

# Texas Department of Housing and Community Affairs



**Thursday, December 7, 2023**

**9:30 AM**

**Greer Bldg., Williamson Board Room  
125 East 11th Street  
Austin, TX 78701**

## **Audit & Finance Committee**

*Ajay Thomas, Chair  
Leo Vasquez III, Member  
Anna Maria Farias, 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 on Audit and Finance Committee Meeting Minutes Summary for September 7, 2023 | Mark Scott |
| 2. | Presentation, discussion, and possible action to approve Fiscal Year 2024 Internal Audit Annual Plan                      | Mark Scott |

**REPORT ITEMS:**

- |    |   |            |
|----|---|------------|
| 3. | Presentation and discussion of Internal Audit report on the Self-Assessment, Report# 23-007   | Mark Scott |
| 4. | Presentation and discussion of Internal Audit report on the Community Development Block Grant CARES Act, and the Community Development Block Grant Colonia Self Help Center, Report# 23-005 | Mark Scott |
| 5. | Report on the Internal Audit Fiscal Year 2023 Annual Report   | Mark Scott |
| 6. | Report on the status of the Internal 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.state.tx.us](http://www.tdhca.state.tx.us) 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 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

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**File #: 463**

**Agenda Date: 12/7/2023**

**Agenda #: 1.**

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Presentation, discussion and possible action on Audit and Finance Committee Meeting Minutes Summary for September 7, 2023

**RECOMMENDED ACTION**

**RESOLVED**, that the Audit and Finance Committee Meeting Minutes Summary for September 7, 2023 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 7, 2023, 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 Texas Capitol Extension, Hearing Room E2.030, 1100 Congress Avenue, 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 and Ms. Anna Maria Farias, were present and represented a quorum for the Committee meeting.

Mr. Thomas started the meeting by taking roll and welcoming everyone to the meeting, and said that on today's agenda we have an action item and four report items. The only action item on the agenda was the approval of the minutes from the June 15th, 2023 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 on the Texas Statewide Homebuyer Education program (TSHEP) and Homebuyer U, which was presented by Mr. Scott.

Mr. Scott said that TSHEP and Homebuyer U rated high on the annual risk assessment due to their importance to the TDHCA clients and also the recent management changes within the division. The purpose of these two programs is to provide information and counseling services to prospective Homebuyers regarding the home buying process. OIA reviewed the participants' files and records, and conducted testing to ensure that buyers were receiving training according to the standards. Auditor made recommendations related to updates to the public facing website, updates to information provided in the online education modules, updates to various policies and procedures, locking of the TDHCA issued PDF certificates to prevent unauthorized editing and issuance of certificates to be followed up with secondary verification of authenticity. Management agreed with the recommendations and provided action plans for addressing each recommendation. The details of their action plan are included in the report. Mr. Scott then offered to answer any questions that the Committee may have.

Mr. Vasquez asked how TDHCA is performing compared to other states. Mr. Scott responded that Auditor did not assess against other states. Their testing was focused on the content of the tests and whether or not it provided value to home buyers, and it seems they do. Ms. Matusz (internal audit project manager) also confirmed that her testing was to compare the training program against the National Standards of Education, which they seem to meet the standards. Ms. Matusz also explained her findings and recommendations related to the certificates. Ms. Farias added that during her debriefing with the IA team, she was presented with several certificates and she confirms that it is very easy to miss and not identify the fake certificate.

Mr. Thomas then moved to the next report item; presentation and discussion of the internal audit report on the HOME Disaster Relief and Tenant-Based Rental Assistance (TBRA) program, which was presented by Mr. Scott as well. Mr. Scott said that the Texas Home Disaster Relief program is a long-term housing program designed to help eligible organizations serve income eligible households impacted by disaster. This audit was identified during the fiscal year 2023 risk assessment and rated high on the risk assessment matrix due to lack of recent audits of the program and the additional funding that the program received during Covid19 pandemic. Mr. Scott then explained the criteria and the methodologies used in performing this audit. Based on the review and testing done, the Home Disaster Relief Fund and TBRA programs seem to be operating effectively. He then offered to answer questions for the Committee member.

Mr. Vasquez asked if the agency has an ongoing fraud research going on to see if anyone is scamming the program. Mr. Wilkinson (Executive Director) said that the outside fraud research that Mr. Vasquez seems to be referring to was for Texas Rent Relief program which was much larger program. The Home Disaster Relief Fund and TBRA are smaller program and are administered through local sub-recipients.

With no other questions Mr. Thomas moved to the next report item on the agenda; presentation and discussion of internal audit follow-up report on the implementation status of prior audit findings and recommendations. Mr. Scott started his presentation of this report by saying that this report is an administrative report required by internal auditing standards. This report is on the status of prior internal audit and external audit findings that were issued in the previous year, January 1<sup>st</sup> through December 31<sup>st</sup>, 2022. Internal audit is required to submit annual report to comply with internal audit standards. As shown in the report, most of the recommendations have been implemented and findings have been closed. The details are in the report in your packet. Mr. Thomas inquired about the recommendations that remained open. Mr. Scott said that some recommendations, for example IT items, can be related to issues that the DIR is in charge of and TDHCA IT staff have no control over the timing of when it can be completed.

Mr. Thomas then moved to the final item on the agenda; Report on the status of the internal and external audit activities. Mr. Scott said that the SAO is currently working on the financial statement portion of the statewide audit for fiscal year 2022 and the stand-alone audit of the TDHCA financial statements. They also conduct agreed upon procedures where they test specific schedules. Clifton Larson Allen (CLA) is working on the federal compliance portion of the statewide audit this year. They picked Emergency rental Assistance and Homeowner's Assistance Fund as major programs to be audited at TDHCA. Also the OIG from the Federal Treasury Department is doing audit work on TRR and specifically the Horne contract. On the FY 23 internal audit plan, the division has completed the audit of Texas Bootstrap loan program, Staff Services function at TDHCA, HOME Disaster Relief and TBRA, and TSHEP and Homebuyer U. Internal Audit of CDBG CARES is undergoing right now, as well as risk assessment process and preparing the annual audit plan for FY 24, which will be presented to the Committee at the December meeting.

That concluded Mr. Scott's presentation and he offered to answer questions for the committee members. With no questions Mr. Thomas thanked Mr. Scott for his presentation, and the meeting was formally adjourned at 9:46am.



## Texas Department of Housing and Community Affairs

### Audit & Finance Committee

### Board Action Request

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**File #: 464**

**Agenda Date: 12/7/2023**

**Agenda #: 2.**

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Presentation, discussion, and possible action to approve Fiscal Year 2024 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;

**WHEREAS**, Staff has presented a Fiscal Year 2024 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 2024 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 2024. 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.state.tx.us](http://www.tdhca.state.tx.us)

Greg Abbott  
GOVERNOR

### BOARD MEMBERS

Leo Vasquez, *Chair*  
Kenny Marchant, *Vice Chair*  
Anna Maria Farías, *Member*  
Holland Harper, *Member*  
Ajay Thomas, *Member*

### Texas Department of Housing and Community Affairs Office of Internal Audit Audit Plan for Fiscal Year 2024

#### 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 2024 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 2024 Annual Audit Plan**

We have identified the following projects for inclusion in the 2024 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. Program Services**

Program Services Section facilitates adherence to the rules regarding processing and completion of federal mandates and departmental requirements affecting a variety of programs administered by the Department. These mandates and requirements include: Environmental Review & Clearances, Employment opportunities for Low-Income People, Loan closings, Quality Assurance and federal funds. Compliance with federal mandates can affect release of funds and future program eligibility. This function rated high on the annual risk assessment due to lack of any prior audits, as well as recommendation for review from management.

##### **2. Compliance Monitoring (Multifamily)**

The Compliance Monitoring section of Compliance Division is responsible for long-term compliance with the multifamily housing programs funded by the TDHCA. Compliance monitors conduct reviews to evaluate compliance with income and rent limits as well as other requirements including social services and affirmative marketing. Compliance monitors conduct reviews at least once every three years. In addition, the Compliance Monitoring section reviews each property's Annual Owner's Compliance Reports as required under Chapter 2306 of the Texas Government Code and other federal regulations. The Compliance Monitoring section provides training for owners and managers.

This division rated high on the annual risk assessment due to its importance in ensuring compliance with applicable laws for multiple programs at TDHCA. The Compliance monitoring division was last audited to OIA in 2016.

### **Asset Management Division:**

The Asset Management Division is responsible for monitoring and processing of all post-award activities for developments involving Housing Tax Credits, HOME funds, National and State Housing Trust Funds, and Neighborhood Stabilization Program (NSP) funds. The Post Award Activities manual outlines the procedures and instructions for completing activities including the 10% Test, Construction Status Reports, Cost Certification, LURA Origination, LURA Amendments, Application Amendments, and Ownership Transfers. The following three units rated high on the annual risk assessment due to lack of any prior audits, as well as their importance in ensuring proper processes and approval and for each state of the construction process.

#### **3. Construction Status Report**

Construction Status Reports must be submitted by all multifamily developments (HOME, NHTF, TCAP, 9% HTC, 4% HTC/BOND) that are currently in construction. The submission of construction status reports continues on a quarterly basis until the entire development is complete, and evidence of completion, which are Certificates of Occupancy for each building, AN AIA G704, or the Final AIA G702/3 or equivalent, is received by the Department.

#### **4. Handling of Amendments and Transfers**

The Asset Manager evaluates each amendment request and determines if the change constitutes a notification, requires Executive Director's approval, or is a change that must be approved by the TDHCA Board. Additional information may be requested by Department staff in order to properly evaluate and process the request.

#### **5. Ownership Transfers**

All multifamily Development Owners must provide written notice and a completed Ownership Transfer packet to the Department at least 45 calendar days prior to any sale, transfer, or exchange of the Development or any portion of or Controlling interest in the Development

#### **6. 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.

### **Carry Over Project**

Homeowner Assistance Fund (HAF); CliftonLarsonAllen LLP (CLA) selected to perform audit of Homeowner Assistance Funds program during fiscal Year 2023. OIA paused this audit to avoid any interference with CLA's reviews and audit. After conclusion of CLA's audit of HAF program OIA will evaluate and determine if a further review of the program is necessary.

### **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 2024, 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,

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

MS/NS



Texas Department of Housing and Community Affairs

Audit & Finance Committee

Board Action Request

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**File #: 466**

**Agenda Date: 12/7/2023**

**Agenda #: 3.**

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Presentation and discussion of Internal Audit report on the Self-Assessment, Report# 23-007



## TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

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Greg Abbott  
GOVERNOR

### BOARD MEMBERS

Leo Vasquez, *Chair*  
Kenny Marchant, *Vice Chair*  
Anna Maria Fariás, *Member*  
Holland Harper, *Member*  
Ajay Thomas, *Member*

October 16, 2023

*Writer's direct phone # 512.475.3813*  
*Email: mark.scott@tdhca.state.tx.us*

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

RE: Internal Audit Division's Quality Assurance and Improvement Program (Self-assessment)

Dear Board Members:

This is the Office of Internal Audit (OIA) report (Report # 23-007) on the self-assessment of the TDHCA internal audit function. This project was identified in the FY 2023 internal audit plan. It is part of the quality assurance program required by the Texas Internal Auditing Act, and a required deliverable for an external assessment of the internal auditing program.

The Institute of Internal auditor's *International Standards for the Professional Practice of Internal Auditing* requires that the director of Internal Audit develop and maintain a quality assurance and improvement program. The objective of the internal assessments is to evaluate the internal audit activity's conformance with the Institute of Internal Auditors: Definition of internal auditing, the Standards and the Code of Ethics. These standards require:

- 1300 – Quality Assurance / Improvement Program
  - 1311 – Internal Assessments
    - Periodic review performed through self-assessment or by other persons within the organization with sufficient knowledge of internal audit practices.

In conducting the self-assessment of internal auditing at TDHCA, OIA utilized the peer review manual developed by the State Agency Internal Audit Forum (SAIAF), a work group comprised of internal auditors in Texas State government. This manual includes a checklist which covers the Institute of Internal Auditors International Professional Practices Framework (IPPF), or "Red Book", including Code of Ethics, Attribute Standards, and Performance Standards. (Exhibit A)

Our self-assessment of internal audit work quality included an evaluation of the audit project An Internal Audit of the Texas Statewide Homeowner Education Program (TSHEP) and Homeowner U, Report # 23-003, issued in August 2023. Our self-assessment of OIA indicated general compliance with the standards. For each of the standards, we have noted documents that demonstrate compliance with the standard. These include audit charters, audit reports, and various types of audit working papers, as well as internal Standard Operating Procedures (SOPs).

We noted opportunities for improvement in the following areas:

#### **Findings from Work-paper Review**

As part of the peer review preparation, the SAIAF work paper review tool was utilized to review one complete set of audit working papers, for the audit of Texas Statewide Homeowner Education Program (TSHEP) and Homebuyer U. The TSHEP and Homebuyer U audit included review of the program's website and online training modules, loan issuance records, and other TDHCA internal documents, policies, and procedures. The following issues were identified and noted in the work paper review as areas for improvement:

1. The auditor did not document notes from all of the meetings that were held with program managers, supervisory reviews, and the procedures.
2. The Test worksheets were not identifiable in the Fieldwork folder, and did not include Audit testing elements such as Source, Purpose, and Results; or the five elements of audit findings (the 5 C's).

The issues identified during this self-assessment will be included as part of audit close-out and quality assurance review for future audits.

This self-assessment and the accompanying work papers and review tools will be provided to the external quality assurance team.

Sincerely,



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

MS/NS

## Exhibit A

### **INTERNATIONAL STANDARDS FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDITING (STANDARDS)**

#### **Introduction to the *Standards***

Internal auditing is conducted in diverse legal and cultural environments; for organizations that vary in purpose, size, complexity, and structure; and by persons within or outside the organization. While differences may affect the practice of internal auditing in each environment, conformance with The IIA's *International Standards for the Professional Practice of Internal Auditing (Standards)* is essential in meeting the responsibilities of internal auditors and the internal audit activity.

The purpose of the *Standards* is to:

1. Guide adherence with the mandatory elements of the International Professional Practices Framework.
2. Provide a framework for performing and promoting a broad range of value-added internal auditing services.
3. Establish the basis for the evaluation of internal audit performance.
4. Foster improved organizational processes and operations.

The *Standards* are a set of principles-based, mandatory requirements consisting of:

- Statements of core requirements for the professional practice of internal auditing and for evaluating the effectiveness of performance that are internationally applicable at organizational and individual levels.
- Interpretations clarifying terms or concepts within the *Standards*.

The *Standards*, together with the Code of Ethics, encompass all mandatory elements of the International Professional Practices Framework; therefore, conformance with the Code of Ethics and the *Standards* demonstrates conformance with all mandatory elements of the International Professional Practices Framework.

The *Standards* employ terms as defined specifically in the Glossary. To understand and apply the *Standards* correctly, it is necessary to consider the specific meanings from the Glossary. Furthermore, the *Standards* use the word "must" to specify an unconditional requirement and the word "should" where conformance is expected unless, when applying professional judgment, circumstances justify deviation.

The *Standards* comprise two main categories: Attribute and Performance Standards. Attribute Standards address the attributes of organizations and individuals performing internal auditing. Performance Standards describe the nature of internal auditing and provide quality criteria against which the performance of these services can be measured. Attribute and Performance Standards apply to all internal audit services. Implementation Standards expand upon the Attribute and Performance Standards by providing the requirements applicable to assurance (.A) or consulting (.C) services.

#### **International Standards for the Professional Practice of Internal Auditing (*Standards*)**

Assurance services involve the internal auditor's objective assessment of evidence to provide opinions or conclusions regarding an entity, operation, function, process, system, or other subject matters. The nature and scope of an assurance engagement are determined by the internal auditor. Generally, three parties are participants in assurance services: (1) the person or group directly involved with the entity, operation, function, process, system, or other subject matter — the process owner, (2) the person or group making the assessment — the internal auditor, and (3) the person or group using the assessment — the user.

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Consulting services are advisory in nature and are generally performed at the specific request of an engagement client. The nature and scope of the consulting engagement are subject to agreement with the engagement client. Consulting services generally involve two parties: (1) the person or group offering the advice — the internal auditor, and (2) the person or group seeking and receiving the advice — the engagement client. When performing consulting services the internal auditor should maintain objectivity and not assume management responsibility.

The *Standards* apply to individual internal auditors and the internal audit activity. All internal auditors are accountable for conforming with the standards related to individual objectivity, proficiency, and due professional care and the standards relevant to the performance of their job responsibilities. Chief audit executives are additionally accountable for the internal audit activity's overall conformance with the *Standards*.

If internal auditors or the internal audit activity is prohibited by law or regulation from conformance with certain parts of the *Standards*, conformance with all other parts of the *Standards* and appropriate disclosures are needed.

If the *Standards* are used in conjunction with requirements issued by other authoritative bodies, internal audit communications may also cite the use of other requirements, as appropriate. In such a case, if the internal audit activity indicates conformance with the *Standards* and inconsistencies exist between the *Standards* and other requirements, internal auditors and the internal audit activity must conform to the *Standards* and may conform with the other requirements if such requirements are more restrictive.

The review and development of the *Standards* is an ongoing process. The International Internal Audit Standards Board engages in extensive consultation and discussion before issuing the *Standards*. This includes worldwide solicitation for public comment through the exposure draft process. All exposure drafts are posted on The IIA's website as well as being distributed to all IIA institutes.

Suggestions and comments regarding the *Standards* can be sent to:

The Institute of Internal Auditors  
Standards and Guidance  
1035 Greenwood Blvd, Suite 401  
Lake Mary, FL 32746 USA

E-mail: [guidance@theiia.org](mailto:guidance@theiia.org) Web: [www.globaliia.org](http://www.globaliia.org)

## **International Standards for the Professional Practice of Internal Auditing (Standards)**

### **INTERNATIONAL STANDARDS FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDITING (STANDARDS)** **Attribute Standards**

#### **1000 – Purpose, Authority, and Responsibility**

The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the *Standards*, and the Definition of Internal Auditing). The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.

#### **Interpretation:**

*The internal audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility. The internal audit charter establishes the internal audit activity's position within the organization, including the nature of the chief audit executive's functional reporting relationship with the board; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the internal audit charter resides with the board.*

- **1000.A1** – The nature of assurance services provided to the organization must be defined in the internal audit charter. If assurances are to be provided to parties outside the organization, the nature of these assurances must also be defined in the internal audit charter.
- **1000.C1** – The nature of consulting services must be defined in the internal audit charter.

#### **1010 – Recognizing Mandatory Guidance in the Internal Audit Charter**

The mandatory nature of the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the *Standards*, and the Definition of Internal Auditing must be recognized in the internal audit charter. The chief audit executive should discuss the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework with senior management and the board.

#### **1100 – Independence and Objectivity**

The internal audit activity must be independent, and internal auditors must be objective in performing their work.

#### **Interpretation:**

*Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board.*

## **International Standards for the Professional Practice of Internal Auditing (Standards)**

*This can be achieved through a dual-reporting relationship. Threats to independence must be managed at the individual auditor, engagement, functional, and organizational levels.*

*Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal*

*auditors do not subordinate their judgment on audit matters to others. Threats to objectivity must be managed at the individual auditor, engagement, functional, and organizational levels.*

### **1110 – Organizational Independence**

The chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity.

#### **Interpretation:**

*Organizational independence is effectively achieved when the chief audit executive reports functionally to the board. Examples of functional reporting to the board involve the board:*

- *Approving the internal audit charter.*
- *Approving the risk-based internal audit plan.*
- *Approving the internal audit budget and resource plan.*
- *Receiving communications from the chief audit executive on the internal audit activity's performance relative to its plan and other matters.*
- *Approving decisions regarding the appointment and removal of the chief audit executive.*
- *Approving the remuneration of the chief audit executive.*
- *Making appropriate inquiries of management and the chief audit executive to determine whether there are inappropriate scopes or resource limitations.*

**1110.A1** – The internal audit activity must be free from interference in determining the scope of internal auditing, performing work, and communicating results. The chief audit executive must disclose such interference to the board and discuss the implications.

### **1111 – Direct Interaction with the Board**

The chief audit executive must communicate and interact directly with the board.

### **1112 – Chief Audit Executive Roles Beyond Internal Auditing**

Where the chief audit executive has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards must be in place to limit impairments to independence or objectivity.

#### **Interpretation:**

*The chief audit executive may be asked to take on additional roles and responsibilities outside of internal auditing, such as responsibility for compliance or risk management activities. These roles and responsibilities may impair, or appear to impair, the organizational independence of the internal audit activity or the individual objectivity of the internal auditor. Safeguards are those oversight activities, often undertaken by the board, to address these potential impairments, and may include such activities as periodically evaluating reporting lines and responsibilities and developing alternative processes to obtain assurance related to the areas of additional responsibility.*

## **1120 – Individual Objectivity**

Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest.

### **Interpretation:**

*Conflict of interest is a situation in which an internal auditor, who is in a position of trust, has a competing professional or personal interest. Such competing interests can make it difficult to fulfill his or her duties impartially. A conflict of interest exists even if no unethical or improper act results. A conflict of interest can create an appearance of impropriety that can undermine confidence in the internal auditor, the internal audit activity, and the profession. A conflict of interest could impair an individual's ability to perform his or her duties and responsibilities objectively.*

## **1130 – Impairment to Independence or Objectivity**

If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.

### **Interpretation:**

*Impairment to organizational independence and individual objectivity may include, but is not limited to, personal conflict of interest, scope limitations, restrictions on access to records, personnel, and properties, and resource limitations, such as funding.*

*The determination of appropriate parties to which the details of an impairment to independence or objectivity must be disclosed is dependent upon the expectations of the internal audit activity's and the chief audit executive's responsibilities to senior management and the board as described in the internal audit charter, as well as the nature of the impairment.*

**1130.A1** – Internal auditors must refrain from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous year.

**1130.A2** – Assurance engagements for functions over which the chief audit executive has responsibility must be overseen by a party outside the internal audit activity.

**1130.A3** – The internal audit activity may provide assurance services where it had previously performed consulting services, provided the nature of the consulting did not impair objectivity and provided individual objectivity is managed when assigning resources to the engagement.

**1130.C1** – Internal auditors may provide consulting services relating to operations for which they had previous responsibilities.

**1130.C2** – If internal auditors have potential impairments to independence or objectivity relating to proposed consulting services, disclosure must be made to the engagement client prior to accepting the engagement.

## **1200 – Proficiency and Due Professional Care**

Engagements must be performed with proficiency and due professional care.

## **1210 – Proficiency**

Internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities.

### **Interpretation:**

*Proficiency is a collective term that refers to the knowledge, skills, and other competencies required of internal auditors to effectively carry out their professional responsibilities. It encompasses consideration of current activities, trends, and emerging issues, to enable relevant advice and recommendations. Internal auditors are encouraged to demonstrate their proficiency by obtaining appropriate professional certifications and qualifications, such as the Certified Internal Auditor designation and other designations offered by The Institute of Internal Auditors and other appropriate professional organizations.*

**1210.A1** – The chief audit executive must obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

**1210.A2** – Internal auditors must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organization, but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.

**1210.A3** – Internal auditors must have sufficient knowledge of key information technology risks and controls and available technology-based audit techniques to perform their assigned work. However, not all internal auditors are expected to have the expertise of an internal auditor whose primary responsibility is information technology auditing.

**1210.C1** – The chief audit executive must decline the consulting engagement or obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

## **1220 – Due Professional Care**

Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.

**1220.A1** – Internal auditors must exercise due professional care by considering the:

- Extent of work needed to achieve the engagement's objectives.
- Relative complexity, materiality, or significance of matters to which assurance procedures are applied.
- Adequacy and effectiveness of governance, risk management, and control processes.
- Probability of significant errors, fraud, or noncompliance.
- Cost of assurance in relation to potential benefits.

**1220.A2** – In exercising due professional care internal auditors must consider the use of technology-based audit and other data analysis techniques.

**1220.A3** – Internal auditors must be alert to the significant risks that might affect objectives, operations, or resources. However, assurance procedures alone, even when performed with due professional care, do not guarantee that all significant risks will be identified.

**1220.C1** – Internal auditors must exercise due professional care during a consulting engagement by considering the:

- Needs and expectations of clients, including the nature, timing, and communication of engagement results.
- Relative complexity and extent of work needed to achieve the engagement's objectives.
- Cost of the consulting engagement in relation to potential benefits.

### **1230 – Continuing Professional Development**

Internal auditors must enhance their knowledge, skills, and other competencies through continuing professional development.

### **1300 – Quality Assurance and Improvement Program**

The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.

#### **Interpretation:**

*A quality assurance and improvement program is designed to enable an evaluation of the internal audit activity's conformance with the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement. The chief audit executive should encourage board oversight in the quality assurance and improvement program.*

### **1310 – Requirements of the Quality Assurance and Improvement Program**

The quality assurance and improvement program must include both internal and external assessments.

#### **1311 – Internal Assessments**

Internal assessments must include:

- Ongoing monitoring of the performance of the internal audit activity.
- Periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices.

#### **Interpretation:**

*Ongoing monitoring is an integral part of the day-to-day supervision, review, and measurement of the internal audit activity. Ongoing monitoring is incorporated into the routine policies and practices used to manage the internal audit activity and uses processes, tools, and information considered necessary to evaluate conformance with the Code of Ethics and the Standards.*

*Periodic assessments are conducted to evaluate conformance with the Code of Ethics and the Standards. Sufficient knowledge of internal audit practices requires at least an understanding of all elements of the International Professional Practices Framework.*

#### **1312 – External Assessments**

External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization. The chief audit executive must discuss with the board:

- The form and frequency of external assessment.

- The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.

**Interpretation:**

*External assessments may be accomplished through a full external assessment, or a self-assessment with independent external validation. The external assessor must conclude as to conformance with the Code of Ethics and the Standards; the external assessment may also include operational or strategic comments.*

*A qualified assessor or assessment team demonstrates competence in two areas: the professional practice of internal auditing and the external assessment process. Competence can be demonstrated through a mixture of experience and theoretical learning. Experience gained in organizations of similar size, complexity, sector or industry, and technical issues is more valuable than less relevant experience. In the case of an assessment team, not all members of the team need to have all the competencies; it is the team as a whole that is qualified. The chief audit executive uses professional judgment when assessing whether an assessor or assessment team demonstrates sufficient competence to be qualified.*

*An independent assessor or assessment team means not having either an actual or a perceived conflict of interest and not being a part of, or under the control of, the organization to which the internal audit activity belongs. The chief audit executive should encourage board oversight in the external assessment to reduce perceived or potential conflicts of interest.*

**1320 – Reporting on the Quality Assurance and Improvement Program**

The chief audit executive must communicate the results of the quality assurance and improvement program to senior management and the board. Disclosure should include:

- The scope and frequency of both the internal and external assessments.
- The qualifications and independence of the assessor(s) or assessment team, including potential conflicts of interest.
- Conclusions of assessors.
- Corrective action plans.

**Interpretation:**

*The form, content, and frequency of communicating the results of the quality assurance and improvement program is established through discussions with senior management and the board and considers the responsibilities of the internal audit activity and chief audit executive as contained in the internal audit charter. To demonstrate conformance with the Code of Ethics and the Standards, the results of external and periodic internal assessments are communicated upon completion of such assessments, and the results of ongoing monitoring are communicated at least annually. The results include the assessor's or assessment team's evaluation with respect to the degree of conformance.*

**1321 – Use of “Conforms with the International Standards for the Professional Practice of Internal Auditing”**

Indicating that the internal audit activity conforms with the *International Standards for the Professional Practice of Internal Auditing* is appropriate only if supported by the results of the quality assurance and improvement program.

**Interpretation:**

*The internal audit activity conforms with the Code of Ethics and the Standards when it achieves the outcomes described therein. The results of the quality assurance and improvement program include the results of both*

*internal and external assessments. All internal audit activities will have the results of internal assessments. Internal audit activities in existence for at least five years will also have the results of external assessments.*

### **1322 – Disclosure of Nonconformance**

When nonconformance with the Code of Ethics or the *Standards* impacts the overall scope or operation of the internal audit activity, the chief audit executive must disclose the nonconformance and the impact to senior management and the board.

## **Performance Standards**

### **2000 – Managing the Internal Audit Activity**

The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organization.

#### **Interpretation:**

*The internal audit activity is effectively managed when:*

- *It achieves the purpose and responsibility included in the internal audit charter.*
- *It conforms with the Standards.*
- *Its individual members conform with the Code of Ethics and the Standards.*
- *It considers trends and emerging issues that could impact the organization.*

*The internal audit activity adds value to the organization and its stakeholders when it considers strategies, objectives, and risks; strives to offer ways to enhance governance, risk management, and control processes; and objectively provides relevant assurance.*

### **2010 – Planning**

The chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization's goals.

#### **Interpretation:**

*To develop the risk-based plan, the chief audit executive consults with senior management and the board and obtains an understanding of the organization's strategies, key business objectives, associated risks, and risk management processes. The chief audit executive must review and adjust the plan, as necessary, in response to changes in the organization's business, risks, operations, programs, systems, and controls.*

**2010.A1** – The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process.

**2010.A2** – The chief audit executive must identify and consider the expectations of senior management, the board, and other stakeholders for internal audit opinions and other conclusions.

**2010.C1** – The chief audit executive should consider accepting proposed consulting engagements based on the engagement's potential to improve management of risks, add value, and improve the organization's operations. Accepted engagements must be included in the plan.



### **2020 – Communication and Approval**

The chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.

### **2030 – Resource Management**

The chief audit executive must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.

#### **Interpretation:**

*Appropriate refers to the mix of knowledge, skills, and other competencies needed to perform the plan. Sufficient refers to the quantity of resources needed to accomplish the plan. Resources are effectively deployed when they are used in a way that optimizes the achievement of the approved plan.*

### **2040 – Policies and Procedures**

The chief audit executive must establish policies and procedures to guide the internal audit activity.

#### **Interpretation:**

*The form and content of policies and procedures are dependent upon the size and structure of the internal audit activity and the complexity of its work.*

### **2050 – Coordination and Reliance**

The chief audit executive should share information, coordinate activities, and consider relying upon the work of other internal and external assurance and consulting service providers to ensure proper coverage and minimize duplication of efforts.

#### **Interpretation:**

*In coordinating activities, the chief audit executive may rely on the work of other assurance and consulting service providers. A consistent process for the basis of reliance should be established, and the chief audit executive should consider the competency, objectivity, and due professional care of the assurance and consulting service providers. The chief audit executive should also have a clear understanding of the scope, objectives, and results of the work performed by other providers of assurance and consulting services. Where reliance is placed on the work of others, the chief audit executive is still accountable and responsible for ensuring adequate support for conclusions and opinions reached by the internal audit activity.*

### **2060 – Reporting to Senior Management and the Board**

The chief audit executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan and on its conformance with the Code of Ethics and the *Standards*. Reporting must also include significant risk and control issues, including fraud risks, governance issues, and other matters that require the attention of senior management and/or the board.

#### **Interpretation:**

*The frequency and content of reporting are determined collaboratively by the chief audit executive, senior management, and the board. The frequency and content of reporting depends on the importance of the information to be communicated and the urgency of the related actions to be taken by senior management and/or the board.*

*The chief audit executive's reporting and communication to senior management and the board must include information about:*

- *The audit charter.*
- *Independence of the internal audit activity.*
- *The audit plan and progress against the plan.*
- *Resource requirements.*
- *Results of audit activities.*
- *Conformance with the Code of Ethics and the Standards, and action plans to address any significant conformance issues.*
- *Management's response to risk that, in the chief audit executive's judgment, may be unacceptable to the organization.*
- *These and other chief audit executive communication requirements are referenced throughout the Standards.*

#### **2070 – External Service Provider and Organizational Responsibility for Internal Auditing**

When an external service provider serves as the internal audit activity, the provider must make the organization aware that the organization has the responsibility for maintaining an effective internal audit activity.

##### **Interpretation:**

*This responsibility is demonstrated through the quality assurance and improvement program which assesses conformance with the Code of Ethics and the Standards.*

#### **2100 – Nature of Work**

The internal audit activity must evaluate and contribute to the improvement of the organization's governance, risk management, and control processes using a systematic, disciplined, and risk-based approach. Internal audit credibility and value are enhanced when auditors are proactive and their evaluations offer new insights and consider future impact.

#### **2110 – Governance**

The internal audit activity must assess and make appropriate recommendations to improve the organization's governance processes for:

- Making strategic and operational decisions.
- Overseeing risk management and control.
- Promoting appropriate ethics and values within the organization.
- Ensuring effective organizational performance management and accountability.
- Communicating risk and control information to appropriate areas of the organization.
- Coordinating the activities of, and communicating information among, the board, external and internal auditors, other assurance providers, and management.

**2110.A1** – The internal audit activity must evaluate the design, implementation, and effectiveness of the organization's ethics-related objectives, programs, and activities.

**2110.A2** – The internal audit activity must assess whether the information technology governance of the organization supports the organization's strategies and objectives.

## **2120 – Risk Management**

The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.

### **Interpretation:**

*Determining whether risk management processes are effective is a judgment resulting from the internal auditor's assessment that:*

- *Organizational objectives support and align with the organization's mission.*
- *Significant risks are identified and assessed.*
- *Appropriate risk responses are selected that align risks with the organization's risk appetite.*
- *Relevant risk information is captured and communicated in a timely manner across the organization, enabling staff, management, and the board to carry out their responsibilities.*

*The internal audit activity may gather the information to support this assessment during multiple engagements. The results of these engagements, when viewed together, provide an understanding of the organization's risk management processes and their effectiveness.*

*Risk management processes are monitored through ongoing management activities, separate evaluations, or both.*

**2120.A1** – The internal audit activity must evaluate risk exposures relating to the organization's governance, operations, and information systems regarding the:

- Achievement of the organization's strategic objectives.
- Reliability and integrity of financial and operational information.
- Effectiveness and efficiency of operations and programs.
- Safeguarding of assets.
- Compliance with laws, regulations, policies, procedures, and contracts.

**2120.A2** – The internal audit activity must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk.

**2120.C1** – During consulting engagements, internal auditors must address risk consistent with the engagement's objectives and be alert to the existence of other significant risks.

**2120.C2** – Internal auditors must incorporate knowledge of risks gained from consulting engagements into their evaluation of the organization's risk management processes.

**2120.C3** – When assisting management in establishing or improving risk management processes, internal auditors must refrain from assuming any management responsibility by actually managing risks.

## **2130 – Control**

The internal audit activity must assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

**2130.A1** – The internal audit activity must evaluate the adequacy and effectiveness of controls in responding to risks within the organization's governance, operations, and information systems regarding the:

- Achievement of the organization's strategic objectives.
- Reliability and integrity of financial and operational information.

- Effectiveness and efficiency of operations and programs.
- Safeguarding of assets.
- Compliance with laws, regulations, policies, procedures, and contracts.

**2130.C1** – Internal auditors must incorporate knowledge of controls gained from consulting engagements into evaluation of the organization's control processes.

## **2200 – Engagement Planning**

Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations. The plan must consider the organization's strategies, objectives, and risks relevant to the engagement.

### **2201 – Planning Considerations**

In planning the engagement, internal auditors must consider:

- The strategies and objectives of the activity being reviewed and the means by which the activity controls its performance.
- The significant risks to the activity's objectives, resources, and operations and the means by which the potential impact of risk is kept to an acceptable level.
- The adequacy and effectiveness of the activity's governance, risk management, and control processes compared to a relevant framework or model.
- The opportunities for making significant improvements to the activity's governance, risk management, and control processes.

**2201.A1** – When planning an engagement for parties outside the organization, internal auditors must establish a written understanding with them about objectives, scope, respective responsibilities, and other expectations, including restrictions on distribution of the results of the engagement and access to engagement records.

**2201.C1** – Internal auditors must establish an understanding with consulting engagement clients about objectives, scope, respective responsibilities, and other client expectations. For significant engagements, this understanding must be documented.

### **2210 – Engagement Objectives**

Objectives must be established for each engagement.

**2210.A1** – Internal auditors must conduct a preliminary assessment of the risks relevant to the activity under review. Engagement objectives must reflect the results of this assessment.

**2210.A2** – Internal auditors must consider the probability of significant errors, fraud, noncompliance, and other exposures when developing the engagement objectives.

**2210.A3** – Adequate criteria are needed to evaluate governance, risk management, and controls. Internal auditors must ascertain the extent to which management and/or the board has established adequate criteria to determine whether objectives and goals have been accomplished. If adequate, internal auditors must use such criteria in their evaluation. If inadequate, internal auditors must identify appropriate evaluation criteria through discussion with management and/or the board.

## **Interpretation:**

*Types of criteria may include:*

- *Internal (e.g., policies and procedures of the organization).*
- *External (e.g., laws and regulations imposed by statutory bodies).*
- *Leading practices (e.g., industry and professional guidance).*

**2210.C1** – Consulting engagement objectives must address governance, risk management, and control processes to the extent agreed upon with the client.

**2210.C2** – Consulting engagement objectives must be consistent with the organization's values, strategies, and objectives.

### **2220 – Engagement Scope**

The established scope must be sufficient to achieve the objectives of the engagement.

**2220.A1** – The scope of the engagement must include consideration of relevant systems, records, personnel, and physical properties, including those under the control of third parties.

**2220.A2** – If significant consulting opportunities arise during an assurance engagement, a specific written understanding as to the objectives, scope, respective responsibilities, and other expectations should be reached and the results of the consulting engagement communicated in accordance with consulting standards.

**2220.C1** – In performing consulting engagements, internal auditors must ensure that the scope of the engagement is sufficient to address the agreed-upon objectives. If internal auditors develop reservations about the scope during the engagement, these reservations must be discussed with the client to determine whether to continue with the engagement.

**2220.C2** – During consulting engagements, internal auditors must address controls consistent with the engagement's objectives and be alert to significant control issues.

### **2230 – Engagement Resource Allocation**

Internal auditors must determine appropriate and sufficient resources to achieve engagement objectives based on an evaluation of the nature and complexity of each engagement, time constraints, and available resources.

## **Interpretation:**

*Appropriate refers to the mix of knowledge, skills, and other competencies needed to perform the engagement. Sufficient refers to the quantity of resources needed to accomplish the engagement with due professional care.*

### **2240 – Engagement Work Program**

Internal auditors must develop and document work programs that achieve the engagement objectives.

**2240.A1** – Work programs must include the procedures for identifying, analyzing, evaluating, and documenting information during the engagement. The work program must be approved prior to its implementation, and any adjustments approved promptly.

**2240.C1** – Work programs for consulting engagements may vary in form and content depending upon the nature of the engagement.

### **2300 – Performing the Engagement**

Internal auditors must identify, analyze, evaluate, and document sufficient information to achieve the engagement's objectives.

#### **2310 – Identifying Information**

Internal auditors must identify sufficient, reliable, relevant, and useful information to achieve the engagement's objectives.

#### **Interpretation:**

*Sufficient information is factual, adequate, and convincing so that a prudent, informed person would reach the same conclusions as the auditor. Reliable information is the best attainable information through the use of appropriate engagement techniques. Relevant information supports engagement observations and recommendations and is consistent with the objectives for the engagement. Useful information helps the organization meet its goals.*

#### **2320 – Analysis and Evaluation**

Internal auditors must base conclusions and engagement results on appropriate analyses and evaluations.

#### **2330 – Documenting Information**

Internal auditors must document sufficient, reliable, relevant, and useful information to support the engagement results and conclusions.

**2330.A1** – The chief audit executive must control access to engagement records. The chief audit executive must obtain the approval of senior management and/or legal counsel prior to releasing such records to external parties, as appropriate.

**2330.A2** – The chief audit executive must develop retention requirements for engagement records, regardless of the medium in which each record is stored. These retention requirements must be consistent with the organization's guidelines and any pertinent regulatory or other requirements.

**2330.C1** – The chief audit executive must develop policies governing the custody and retention of consulting engagement records, as well as their release to internal and external parties. These policies must be consistent with the organization's guidelines and any pertinent regulatory or other requirements.

#### **2340 – Engagement Supervision**

Engagements must be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed.

#### **Interpretation:**

*The extent of supervision required will depend on the proficiency and experience of internal auditors and the complexity of the engagement. The chief audit executive has overall responsibility for supervising the engagement, whether performed by or for the internal audit activity, but may designate appropriately experienced members of the internal audit activity to perform the review. Appropriate evidence of supervision is documented and retained.*

### **2400 – Communicating Results**

Internal auditors must communicate the results of engagements.

## **2410 – Criteria for Communicating**

Communications must include the engagement's objectives, scope, and results.

**2410.A1** – Final communication of engagement results must include applicable conclusions, as well as applicable recommendations and/or action plans. Where appropriate, the internal auditors' opinion should be provided. An opinion must take into account the expectations of senior management, the board, and other stakeholders and must be supported by sufficient, reliable, relevant, and useful information.

### **Interpretation:**

*Opinions at the engagement level may be ratings, conclusions, or other descriptions of the results. Such an engagement may be in relation to controls around a specific process, risk, or business unit. The formulation of such opinions requires consideration of the engagement results and their significance.*

**2410.A2** – Internal auditors are encouraged to acknowledge satisfactory performance in engagement communications.

**2410.A3** – When releasing engagement results to parties outside the organization, the communication must include limitations on distribution and use of the results.

**2410.C1** – Communication of the progress and results of consulting engagements will vary in form and content depending upon the nature of the engagement and the needs of the client.

## **2420 – Quality of Communications**

Communications must be accurate, objective, clear, concise, constructive, complete, and timely.

### **Interpretation:**

*Accurate communications are free from errors and distortions and are faithful to the underlying facts. Objective communications are fair, impartial, and unbiased and are the result of a fair-minded and balanced assessment of all relevant facts and circumstances. Clear communications are easily understood and logical, avoiding unnecessary technical language and providing all significant and relevant information. Concise communications are to the point and avoid unnecessary elaboration, superfluous detail, redundancy, and wordiness. Constructive communications are helpful to the engagement client and the organization and lead to improvements where needed. Complete communications lack nothing that is essential to the target audience and include all significant and relevant information and observations to support recommendations and conclusions. Timely communications are opportune and expedient, depending on the significance of the issue, allowing management to take appropriate corrective action.*

## **2421 – Errors and Omissions**

If a final communication contains a significant error or omission, the chief audit executive must communicate corrected information to all parties who received the original communication.

## **2430 – Use of “Conducted in Conformance with the *International Standards for the Professional Practice of Internal Auditing*”**

Indicating that engagements are “conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*” is appropriate only if supported by the results of the quality assurance and improvement program.

#### **2431 – Engagement Disclosure of Nonconformance**

When nonconformance with the Code of Ethics or the *Standards* impacts a specific engagement, communication of the results must disclose the:

- Principle(s) or rule(s) of conduct of the Code of Ethics or the Standard(s) with which full conformance was not achieved.
- Reason(s) for nonconformance.
- Impact of nonconformance on the engagement and the communicated engagement results.

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#### **2440 – Disseminating Results**

The chief audit executive must communicate results to the appropriate parties.

##### **Interpretation:**

*The chief audit executive is responsible for reviewing and approving the final engagement communication before issuance and for deciding to whom and how it will be disseminated. When the chief audit executive delegates these duties, he or she retains overall responsibility.*

**2440.A1** – The chief audit executive is responsible for communicating the final results to parties who can ensure that the results are given due consideration.

**2440.A2** – If not otherwise mandated by legal, statutory, or regulatory requirements, prior to releasing results to parties outside the organization the chief audit executive must:

- Assess the potential risk to the organization.
- Consult with senior management and/or legal counsel as appropriate.
- Control dissemination by restricting the use of the results.

**2440.C1** – The chief audit executive is responsible for communicating the final results of consulting engagements to clients.

**2440.C2** – During consulting engagements, governance, risk management, and control issues may be identified. Whenever these issues are significant to the organization, they must be communicated to senior management and the board.

#### **2450 – Overall Opinions**

When an overall opinion is issued, it must take into account the strategies, objectives, and risks of the organization; and the expectations of senior management, the board, and other stakeholders. The overall opinion must be supported by sufficient, reliable, relevant, and useful information.

##### **Interpretation:**

*The communication will include:*

- *The scope, including the time period to which the opinion pertains.*
- *Scope limitations.*
- *Consideration of all related projects, including the reliance on other assurance providers.*
- *A summary of the information that supports the opinion.*
- *The risk or control framework or other criteria used as a basis for the overall opinion.*
- *The overall opinion, judgment, or conclusion reached.*



*The reasons for an unfavorable overall opinion must be stated.*

**2500 – Monitoring Progress**

The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.

**2500.A1** – 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.

**2500.C1** – The internal audit activity must monitor the disposition of results of consulting engagements to the extent agreed upon with the client.

**2600 – Communicating the Acceptance of Risks**

When the chief audit executive concludes that management has accepted a level of risk that may be unacceptable to the organization, the chief audit executive must discuss the matter with senior management. If the chief audit executive determines that the matter has not been resolved, the chief audit executive must communicate the matter to the board.

**Interpretation:**

*The identification of risk accepted by management may be observed through an assurance or consulting engagement, monitoring progress on actions taken by management as a result of prior engagements, or other means. It is not the responsibility of the chief audit executive to resolve the risk.*



## Texas Department of Housing and Community Affairs

### Audit & Finance Committee

#### Board Action Request

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**File #: 467**

**Agenda Date: 12/7/2023**

**Agenda #: 4.**

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Presentation and discussion of Internal Audit report on the Community Development Block Grant CARES Act, and the Community Development Block Grant Colonia Self Help Center, Report# 23-005

## **TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS**

### **An Internal Audit of the Community Development Block Grant CARES Act Program (CDBG-CV) and the Community Development Block Grant Colonia Self Help Center (CDBG-CSHC), Audit Report # 23-005**

#### **Executive Summary**

The Office of Internal Audit (OIA) performed an audit of the Community Development Block Grant CARES Act Program (CDBG-CV) and the Community Development Block Grant Colonia Self Help Center (CDBG-CSHC). This audit was conducted in accordance with applicable audit standards and included the objectives to review, assess, and evaluate CDBG-related programs for compliance with applicable rules and regulations. Based on our review and testing, the CDBG-CV and CDBG-CSHC programs appear to be operating effectively in providing COVID-19 assistance and assistance to Texans residing in the colonias, respectively. The auditor has identified the following areas that necessitate improvement, all of which have been detailed in the final audit report.

Please note the recommendations below were split into two sections: CDBG-CV and CDBG-CSHC. This decision was made to emphasize that although the CDBG-CV and CDBG-CSHC programs share a name, they are separate programs with differing structures that are managed by different teams.

#### **Observations and Recommendations**

##### **1) CDBG-CV**

- IA recommends that the division ensures that all sub-recipients are up-to-date on required single audits throughout contract duration.

##### **2) CDBG-CSHC**

- *The auditor has made no recommendations regarding this program*

#### **Management Response**

Management agreed with our recommendation, and detailed response is included in the body of the report.

#### **Objective, Scope and Methodology**

##### **1) CDBG-CV**

Our scope included a review of related Texas Administrative Codes<sup>1</sup>, relevant Code of Federal Regulations regarding CDBG programs<sup>2</sup>, Texas Grant Management Standards, the Stafford Act, Action Plan Amendments, Notices of Funding Availability (NOFA), TDHCA issued sub-recipient contracts, and deliverables related to all aforementioned codes and contracts for the past 3 years of operation.

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<sup>1</sup> TAC Chapters 1, 2, 3, and 20.

<sup>2</sup> 24 CFR Part 570, 24 CFR Part 75, 24 CFR Part 58, 2 CFR Part 200, 24 CFR Part 35

2) **CDBG-CSHC**

Our scope included review of related Texas Administrative Codes<sup>3</sup>, relevant Code of Federal Regulations regarding CDBG programs<sup>4</sup>, TDHCA issued sub-recipient contracts, and deliverables related to all aforementioned codes and contracts for the past 3 years of operation.

*Mark Scott*

*11/17/2023*

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

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Date Signed

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<sup>3</sup> TAC Title 10 Part 1 Chapter 25, Chapter 20, Chapter 21

<sup>4</sup> 24 CFR Part 570



## TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

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Ajay Thomas, *Member*

November 17, 2023

*Writer's direct phone # 512.475.3813*  
*Email: mark.scott@tdhca.state.tx.us*

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

RE: Internal Audit of the Community Development Block Grant CARES Act Program (CDBG-CV) and the Community Development Block Grant Colonia Self Help Center (CDBG-CSHC)

Dear Board Members:

This report presents the results of the Office of Internal Audit ("OIA") "*Audit of the Community Development Block Grant CARES Act Program (CDBG-CV) and the Community Development Block Grant Colonia Self Help Center (CDBG-CSHC)*". This audit was conducted in accordance with applicable audit standards and included the objectives to review, assess, and evaluate CDBG-related programs for compliance with applicable rules and regulations.

The CDBG-CV program rated high on the annual risk assessment and was selected for an internal audit because of its importance in helping Texans respond to and recover from the impacts of the COVID-19. The Governor of the State of Texas has designated the TDHCA as the administrator of this program. The TDHCA was awarded \$141,846,258 by the U.S Department of Housing and Urban Development (HUD) to award CDBG-CV funds to various sub-recipients around the state. The CDBG-CSHC program is a smaller program separate from CDBG-CV and focuses on assisting the colonias of Texas. CDBG-CSHC was included in the audit because it is a component of TDHCA

CDBG program activities in general, and, due to its sub-recipient relationship with the Texas Department of Agriculture (TDA), this particular program may not otherwise be reviewed in larger internal audit risk assessment process.

This report includes the following sections:

- A. Overall Result
- B. Background
- C. Scope and Methodology
- D. Roles and Responsibilities
- E. Testing and Recommendations

It is important to emphasize that although the CDBG-CV and CDBG-CSHC programs share a name, they are separate programs with differing structures that are managed by different teams. The CDBG-CV program was implemented as an emergency measure to assist Texans negatively impacted by COVID-19, and is subject to special rules and regulations drafted during the pandemic. The CDBG-CSHC program, on the other hand, receives funding from the CDBG program managed by the TDA, with the TDHCA acting as a sub-recipient. This program is not subject to the same special provisions as the CDBG-CV program. As a result, the auditor has chosen to subject each program to different audit review and testing depending on the unique risks identified within each program. This report will be split into two sections accordingly — CDBG-CV and CDBG-CSHC — to ensure clarity.

## **A. Overall Results**

### **1) CDBG-CV**

Based on our review and testing, the CDBG-CV program appears to be operating effectively in providing COVID-19 relief to at-risk Texans. The auditor has identified some recommended areas for improvement.

### **2) CDBG-CSHC**

Based on our review and testing, the CDBG-CSHC program appears to be operating effectively in providing assistance to individuals residing within the colonias. The auditor has no further recommendations.

## **B. Background**

### **1) CDBG-CV**

The CDBG-CV program was implemented in response to the unprecedented need for assistance for Texans that occurred as a result of the COVID-19 pandemic. Although typically Texas CDBG

programs are overseen by the TDA, the TDHCA was chosen to administer the CDBG-CV programs on behalf of the Department of Housing and Urban Development. The TDHCA was allowed some flexibility by HUD on how to administer the funds based on the immediate needs of Texans. After garnering Board approval, the following programs were created to address the following issues: the Texas Emergency Rental Assistance Program (TERAP) to administer statewide rental assistance, the Texas Emergency Mortgage Assistance Program (TEMAP) to provide statewide mortgage assistance, food distribution assistance to address food insecurity, legal assistance for Texans with disabilities, relief assistance for providers of persons with disabilities, and the Community Resiliency Program (CRP) to provide access to social services and healthcare to low-and-moderate income (LMI) areas and persons. The TDHCA was granted \$141,846,258.00, which was allocated amongst 111 different sub-recipients to implement said programs. Some sub-recipients were specifically selected based on the needs of Texans, whereas other sub-recipients were selected through a competitive Notice of Funding Availability (NOFA). Three Action Plan Amendments were implemented to re-adjust the allocation of funds. Currently, 65.45% of those funds have been spent, with a deadline of November 3, 2026 for all CDBG-CV funds to be expended. As of the writing of this report, \$15,866.66, or 1% of total funds, have been recaptured due to de-obligation from earlier contracts and will be recommitted to eligible CRP activities.

## **2) CDBG-CSHC**

The Colonia Self Help Center (CSHC) program was established in 1995 to improve the living conditions of colonia residents, especially those of whom are low income to very low income, with public service activities such as a tool lending library, technology center, solid waste collections, and other general community assistance opportunities. The TDHCA has contracted with Val Verde, Maverick, Nueces, Cameron/Willacy, Hidalgo, Starr, Webb and El Paso counties to serve all colonias geographically. Specific households within the colonia service areas have the option to be assisted with home rehabilitation, reconstruction, and new construction activities. The program is awarded approximately \$1,500,000 annually, which is distributed amongst the seven selected colonia sub-recipients. De-obligated funds may also be re-awarded to sub-recipients. TDHCA program administrators work with local county partners and the Colonia Resident Advisory Committee (C-RAC) in the administration of these awards.

## **C. Scope and Methodology**

### **1) CDBG-CV**

Our scope included a review of related Texas Administrative Codes<sup>1</sup>, relevant Code of Federal Regulations regarding CDBG programs<sup>2</sup>, Texas Grant Management Standards, the Stafford Act, Action Plan Amendments, Notices of Funding Availability (NOFA), TDHCA issued sub-recipient

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<sup>1</sup> TAC Chapters 1, 2, 3, and 20.

<sup>2</sup> 24 CFR Part 570, 24 CFR Part 75, 24 CFR Part 58, 2 CFR Part 200, 24 CFR Part 35

contracts, and deliverables related to all aforementioned codes and contracts for the past 3 years of operation.

## 2) CDBG-CSHC

Our scope included review of related Texas Administrative Codes<sup>3</sup>, relevant Code of Federal Regulations regarding CDBG programs<sup>4</sup>, TDHCA issued sub-recipient contracts, and deliverables related to all aforementioned codes and contracts for the past 3 years of operation.

### D. Roles and Responsibilities

#### 1) CDBG-CV

**PROGRAM STAFF:** The CDBG-CV program is supervised by a team of administrators consisting of a director, two program managers, and 4 program coordinators. The team also includes a financial administrator that monitors draw requests and a part time Labor Standards Specialist that assists with compliance regarding CRP labor standard requirements. The Sub-recipient Monitoring Division at TDHCA is responsible for monitoring sub-recipient compliance.

**SUB-RECIPIENTS:** TDHCA program administrators awarded the funds to 111 different sub-recipients. CDBG-CV sub-recipients consist of local non-profit entities and city or county administrators. Sub-recipients associated with the TERAP were selected from a list of HUD Entitlement Communities. Sub-recipients associated with the Assistance for Providers for Persons with Disabilities, Legal Services for Persons with Disabilities, and Food Distribution programs were selected after garnering Board approval for providing services to Texans in need of assistance. Sub-recipients associated with the TEMAP and CRP programs were selected through a competitive NOFA issued by TDHCA. Contracts issued are one to two years in length.

**PARTICIPANTS:** The final participants in the CDBG-CV programs are the Texans that received aid from the program. This includes people receiving financial assistance in the form of rental or mortgage assistance, food assistance, legal support, support for providers of individuals with disabilities, or support to other at-risk individuals and communities.

#### 2) CDBG-CSHC

**PROGRAM STAFF:** The CDBG-CSHC program is managed by one administrator and a border field officer to oversee contract implementation, with further oversight from the manager of Single Family programs. These programs are overseen by the Director of the Single Family and Homeless Division.

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<sup>3</sup> TAC Title 10 Part 1 Chapter 25, Chapter 20, Chapter 21

<sup>4</sup> 24 CFR Part 570



**SUB-RECIPIENTS:** Sub-recipients of CDBG-CSHC funds are Texas counties Val Verde, Maverick, Nueces, Cameron/Willacy, Hidalgo, Starr, Webb and El Paso, which serve the wider colonias geographically. TDHCA program administrators work with local county partners and the Colonia Resident Advisory Committee (C-RAC) to manage sub-recipient activities.

**PARTICIPANTS:** The final participants in the CDBG-CSHC program are the individuals and families that live in the colonias. They receive benefit from the programs overseen by TDHCA staff. The majority of the colonia residents served by the CDBG-CSHC program are low to very low income Texans.

## **E. Testing and Recommendations**

### **1) CDBG-CV**

The auditor began the review by conducting a cursory check of all 111 sub-recipients contracted under the CDBG-CV program. Out of 111 sub-recipients, four were hand-chosen for more detailed review and testing based on assessed risk using the following indicators: the status of single audits, amount of funds awarded, and complaints received from the general public. Two sub-recipients, Need a Break, Inc and Life Rebuilders, Inc, were awarded funds under the TEMAP portion of CDBG-CV. Both the Need a Break, Inc and Life Rebuilders, Inc contracts are currently closed. The remaining two sub-recipients, the City of Burnet and the Village of Timbercreek Canyon, are active contracts that are currently constructing a children's advocacy center and a senior center, respectively, to serve at-risk populations within those areas. These funds were awarded under the CRP portion of the CDBG-CV program.

Testing consisted of the following: reconciling all individual contract awards with the overall HUD CDBG-CV award monies; detailed review of contract language compared to actual expectations outlined to sub-recipients by the division; verifying that all single audits have been conducted according to code expectations; comparing contract deadlines to actual construction progress of facilities; and review of complaints received by TDHCA regarding specific CDBG-CV sub-recipients.

The auditor identified that completion of single audits is not required to be tracked by the CDBG-CV team. However, upon initial cursory review of all sub-recipients, it was found that a small percentage of audits were tardy. A recommendation regarding this observation is listed below.

It was also discovered that some contracts contained standard language that did not apply to specific sub-recipient expectations. This oversight appears to have occurred due the quick response required by the program to administer aid to Texans impacted by COVID-19. Upon further inspection, the contracts that included the standard language appear to have concluded with no further issues. As a result, no recommendation was issued. The remaining active contracts appear to contain language that was vetted by the TDHCA legal team and a TDA consultant to accurately reflect deliverables expected from sub-recipients.

The CDBG-CV division has also disclosed that both the City of Burnet and Village of Timbercreek Canyon have experienced several month delays in contract execution. Despite initial hindrances, the City of Burnet has begun construction on the proposed children's advocacy center. The Village of Timbercreek Canyon, however, has yet to receive actionable bids for the senior center project under current contract stipulations. The CDBG-CV division is aware of the difficulty and appears to be actively working with the sub-recipient to address concerns. Although no actionable recommendations appear necessary, the auditor does want to note potential risk to TDHCA of lapsing past the 2026 deadline for expenditure of all CDBG-CV funds if delays continue.

The auditor would like to note that the CDBG-CV team appear to have done a great job pivoting overall to serve the needs of at-risk Texans during a very turbulent time in U.S. history. The auditor believes the following recommendation will help the CDBG-CV division run the program more effectively and protect it from risk.

Observation Number	Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
23-005.01	IA recommends that the CDBG-CARES Division ensures that all sub-recipients are up-to-date on required Audit Certification Forms (ACF) and Single Audits throughout contract duration. The CDBG-CARES Division should work closely with the Sub-recipient Monitoring Division to track ACFs and, if applicable, Single Audits.	Completed (September 30, 2023)	Rudy Bentancourt, Director of CDBG

**Management Response:**

*The CDBG-CARES Division will assist the Sub-recipient Monitoring Division to ensure all current sub-recipient Single Audits are up-to-date throughout the contract duration. The CDBG CARES Division has implemented a process to request and receive Audit Certification Forms no more than 60 days after the completion of the sub-recipient's fiscal year end date and Single Audits (if required) no more than 9 months after the completion of the sub-recipient's fiscal year. The CDBG CARES Division will ensure the Sub-recipient Monitoring Division receives all Audit Certification Forms and Single Audits submitted by the sub-recipients. The CDBG CARES Division will also ensure the sub-recipient enters the Single Audit into the Federal Clearinghouse on an annual basis. The CDBG CARES Division has created a logging mechanism to keep track of Audit Certification Form and Single Audit (if required) notifications and will send notifications on an annual basis throughout the contract duration.*

**2) CDBG-CSHC**

Testing for the CDBG-CSHC program consisted of a cursory review of all contracts issued within the past 3 years. Of the 9 sub-recipients identified, the Hidalgo and Webb county contracts were

chosen through scientific sampling for more detailed testing. Testing included the following: review of fulfillment of the citizen participation clause within the contracts, analysis of supporting documentation provided to support quarterly progress reports supplied by the sub-recipients, check of processes regarding home rehabilitation within the selected counties, inspection of single audits, and a reconciliation of sub-recipient awarded funds with overall funds awarded TDHCA for distribution. It appears the CDBG-CSHC program is operating effectively in providing services to the colonias. The auditor has no further recommendations.

OIA extends our appreciation to both CDBG-CARES and CDBG-CSHC program management and staff for their cooperation and assistance during the course of this audit. The auditor would like to note that all staff were diligent and polite in answering questions and providing paperwork when requested.

Sincerely,

*Mark Scott*

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

MS/MM



Texas Department of Housing and Community Affairs

Audit & Finance Committee

Board Action Request

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**File #: 468**

**Agenda Date: 12/7/2023**

**Agenda #: 5.**

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Report on the Internal Audit Fiscal Year 2023 Annual Report



## TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

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Ajay Thomas, *Member*

October 31, 2023

*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 2023

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 2023 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 2023, 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 2024 will be presented to the Department's governing board for approval at the December 7, 2023 Board meeting. A draft copy of the 2024 audit work plan is included in the attached report. Both the fiscal year 2024 audit work plan and this report will be posted to the Division's internet web page as required by House Bill 16 (after board approval of annual audit plan). We appreciate the opportunity to provide this information. If you have any questions about this report, please contact me at (512) 475-3813.

Sincerely,



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

NS / MS

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

**Texas Department of Housing and Community Affairs**  
**Internal Audit Annual Report – Fiscal Year 2023**

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- IV. External Quality Assurance Review (Peer Review)
- V. Internal Audit Plan for Fiscal Year 2024
- VI. External Audit Services Procured in Fiscal Year 2023
- VII. Reporting Suspected Fraud, Waste, and Abuse

**Texas Department of Housing and Community Affairs**  
**Internal Audit Annual Report – Fiscal Year 2023**

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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**

The Internal Audit Division's internet web page (<http://www.tdhca.state.tx.us/internal-audit.htm>) includes:

- An overview of the Internal Audit Division and its mission statement,
- The Internal Audit Division's most recent peer review (October 2017),
- Standards, statutes and rules governing the operation of the Internal Audit Division:
  - Texas Government Code Chapter 2102: Texas Internal Auditing Act ([www.statutes.legis.state.tx.us](http://www.statutes.legis.state.tx.us)),
  - Texas Government Code 2306.073: Internal Audit ([www.statutes.legis.state.tx.us](http://www.statutes.legis.state.tx.us)),
  - Internal Audit Charter (updated June 2018), and
  - Internal Audit Board Resolutions (amended January 2014),
- Internal Audit Annual Plan for Fiscal Year 2024 (Pending Board approval)<sup>1</sup>,
- Internal Audit Annual Report for Fiscal Year 2023, and
- Internal Audit Reports.

Findings noted while performing the Fiscal Year 2023 audit plan are included in the respective Fiscal Year 2023 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 2022**

<b>Project / Audit Title</b>	<b>Report Number</b>	<b>Completed</b>	<b>Report Date</b>
Texas Bootstrap Loan Program	23-001	Yes	March 6, 2023
Staff Services at TDHCA	23-002	Yes	May 12, 2023
Texas Statewide Homebuyer Education Program (TSHEP), and Homebuyer U	23-003	Yes	August 7, 2023
HOME Disaster Relief and Tenant-Based Rental Assistance program	23-004	Yes	August 23, 2023
CDBG and CDBG Covid	23-005	Yes	In Reporting phase
Internal Audit Report on the Prior Audit Findings and Recommendations.	23-006	Yes	September 8, 2023



**Texas Department of Housing and Community Affairs  
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Internal Audit Division's Quality Assurance and Improvement Program (Self-assessment FY 2023)	23-007	Yes	October 16, 2023
Homeowner Assistance Fund (HAF)	23-008	No	See note below*
Follow up review of SAO's Audit of Manufacture Housing Division's inspection and licensing	23-009	Yes	October 30, 2023

*\* CliftonLarsonAllen LLP (CLA) is performing audit of Homeowner Assistance Funds program during fiscal Year 2023. OIA paused audit of HAF program to avoid any interference with CLA's reviews and audit.*

**III. Consulting Engagements and Non-audit Services Completed**

**Consulting Project Related to Subrecipient Monitoring**

This project has included regular meetings for the Internal Audit Director to provide management with advice on Single Audits (formerly referred to as A-133 audits) of TDHCA subrecipients. The group meets, as needed, to go over single audits that have findings and/or other issues, and to prepare the management responses to the audits that are required by the Single Audit Act.

**Coordination of External Audit Activities**

There have been several external audits 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. The SAO also completed an audit of the Texas Rent Relief (TRR) Program's contract procurement processes. In addition, CliftonLarsonAllen LLP (CLA), is performing audits of Low Income Housing Energy Assistance Program (LIHEAP) and Emergency Rental Assistance (ERA) and Homeowner Assistance Fund (HAF) programs.

**IV. External Quality Assurance Review (Peer Review)**

The Department's Internal Audit Division received its most recent peer review in Fiscal Year 2018. The peer review was started in September 2017 and completed in October 2017. The following excerpt is from the executive summary of that report.

*"It is our overall opinion that the Internal Audit Department at TDHCA generally conforms to the IIA's Standards and the Code of Ethics for the period of January 1, 2016 through*

**Texas Department of Housing and Community Affairs**  
**Internal Audit Annual Report – Fiscal Year 2023**

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*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."*

The Office of Internal Audit has submitted budget request for LAR to procure a Peer Review in this fiscal year.

**V. Internal Audit Plan for Fiscal Year 2024 (Pending Board Approval)**

Activity/Program/Division	Comments
Program Services	The specific project objective(s) and scope will be determined by the detailed assessment of relative risks identified during the project planning process.
Compliance Monitoring (Multifamily)	
Construction Status Report	
Handling of Amendments and Transfers	
Ownership Transfers	
Grant Accounting	
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

## **Texas Department of Housing and Community Affairs**

### **Internal Audit Annual Report – Fiscal Year 2023**

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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 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. 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.

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 2023, 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. Texas Rent Relief Program procured Deloitte-Touche to perform Quality Assurance work for the program.

#### **VII. Reporting Suspected Fraud, Waste, and Abuse**

The Department's home page ([www.tdhca.state.tx.us](http://www.tdhca.state.tx.us)) has an active link to the State Auditor's Office's fraud, waste and abuse hotline, as well as the hotline phone number for the State Auditor's Office.

The Department has policies and procedures in place to report suspected fraud, waste and abuse to the State Auditor's Office as required by the Texas Government Code, Section 321.022. The Executive Director is responsible for deciding, based on input from others, whether an incident warrants investigation, and is also responsible for the decision as to whether or not an incident should be reported to the State Auditor's Office. The Internal Auditor is responsible for investigating such incidents as requested by the Executive Director and as approved by the Chair of the Audit and Finance Committee. The Internal Auditor is also responsible for consulting with the general counsel or ethics advisor about whether an incident meets the "reasonable cause to believe" criterion for reporting an incident to the State Auditor's Office and for advising the executive director as appropriate. All Department employees are also responsible for reporting to their division directors any incidents or matters of which they become aware that may require a report to the State Auditor's Office.

**Texas Department of Housing and Community Affairs**  
**Internal Audit Annual Report – Fiscal Year 2023**

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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.

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<sup>1</sup> The Internal Audit Annual Plan for Fiscal Year 2024 will be posted on Division's internet web page after Board approval on December 7, 2023.



## TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

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Anna Maria Farias, *Member*  
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Ajay Thomas, *Member*

### Texas Department of Housing and Community Affairs Office of Internal Audit Audit Plan for Fiscal Year 2023

#### 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 2023 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 2023 Annual Audit Plan**

We have identified the following projects for inclusion in the 2023 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:**

The first four audit areas on the plan received new or additional funding from pandemic related funding sources. They rated high on the list because of large dollar amounts and / or the newness of the programs and processes, in addition to their fraud risk. They also include several new management and staff, or transfer of existing TDHCA staff to new positions.

#### **1. Homeowner Assistance Fund (HAF)**

Texas Homeowner Assistance provides financial assistance to qualified Texas homeowners who have fallen behind on their mortgage, utility payments, and related expenses due to the COVID-19 pandemic. This program gives eligible homeowners grants to cover past due mortgage payments, up to three (3) months of future mortgage payments, property taxes, insurance, homeowner/condo association fees, past due utility payments, and up to three (3) months of prospective utility payments, and is funded through American Rescue Plan Act of 2021.

#### **2. HOME Tenant Based Rental Assistance Funds**

The Tenant Based Rental Assistance (TBRA) program funds local organizations that provide rental subsidies, utility assistance, and security deposit assistance to individuals in their local communities. TDHCA is making up to \$11.3 million in TBRA COVID-19 funds available to TBRA administrators, who will then distribute the aid to qualifying Texans. TDHCA funds units of general local governments, public

housing authorities, local mental health authorities, and nonprofits that in turn assist individuals in their communities.

### **3. HOME Disaster Relief Funds**

The Texas HOME Disaster Relief Program is a long-term housing program designed to help eligible organizations serve income eligible households impacted by disasters. HOME Disaster Relief funds are available to assist with federal or state declared disasters, or other natural or man-made disasters that may occur. These funds can be accessed to support impacted households not located in communities that receive HOME funds directly from the U.S. Department of Housing and Urban Development (HUD)

### **4. Community Development Block Grant (CDBG) / CDBG CARE**

The Community Development Block Grant CARES Act (CDBG-CV) program is designed to help Texans response to and recover from the impacts of COVID-19. The Governor of the State of Texas has designated the TDHCA as the administrator of this program. The U.S Department of Housing and Urban Development (HUD) has awarded TDHCA a total of \$141,846,258 in CDBG-CV funds.

### **5. Texas Bootstrap Loan Program**

Texas Bootstrap Loan Program is an Owner-Builder Program that is administered by TDHCA. It is a self-help housing construction program that assists very low-income households to purchase or refinance real property on which to build or repair housing by contributing the labor themselves. This program rated high on the risk assessment and was selected to audit due to lack of any prior audits, and its importance in helping very low income individuals during the current economic environment.

### **6. Staff Services**

Staff Services section of Administration provides management of requirements related to TDHCA and MH employees and facilities, such as; Asset inventory for both technology and facility components, Facility management, and Records management and retention as well as mail operations. This function rated high on the annual risk assessment due to lack of any prior audits and the changes that occurred during Covid-19 pandemic, and its possible effects on the areas.

### **7. Texas Statewide Homebuyer Education Program (TSHEP) and Texas Homebuyer U**

Texas Statewide Homebuyer Education Program is a product of the Texas Homebuyer program, which was created to help Texans achieve homeownership. The program offers trained Housing counselors to coach homebuyers through the home buying process, and offer group classes as well as one-on-one assessments.

Texas Homebuyer U is another product of the Texas Homebuyer program. It offers free online educational resources about the home buying process and Mortgage Credit Certificate (MCC) to homebuyers. TDHCA requires Completion of a homebuyer education course to obtain one of its loans or

an MCC. These programs rated high on the risk assessment due to their importance to TDHCA clients, and also recent management changes.

### **Carry Over Project**

#### **Follow up on SAO audit of Manufactured Housing Division**

The OIA will perform a follow up of the SAO's findings and recommendation related to Manufactured Housing Division's inspections and licensing.

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### **Administrative and Statutory Projects:**

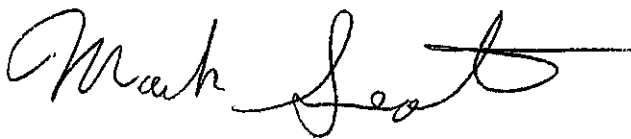
- Review of TDHCA compliance with appropriation riders and other requirements of the Government Code
- Annual Audit Plan and reporting
- Annual tracking of the implementation status of prior audit recommendations
- Coordination and review of complaints related to possible Fraud, Waste, and Abuse

### **Consulting Projects and External Audit Coordination**

Pursuant to the TDHCA internal audit charter, the OIA performs consulting activities for the agency. For fiscal year 2023, 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 extending to the right.

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

MS/NS





## TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

[www.tdhca.state.tx.us](http://www.tdhca.state.tx.us)

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### Texas Department of Housing and Community Affairs Office of Internal Audit Audit Plan for Fiscal Year 2024

#### 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 2024 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 2024 Annual Audit Plan**

We have identified the following projects for inclusion in the 2024 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. Program Services**

Program Services Section facilitates adherence to the rules regarding processing and completion of federal mandates and departmental requirements affecting a variety of programs administered by the Department. These mandates and requirements include: Environmental Review & Clearances, Employment opportunities for Low-Income People, Loan closings, Quality Assurance and federal funds. Compliance with federal mandates can affect release of funds and future program eligibility. This function rated high on the annual risk assessment due to lack of any prior audits, as well as recommendation for review from management.

##### **2. Compliance Monitoring (Multifamily)**

The Compliance Monitoring section of Compliance Division is responsible for long-term compliance with the multifamily housing programs funded by the TDHCA. Compliance monitors conduct reviews to evaluate compliance with income and rent limits as well as other requirements including social services and affirmative marketing. Compliance monitors conduct reviews at least once every three years. In addition, the Compliance Monitoring section reviews each property's Annual Owner's Compliance Reports as required under Chapter 2306 of the Texas Government Code and other federal regulations. The Compliance Monitoring section provides training for owners and managers.

This division rated high on the annual risk assessment due to its importance in ensuring compliance with applicable laws for multiple programs at TDHCA. The Compliance monitoring division was last audited to OIA in 2016.

### **Asset Management Division:**

The Asset Management Division is responsible for monitoring and processing of all post-award activities for developments involving Housing Tax Credits, HOME funds, National and State Housing Trust Funds, and Neighborhood Stabilization Program (NSP) funds. The Post Award Activities manual outlines the procedures and instructions for completing activities including the 10% Test, Construction Status Reports, Cost Certification, LURA Origination, LURA Amendments, Application Amendments, and Ownership Transfers. These units rated high on the annual risk assessment due to lack of any prior audits, as well as their importance in ensuring proper processes and approval and for each state of the construction process.

#### **3. Construction Status Report**

Construction Status Reports must be submitted by all multifamily developments (HOME, NHTF, TCAP, 9% HTC, 4% HTC/BOND) that are currently in construction. The submission of construction status reports continues on a quarterly basis until the entire development is complete, and evidence of completion, which are Certificates of Occupancy for each building, AN AIA G704, or the Final AIA G702/3 or equivalent, is received by the Department.

#### **4. Handling of Amendments and Transfers**

The Asset Manager evaluates each amendment request and determines if the change constitutes a notification, requires Executive Director's approval, or is a change that must be approved by the TDHCA Board. Additional information may be requested by Department staff in order to properly evaluate and process the request.

#### **5. Ownership Transfers**

All multifamily Development Owners must provide written notice and a completed Ownership Transfer packet to the Department at least 45 calendar days prior to any sale, transfer, or exchange of the Development or any portion of or Controlling interest in the Development

#### **6. 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.

### **Carry Over Project**

No carry over project from FY 2023

**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
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Sincerely,

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

MS/NS



Texas Department of Housing and Community Affairs

Audit & Finance Committee

Board Action Request

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**File #: 469**

**Agenda Date: 12/7/2023**

**Agenda #: 6.**

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Report on the status of the Internal and External Audit activities