriting reports, and to assess and evaluate the comprehensiveness of management reviews. Based on the sample selected auditor did not identify any errors in the calculations and recommendations in the QAP-mandated items in the underwriting reports. However, the auditor did identify some inconsistencies in the documentation and record keeping by Team managers in their reviews.

Team managers' review of underwriting reports is not consistently documented, and the auditor cannot confirm that the reviews themselves are consistent or comprehensive. One manager does not document discussions with underwriters; the available evidence shows amendments to the report language, but auditor cannot verify review of calculations or supporting information. One manager uses a checklist. For the other two managers, there is no evidence of review except questions and corrections, so auditor cannot verify which items were checked and confirmed correctly. Another manager sometimes leaves feedback as comments in the workbook, rather than notes. She is also the author of numerous comments throughout the workbook that provide guidance and are part of the template. These practices make it difficult to identify which comments are actionable for the underwriter and could cause increased risk of overlooking errors in the underwriting reports. It is also more difficult to evaluate managers' performance.

Observation Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
25-006.01	OIA recommends that management establish a uniform and consistent review and documentation process for Team managers to avoid risk of overlooking errors in underwriting reports.	February 1, 2026	REA Managers

Management Response

Since we now have three managers doing reviews, standardizing the review process is a good idea. We will develop a comprehensive manager review checklist.

The Auditor also noted that the underwriting reports are not compliant with QAP and TAC. The inclusion of personal credit reports in Section A of the report, and timely cost certifications and other issues in Section C, imply that these should have some bearing on the decision-making process; by not considering them, REA risks approving developments contrary to the QAP.

Observation Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
25-006.02	OIA recommends that management consider either amending QAP to remove the requirements, or to update their process to include them in the decision process.	11/2026	Compliance, Asset Management, REA, and TDHCA exec

Management Response

The reviews required in this section of the QAP are performed by other divisions in the Department, including Compliance and Asset Management. REA will have to discuss a QAP change with those divisions and TDHCA executive team. These changes will have to be memorialized in the 2027 QAP.

We like to extend our appreciation to staff and management of Real Estate Analysis division for their cooperation and assistance during the course of this audit.

Sincerely,



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

MS/MM/NS



Texas Department of Housing and Community Affairs

Audit & Finance Committee

Board Action Request

File #: 1235

Agenda Date: 12/11/2025

Agenda #: 4.

Presentation and discussion of Internal Audit Report on the Implementation Status of Prior Audit Findings and Recommendations, Report# 25-007



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

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Cindy Conroy, *Member*
Anna Maria Farias, *Member*
Holland Harper, *Member*
Ajay Thomas, *Member*

September 22, 2025

Writer's direct phone # 512.475.3813

Email: Mark.Scott@tdhca.texas.gov

To: Board Members of the Texas Department of Housing and Community Affairs ("TDHCA")

RE: Internal Audit Report on the Implementation Status of Prior Audit Findings and Recommendations, Report # 25-007

Dear Board Members,

The TDHCA Fiscal Year 2024 Internal Audit Plan provides for a review of the implementation status of prior audit recommendations. The purpose of this report is to provide information regarding the status of management's efforts to address issues and recommendations noted during both internal and external audit work.

SCOPE AND METHODOLOGY

Our follow-up work covers TDHCA Office of Internal Audit (OIA) open findings and related recommendations made in audit reports dated through December 31st, 2024. An open finding is defined as a finding that was not completely addressed, or for which further action was still required, at the time of this review.

BACKGROUND

The TDHCA undergoes internal and external audits on a regular basis. Internal audits and external audits and reviews may include findings and associated recommendations that require follow-up to ensure that the issues identified during the audits have been addressed. External audits by the State Auditor's Office and federal oversight agencies may also include either formal findings or informally communicated issues that require follow-up. The Institute of Internal Auditors Standards state that "the chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management. The chief audit executive must establish a follow-up process to monitor and ensure that management actions have been

effectively implemented or that senior management has accepted the risk of not taking action. The internal audit activity must monitor the disposition of results of consulting engagements to the extent agreed upon with the client.”(I.A Standards, IPPF 2500.A1 through 2600)

The following report provides an inventory of internal and external audits, and the related open findings. Findings that have been fully implemented will not be carried forward for future follow up activities.

Internal Audit reports addressed during this follow-up project include:

A. Audit reports with carry-over open findings that were outstanding as of the follow-up report dated August 2024:

No Carry-over findings

B. Internal Audits reports issued between January and December of 2024:

1. Internal Audit of the Ownership Transfers function, Report # 24-001
2. Internal Audit of the Program Services at TDHCA, Report # 24-002
3. Internal Audit of the Amendments and Construction Status Report, Report # 24-003
4. Internal Audit of the Compliance Monitoring Section of Compliance division, Report # 24-004

For detailed status of each Internal Audit finding and recommendation see **Appendix A**.

External audits

External audits and reviews of TDHCA are conducted by the State Auditor’s Office (SAO), the Comptroller’s Office, the Sunset Commission, and other oversight agencies. They are also conducted by Federal Funding agencies, and their various departments such as Inspector General’s Office and program monitoring. Both State and Federal audits track the status of findings related to TDHCA.

State Auditor’s Office (SAO)

Annual Financial Statement Audit, report # 25-555

The SAO conducts the Financial Statement part of the Statewide audit. The Financial Statement portion of the FY 2025 SAO statewide audit had no findings related to TDHCA.

Federal compliance portion of Statewide audit, report # 25-315

The federal compliance portion of the statewide audit for Texas, SAO Report #24-318, cited findings for TDHCA related to the Home Investment Partnership program in the area of subrecipient monitoring and “special tests and provisions-housing quality standards”. TDHCA has been working to resolve these findings.

We would like to express our appreciation to TDHCA management and staff for their courtesy and cooperation during this follow-up work.

Sincerely,

A handwritten signature in black ink, appearing to read "Mark E. Scott". The signature is fluid and cursive, with the first name "Mark" and last name "Scott" being clearly distinguishable.

Mark E. Scott, CPA, CIA, CISA, CFE, MBA
Director of Internal Audit

Cc: Bobby Wilkinson, Executive Director
Beau Eccles, General Counsel
Brooke Boston, Deputy Executive Director
Scott Fletcher, Deputy Executive Director-Housing Finance
David Cervantes, Director of Administration
Wendy Quackenbush, Director of Multifamily Compliance
Rosalio Banuelos, Director of Multifamily Asset Management
Brenda Hull, Manager of Program Services

Appendix A

Status of Internal Audit Findings and Recommendations As of September 2025

1) Audit Report # 24-001

Internal Audit of the Ownership Transfers function.

OIA Findings and Recommendations:

- I. IA recommends that asset managers ensure that proper letter of explanation and agreement amongst parties is obtained for all non-controlling transfers.
- II. IA recommends that language be added to the appropriate ownership transfer documents addressing the use of draft documents in lieu of final documents for review of ownership transfers. This language should state that any draft document submitted by owners are accurate representations of final documents, and that no significant material changes would be made to said documents that would impact the outcome of an ownership transfer review.

Management's response and reported status:

- I. Asset Managers were reminded of this via email on March 11, 2024.
- II. The revised Tab 9- Owner Certification and Agreement to Comply form in the Ownership Transfer Request package on our website was updated on July 30, 2024.

Findings closed

2) Audit Report # 24-002

Internal Audit of the Program Services division at TDHCA.

OIA Finding and Recommendation:

- I. OIA recommends that management continue to review and revise all SOPs related to Program Services.
- II. OIA recommends that the division cross train other staff to serve as the backup for the Environmental specialist, if and when needed, to ensure continuity of operation.
- III. OIA recommends that management consider converting the temporary position to a permanent position to ensure accuracy and completion of loan documents.

- IV. OIA recommends establishing a system for revising and updating the QA checklists through liaisons from each program area.
- V. OIA recommends that the Division establish a procedure that would be in compliance with Texas laws in regard to presence of the notary at the time of signature.

Management's response and reported status:

- I. SOPs were reviewed and revised (if applicable) in August 2025. They are found at T:\so\sops\SOPs\SOPs 8_2025.
- II. Ms. Del Cueto is the backup for "Environmental". Quarterly environmental meetings are in place.
- III. A full-time employee retired, and the FTE was used to convert the previous temporary position to permanent FTE. The new position works with post-closing for SF and MF loans.
- IV. Program Services holds regular meetings with program areas to discuss any required updates to the QA checklist.
- V. Program Services has updated processes to ensure that a notary is present at the time of signature.

Findings closed

3) Audit Report # 24-003

Internal Audit of Amendments and Construction Status Report.

OIA Findings and Recommendations:

- I. OIA recommends that a note be made in the post-award activities manual that states that 4% HTC developments may not need to provide AIA G702 and G703 and construction inspection forms if they are not yet available for the required initial construction status report.

Management's response and reported status:

- I. The revised Post Award Activities Manual was posted on the website as of September 3, 2024.

Findings closed

4) Audit Report # 24-004

Internal Audit of the Compliance Monitoring section of the Compliance division.

OIA Findings and Recommendations:

- I. OIA recommends that the Compliance Monitoring section revise and update all the current SOPs to reflect current rules and requirements, as well as division's current practices, to provide clear and concise guidelines.
- II. OIA recommends that Compliance monitoring management establish a procedure to ensure monitors' compliance with established guidelines and deadlines in performing multifamily compliance monitoring reviews.

Management's response and reported status:

- I. SOPs were updated prior to April 30, 2025.
- II. An Excel spreadsheet was created to track and report all monitoring work.

Findings closed.



Texas Department of Housing and Community Affairs

Audit & Finance Committee

Board Action Request

File #: 1236

Agenda Date: 12/11/2025

Agenda #: 5.

Presentation and discussion of the Internal Audit Annual Report - FY 2025



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

www.tdhca.texas.gov

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October 30, 2025

*Writer's direct phone # 512.475.3813
Email: mark.scott@tdhca.Texas.Gov*

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 2025

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 2025 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 2025, 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 2026 will be presented to the Department's governing board for approval at December 11, 2025, Board meeting. A draft copy of the 2026 audit work plan is included in the attached report. Both the fiscal year 2026 audit work plan and this report will be posted to the Division's internet web page as required by House Bill 16 (after Board's approval of annual audit plan). We appreciate the opportunity to provide this information. If you have any questions about this report, please contact me on (512) 475-3813.

Sincerely,

A handwritten signature in black ink, appearing to read "Mark Scott". The signature is fluid and cursive, with the first name "Mark" and last name "Scott" clearly distinguishable.

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

NS / MS

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

Texas Department of Housing and Community Affairs
Internal Audit Annual Report – Fiscal Year 2025

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- 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 2025
- III. Consulting Services and Other Activities
- IV. External Audit Services
- V. External Quality Assurance Review (Peer review)
- VI. Internal Audit Plan for Fiscal Year 2026
- VII. Reporting Suspected Fraud, Waste, and Abuse

Texas Department of Housing and Community Affairs
Internal Audit Annual Report – Fiscal Year 2025

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 (<https://www.tdhca.texas.gov/internal-audit-division>) includes:

- An overview of the Internal Audit Division and its mission statement,
- The Internal Audit Division's most recent peer review (November 2024),
- Standards, statutes, and rules governing the operation of the Internal Audit Division:
 - Texas Government Code Chapter 2102: Texas Internal Auditing Act (www.statutes.capitol.texas.gov),
 - Texas Government Code 2306.073: Internal Audit (www.statutes.capitol.texas.gov),
 - Internal Audit Charter (updated June 2024), and
 - Internal Audit Board Resolutions (amended January 2014),
- Internal Audit Annual Plan for Fiscal Year 2026 (Pending Board approval)ⁱ,
- Internal Audit Annual Report for Fiscal Year 2025, and
- Internal Audit Reports.

Findings noted while performing the Fiscal Year 2025 audit plan are included in the respective Fiscal Year 2025 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 2025

Project / Audit Title	Report Number	Completed	Report Date
Amy Young Barrier Removal Program	25-001	Yes	2/24/25
Davis Bacon Labor Standards	25-002	Yes	8/15/25
HOME-NSP-NHTF Rent Approval function	25-003	Yes	5/16/25
Travel activities at TDHCA	25-004	Yes	5/23/25
Single Family Mortgage Revenue Bond	25-005	Yes	8/28/25
Real Estate Analysis	25-006	No	In Reporting phase
Internal Audit report on Prior audit Findings and Recommendation	25-007	Yes	9/30/25
Grant Accounting*		No	

Texas Department of Housing and Community Affairs
Internal Audit Annual Report – Fiscal Year 2025

**This audit was carried over from FY2024, and was determined that the risks were covered by the audit performed by Clifton Larson Allen (CLA)*

III. Consulting Services and Other Activities

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 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), is performing audits of the Low-Income Home Energy Assistance Program (LIHEAP).

IV. External Audit Services

In Fiscal Year 2025, 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.

V. External Quality Assurance Review (Peer Review)

The Department's Internal Audit Division received its most recent peer review in Fiscal Year 2025. The peer review was started in August 2024 and completed in November 2024. 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 Standards and the Code of Ethics Promulgated by the Institute of Internal Auditors (IIA) for the period 2023/2024.

This level of conformance is the top rating and demonstrates a clear intent and commitment to achieving the Core Principles for the Professional Practice of Internal Auditing and the Definition of Internal Auditing.

Texas Department of Housing and Community Affairs
Internal Audit Annual Report – Fiscal Year 2025

The IIA's Quality Assessment Manual for an Internal Audit Activity suggests a scale of three ratings when opining on the internal audit activity: "Generally Conforms," "Partially Conforms," and "Does Not Conform." The rating 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".

VI. Internal Audit Plan for Fiscal Year 2026 (Pending Board Approval)

Activity/Program/Division	Comments
State Housing Tax Credit	The specific project objective(s) and scope will be determined by the detailed assessment of relative risks identified during the project planning process.
Tax Liens Management, Manufactured Housing division	
Housing Resource Center	
My First Texas Home	
Record Retention	
10% Test – Asset Management division (HTC)	
Follow up Review of Prior Audit findings and recommendations	Required by the Audit Standards
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.
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.

The audit plan was developed utilizing a risk-assessment matrix, and input from stakeholders. 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. OIA includes evaluation of methods for ensuring compliance with contract processes and controls, and for monitoring agency contracts as part of the ongoing risk assessment process.

Texas Department of Housing and Community Affairs

Internal Audit Annual Report – Fiscal Year 2025

The budgeted hours for all projects are based on two staff auditors and the Director of Internal Audit.

VII. Reporting Suspected Fraud, Waste, and Abuse

The Department's home page (www.tdhca.texas.gov) 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 they 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.

ⁱ The Internal Audit Annual Plan for Fiscal Year 2026 will be posted on Division's internet web page after Board approval on December 11, 2025.



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

www.TDHCA.Texas.Gov

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ANNA MARIA FARIAS, MEMBER
HOLLAND HARPER, MEMBER
AJAY THOMAS, MEMBER

Texas Department of Housing and Community Affairs Office of Internal Audit Audit Plan for Fiscal Year 2025

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 2025 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 2025 Annual Audit Plan

We have identified the following projects for inclusion in the 2025 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. Real Estate Analysis

The Real Estate Analysis division provides the TDHCA Governing Board and staff with comprehensive analytical reports necessary to make well informed decisions for funding of affordable housing developments. The Real Estate Analysis division rated high on the risk assessment because of the complexity of its operations, and the division has not undergone any recent audits.

2. Single-Family Mortgage Revenue Bond

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 Division is chiefly responsible for structuring, restructuring, administering and monitoring the Department's Single Family Mortgage Revenue Bonds ("SFMRB") issues. The Single Family Mortgage Revenue Bond rated high on the annual risk assessment because of the complexity of its operations, and lack of any recent audit of the division.

3. HOME/NSP/NHTF Rent Approval

Asset Management is responsible for oversight of development performance for all multifamily properties. HOME, HOME-ARP, NHTF, NSP, and TCAP-RF Developments committed funds on or after August 23, 2013 on which construction has been completed are required by 24 CFR §92.252(f), §93.302(c)(2), and 24 CFR §92.219 to submit annual rent approval requests to their Asset Manager by no later than August 1st of each year. Rents will be evaluated and approved based on submission of the Annual Rent Approval Request packet. Rents will be reviewed and approved within 30 days as long as the form and all exhibits have been received. This function has not been audited in recent years, and therefore rated high on the annual risk assessment for FY2025.

4. Travel

State Employees are entitled to reimbursement of certain travel expenses required by the Department to conduct official state business. The amount of reimbursement is subject to certain limitations as prescribed by Chapter 660 of the Texas Government Code, the General Appropriations Act, and rules adopted by the Comptroller. The Department's travel policy is designed to comply with the adopted rules of the Texas Procurement and Support Services Division (TPASS) relating to the State Travel Management Program (STMP).

5. Davis Bacon

Davis-Bacon wage rates apply to HUD-funded projects based on the labor provisions contained in Federal Labor Standards Requirements in Housing and Community Development Programs such as the U.S. Housing Act of 1937, the National Housing Act, the Housing and Community Development Act of 1974, the National Affordable Housing Act of 1990, and the Native American Housing Assistance and Self-Determination Act of 1996. These regulations ensure that mechanics and laborers employed by construction work under federally-assisted contracts are paid wages and benefits equal to those that prevail in the locality where the work is performed.

Davis Bacon covers HUD Community Planning & Development (CPD) programs such as HOME, HOME-ARP, NSP, and Section 811 Project Rental Assistance (PRA).

6. Amy Young Barrier Removal

The Amy Young Barrier Removal (AYBR) Program provides one-time grants of up to \$22,500 for qualified households with Persons with Disabilities who need modifications to increase accessibility and eliminate hazardous conditions in their home. The AYBR Program is funded through the State Housing Trust Fund, a biennial State authorized allocation. TDHCA provides funds to administrators through a reservation system and funds are replenished via NOFAs (Notice Of Funds Availability) on a regular basis. TDHCA contracts with nonprofit organizations and local governments to administer the AYBR Program.

Carry Over Project

Grant Accounting: This area is vital in performing proper accounting for the revenue and expenses related to grants. There is a high volume of transactions, some of which can be complex. This area has not undergone a recent internal audit.

This audit was placed on hold during FY2024 to avoid any interference with the audit that was performed by State Auditor's Office (SAO)

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 2025, OIA is providing consulting services related to the new Grant Guidance in 2 CFR 200, as well as sub-recipient monitoring.

OIA also coordinates and advises on external audit activities.

Sincerely,

A handwritten signature in black ink, appearing to read 'Mark Scott', with a stylized flourish at the end.

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

MS/NS



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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.

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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

MS/NS

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



Texas Department of Housing and Community Affairs

Audit & Finance Committee

Board Action Request

File #: 1237

Agenda Date: 12/11/2025

Agenda #: 6.

Report on the status of the Internal Audit and External Audit activities